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30 Years of Reform: Decentralization, Subnational Governments and Development in Latin America

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30 Years of Reform: Decentralization, Subnational Governments and Development in Latin America

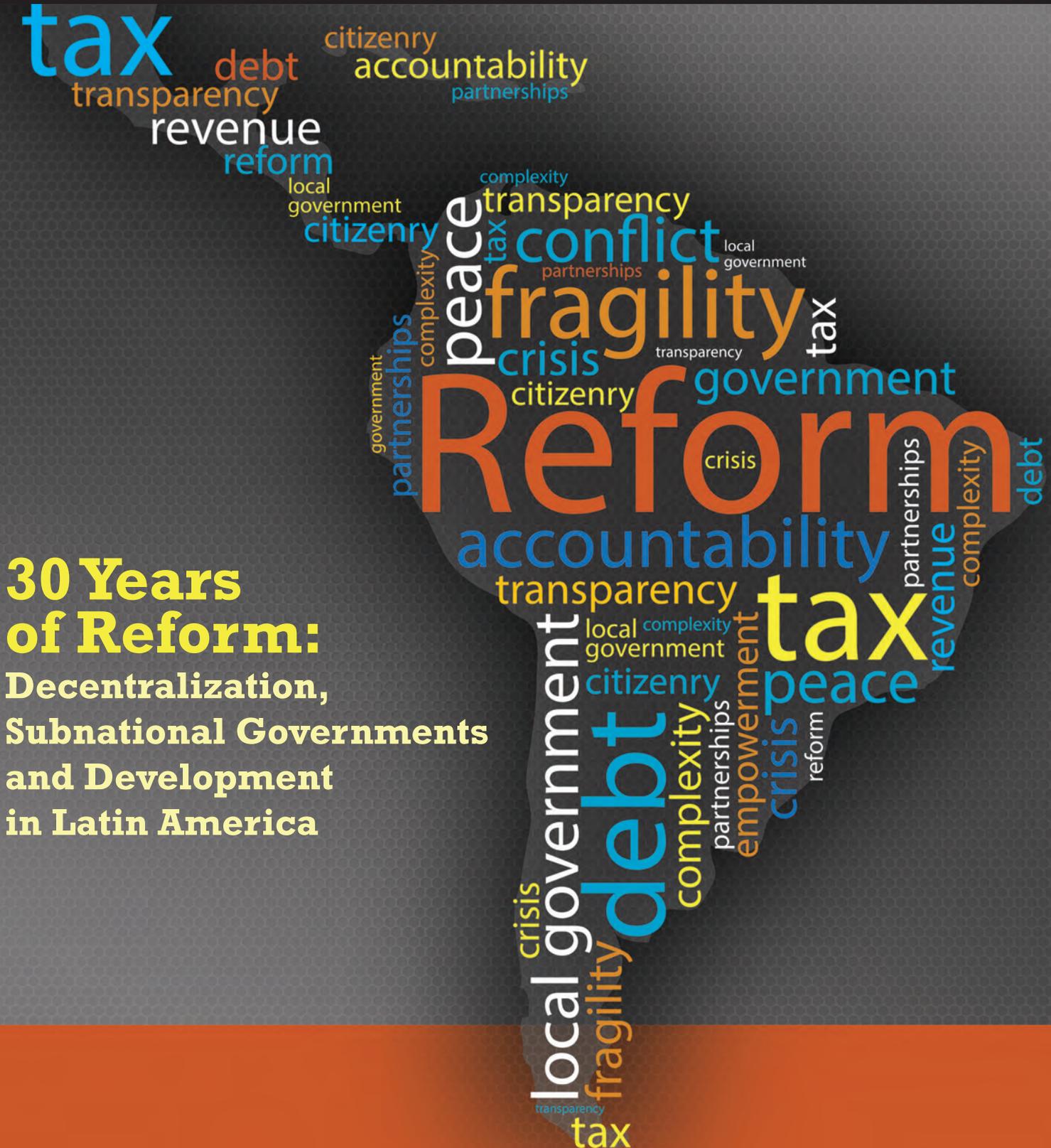
Abstract

More than 30 years after Latin America transitioned from dictatorships to democracy, decentralization, and institutional reforms to give impetus to citizen participation, transparency, government accountability and good governance, expectations have disappointed and concerns are raised today over a slowdown, or even reversal. Guest editor Cristina A. Rodríguez-Acosta, Assistant Director of FIU's renowned Institute for Public Management and Community Service, invites leading experts to analyze where the region stands and how decentralization reforms can be deepened.

Hemisphere

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**30 Years
of Reform:
Decentralization,
Subnational Governments
and Development
in Latin America**

Kimberly Green Latin American and Caribbean Center

Steven J. Green School of International and Public Affairs

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F R O M T H E E D I T O R

Dear *Hemisphere* readers:

The Kimberly Green Latin American and Caribbean Center is pleased to be partnering with Florida International University's Institute for Public Management and Community Service (IPMCS) to provide our readers with an in-depth look at the results of 30 years of reforms in Latin America and the Caribbean.

Research on democratic transition and the challenges of its consolidation in Latin America and the Caribbean is vast, but an area that has not received the attention it merits is the process of subnational decentralization and economic development. The first generation of democratic reforms focused on institutional design and elections but did not address the structural impediments to consolidation, many of which persist at the local level. Proponents believed decentralization would help consolidate democratic rule by devolving power and authority from corrupt and inefficient central governments. Despite some good outcomes, issues of transparency, economic development and institutional capacity remain unresolved. More academic and policy work is required to help understand and address the key gaps.

This issue of *Hemisphere* serves as a platform for discussion of this important topic. IPMCS, one of the leading centers in the US for the study of local governance in Latin America and the Caribbean, has collected an impressive group of scholars and practitioners from the region to analyze the unfinished business of consolidating effective, transparent local government institutions and regulatory processes.

Special thanks to Cristina Rodríguez-Acosta, Assistant Director of IPMCS, for serving as guest editor. Her depth of knowledge of the topic and network of experts and contacts in the field of local governance have been invaluable in editing this issue. I am grateful to her and the contributors for their participation in this issue of *Hemisphere* and for their commitment to where governance matters most – at the subnational level.

Frank O. Mora
Director
Kimberly Green Latin American and Caribbean Center
Florida International University

FROM THE GUEST EDITOR

The late 1980s and early 1990s saw Latin America's transition from dictatorial regimes to democracy and with it, a clear impetus for promoting citizen participation, transparency, greater accountability and good governance in most countries. Many of these countries enacted new political constitutions and economic reforms to try to modernize stagnant economies and promote social inclusion and economic development. Their administrations saw political, fiscal and administrative reforms as essential to improving public service delivery and making governments more accountable to their people.

More than 30 years later, many scholars, politicians and citizens worry that decentralization has not brought the improvements it promised, and concerns are growing about a possible slowdown – if not a reversal – of the process. In this Hemisphere issue, the Institute for Public Management and Community Service at Florida International University has asked a wide range of observers to provide brief analyses of where we are now and how decentralization reforms can be deepened.

In our main article, Professor Allan Rosenbaum notes that many forces are behind the decentralization process, including the belief that strong local governments have the capacity to influence local, regional and national economic development. Citing the United States' experience with decentralization, Rosenbaum explores the ability of local governments to be a source of innovation and economic development and offers six recommendations for building effective administrations.

Marcelo Giugale, Senior Director at the World Bank Global Practice for Macroeconomics and Fiscal Management, poses the question everybody has on their minds after 30 years of decentralization policies around the world and, in particular, Latin America: Has it worked? How can we know? What evidence do we have? The results, he argues, are mixed, but successful cases share elements in common: innovation, technology and low debt.

My own contribution is an overview of some of the political, fiscal and administrative reforms in the region, noting the fragmentation of policy implementation in many countries as well as the fiscal disparities and overreliance of subnational governments on fiscal transfers from the central government. Lack of revenue autonomy is accompanied by insufficient expenditure autonomy at the subnational level. After three decades of reforms, the impetus toward decentralization seems to be losing steam.

The importance of cultural values and historical traditions to citizen participation and the pace of decentralization is addressed by Víctor J. Flecha, the head of a prominent Paraguayan NGO who has worked on issues related to decentralization in several Latin American countries. Flecha also notes the sluggish adoption and implementation of decentralization policies.

A series of articles on the decentralization experiences of several countries in the Americas further develop these general arguments. Ilyana Albarrán argues that while Mexico's decentralization has resulted in more decision-making

authority at the local level and increased participation by allowing communities to manage projects, many problems remain (e.g., inequality, corruption, collusion with drug cartels). These problems call into question the ability of decentralization to bring about less corrupt and more accountable governments.

In another article on Mexico, Heidi Smith reviews the administrative structure of municipal debt in that country, its implications for local economies, and the reasons why municipalities in Mexico acquire debt. Her discussion includes examples and alternatives for public officials to make levels of subnational debt more sustainable.

Pablo Sanabria, analyzing decentralization in Colombia, explores aspects of intergovernmental relations and fund transfers. In addition to a review of the challenges decentralization has brought with it, he ends by offering a compelling agenda in which strengthening human capital at the local level is one of the key elements.

Gretha Burchard, for her part, provides an overview of Brazil's cyclical relationship between centralization and decentralization, reviewing reforms in specific sectors such as health, education and social welfare.

The successes and challenges of decentralization in Chile are the subject of the article by José Inostroza Lara and Javier Fuenzalida Aguirre. Chile's new president faces a series of challenges to deepen and strengthen the reforms proposed by the Presidential Commission on Decentralization.

Finally, Professor Daniel Cravacuore of the National University of Quilmes, Argentina writes about the dangers of recentralization and the need for all stakeholders to defend decentralization at the risk of becoming irrelevant.

In presenting these articles for consideration and debate, FIU's Institute for Public Management and Community Service is proud to contribute to the continuing discussion of the legacy and the future of decentralization in Latin America.

Cristina A. Rodríguez-Acosta
Assistant Director
Institute for Public Management and
Community Service
Florida International University



crisis

local government
peace
empowerment

tax

debt
transparency
revenue
reform

citizenry
accountability
partnerships

local government
citizenry

complexity
transparency
tax
peace
conflict

local government

partnerships
complexity
government

Reform

accountability
partnerships
revenue
complexity

transparency
tax
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complexity

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complexity
partnerships
empowerment
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local government
fragility

transparency
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Local Government as a Source of Political and Economic Development: What Can We Learn from Past Experience in Latin America and Elsewhere?

By Allan Rosenbaum

The past half-century has witnessed numerous attempts to build more democratic and prosperous societies through governmental and economic reform. In some parts of the world, these efforts have been transformative, with governments moving from authoritarian, one-party states to relatively pluralistic, democratic ones. A number of countries have also been the scenes of dramatic and, in some cases, successful economic reform. Underlying many of the political and economic reforms that have captured headlines around the world has been a widespread movement toward decentralization and the strengthening of local government.

Many forces have driven this movement, ranging from local demands for more responsive, participatory and democratic grassroots governance to the efforts of major international organizations and national aid agencies to encourage the strengthening of local government as a means to institutionalize more democratic practices in countries undergoing political and economic transformation. More recently,

these efforts have been guided by a growing belief that strong local government has the capacity to be an important factor in local, regional and national economic development. Nowhere has this concern for decentralization and the strengthening of local government been more at the center of reform efforts than in Latin America.

Such initiatives have not been confined to Latin America, of course, nor are they limited to the past few decades. Arguably, the first real effort to implement decentralization as a means to facilitate both democratic and economic development began with the creation of the United States nearly 250 years ago. Since that time, many countries have sought to institutionalize decentralized systems of government and create local governmental capacity to encourage economic and political development. A brief review of some of this experience, both in Latin America and elsewhere, provides useful insights for better understanding what will and won't work and why, as well as the likely consequences of particular reform strategies.

Local government: the US experience

The United States, in all probability, possesses the most

highly developed subnational/local government system of any country in the world. In addition to its 50 state governments, the US has approximately 89,000 local governments. About 38,000 of these are general, or multi-purpose, city, county and township governments, and 51,000 are special, often single-purpose, local governments. All are independent, have taxing authority and, in many cases, a considerable degree of autonomy within the geographic sphere in which they operate. In terms of function, the 51,000 special-purpose local governments engage in activities as diverse as controlling and/or eradicating mosquitos, providing public education to the nation's children, or wide ranging and significant urban planning and/or transportation initiatives. Often, local governments have overlapping jurisdictions, several of which can impact citizens at once.

In certain respects, the high level of governmental decentralization in the United States is a direct result of the circumstances under which the country was established: rebellion against a centralized and authoritarian system in England by 13 relatively independent and separate colonies which, in some cases, had very different economic

bases and, in many instances, did not really trust each other. Consequently, the constitution drafted by the country's founders gave great discretion to what were to become the initial 13 states and sought to limit the power of the national government. The new constitution mentioned nothing about municipal government, leaving it to the states to address that matter. In the 200-plus years since the founding of the US, individual states have approached the issue of local government in different ways. Nevertheless, local government in the United States has flourished and continues to exercise great influence over public service delivery.

One gets an especially good sense of the significance of local government in the US system by putting it in comparative perspective. Africa, for example, has about 15,000 local governments. Without counting the informal village councils found in China, Pakistan and India, Asia has about 26,000 local governments, and Latin America 17,000. This adds up to a total of approximately 58,000 local governments in Latin America, Asia and Africa combined, as opposed to 89,000 in the US. Moreover, subnational governments in the US – state and local – historically have served as the source of much policy and political innovation for the nation as a whole.

The ability of local governments to be a source of policy innovation and economic development is based upon two factors: first, the wide-ranging power and authority given to US local governments and, second, their equally wide-ranging ability to levy taxes and assess fees and charges. Virtually all US local

governments have considerable capacity to impose property taxes. Many also have the authority to impose sales taxes and, in some instances, even income taxes. This authority comes from their state governments, which also give most local governments in the United States substantial leeway to impose charges and fees on everything from collecting garbage to operating parks and issuing licenses. In 2010, for example, US local governments collected more than \$1.4 trillion in general revenue: \$430 billion in property taxes, \$323 billion in charges and fees, \$140 billion in sales taxes and other revenues, and \$544 billion in intergovernmental transfers from state and national governments.

One consequence of the substantial revenue raised at the local level is that US state and local governments, when taken together, are many times larger than the national government. For the past 65 years, the US national government has operated with about 2 million civilian employees. Another half million Americans are employed by the US Postal Service and another million and a half by the nation's military and security services. In contrast, state and local governments employ between 15 and 19 million people.

The sheer number of individuals involved in local government is an important factor in dispersing political power in the US. Almost all local governments elect between five and 15 executive officers and/or councilpeople, and some as many as 50 or 60. Moreover, in addition to the large number of individuals elected to local government offices, many others hold appointed

positions designed to engage citizenry in local government activities. Virtually every US local government appoints citizens to various boards and committees. In the case of large local governments, anywhere from 200 to 1,000 individuals might serve on locally appointed citizen bodies which, in some cases, have decision-making authority regarding the expenditure of hundreds of millions of dollars.

One area of policy activity in which US local governments are especially likely to draw upon citizen boards is the field of economic development, often through partnerships with prominent local business leaders. In some cases, the focus is on finding jobs for the unemployed and underemployed; in others, it is to encourage and support the creation of new businesses and economic enterprises. In yet other instances, the purpose is to lure business and industry from other cities, states and countries. Frequently, these efforts receive significant financial support from local and/or state governments. In many cases, the goal is small business development, which, in recent decades, has become the leading source of new jobs in the US economy.

The rest of the world

One important reason for the movement toward decentralization has been general disillusionment with centralized governments and economic systems. The collapse of the Soviet Union gave further impetus to this development, but decentralization was already contributing to reshape Latin America. In the 1960s, most countries in the region were

governed by authoritarian and, often, highly centralized dictatorships, both military and civilian. Many of these dictatorships began to collapse due to their own economic inefficiency and authoritarianism in the late 1970s and 80s. That trend gave rise to growing opposition to centralized governments from within individual countries and among the international community.

The dispersal of political power and the emergence of pluralist political systems and civil society have been among the main concerns of the decentralization movement of the past four decades. This movement has succeeded in many important ways. Just 40 years ago, for example, less than 10 of the world's 45 largest countries had elected local government officials. Today, almost all of them do. In Latin America, only three governments had elected local officials 30 years ago. Today, they are the rule everywhere except Cuba. Many countries have even initiated regional governments, often elected, where not so long ago few or none existed.

Nevertheless, there are still parts of the world where the movement toward decentralization and local government has not had a big impact. Particularly notable in this regard are the Middle East and Central Asia, where, despite some decentralization initiatives, the kind of significant developments that have occurred in other parts of the world have yet to emerge. Some countries have also taken a step back from both decentralization and democratization. Russia especially stands out for the retreat from decentralization under Putin's

leadership. But Russia is not alone in this regard; Colombia, once the leader of the decentralization effort in Latin America, has witnessed significant efforts during the past decade to recentralize governmental authority and power. South Africa too made significant progress toward decentralization under its first post-apartheid governments, only to see recentralization creep back in recent years.

The case for local government

The question of why major decentralization initiatives have occurred in many parts of the world during the past several decades can be answered in many ways. Certainly, one important reason is a desire for greater grassroots democracy and citizen participation. The drive to improve service delivery has also been an important driving force and, more recently, attention has been directed at the possible role of decentralization in reducing inequality. Another explanation for encouraging decentralization has to do with its potentially significant role in more general efforts to promote local economic development.

In terms of promoting democracy and citizen participation, institutional efforts go beyond the election of local officials and include participatory budgeting, greater public involvement in strategic planning activities, and the establishment of local open records laws. In much of Latin America, cities have experimented with decentralization in an effort to enhance citizen participation. One obstacle has been the fact that, in many instances, the emerging local governments have very little control

over or capacity to raise revenue.

One dramatic exception to this Latin American pattern is Bolivia, which has been extremely successful in its attempts at decentralization, in part because significant revenue decentralization has accompanied political decentralization. For hundreds of years, a relatively small elite of European origin monopolized the nation's political and economic power, land and wealth, marginalizing the majority indigenous population through policies that denied it fundamental human and political rights. In 1994, under a relatively conservative government, Bolivia enacted a Popular Participation Law that did two important things: First, it established many new local governments in areas where none had existed and, equally important, it provided local governments with substantial financial resources, earmarking 20% of the national budget for this purpose. Second, and equally significant, it created strong institutional mechanisms to ensure the participation of the country's indigenous population in local government. This legislation, which played a major role in strengthening local government in Bolivia, has helped encourage dramatic political transformation over the past quarter century.

Similar, if less dramatic, situations have occurred in other Latin American countries. In numerous instances, emerging local governments have served as the vehicles through which opposition political parties have organized and begun to compete seriously for national leadership, changing the basic dynamic of the political situation in numerous countries.

Primera

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Para la construcción de un México pacífico y justo

Ciudad de México, 22 de mayo de 2012.



Enrique Peña Nieto gives his speech during the First Citizen Summit organized by civil society in Mexico City on May 22, 2012. More than 300 organizations participated in the summit, which presented a list of proposals to the country's presidential candidates. ALFREDO ESTRELLA/AFP/Getty Images.

The local government movement has provided opportunities for many new organizations to develop, especially NGOs, with profound consequences for democratic development. A case in point is Chile, where internationally supported local governance initiatives facilitated the emergence of Chilean civil society and significantly hastened the end of the Pinochet dictatorship.

The second major issue driving the decentralization movement is the question of public service delivery. The results of such efforts appear to be mixed. Some analysts

– Shah, Thompson and Zou included – make a strong argument that decentralization has improved public service delivery. Others note that political decentralization (in the sense of local elections and civil society mobilization) has not always implied adequate financial capacity. Moreover, in most cases where substantial financial resources have been made available to local governments, they frequently take the form of transfer funds from national governments. Local governments often have only very limited control and discretion over the use of these funds and,

in more than a few cases, national governments habitually ignore legislation requiring them to transfer funds to local governments.

Especially in Western democracies, where local governments have a strong record of success, such governments have had a great deal of autonomy in levying and raising taxes, issuing bonds for capital construction, imposing fees for services, and other activities central to their ability to deliver services effectively. In those cases where it appears that the quality of services has declined with decentralization, it is often because

of decreased national government allocations to the local governments with the responsibility for delivering the service involved.

Reducing inequality has been another growing focus of decentralization efforts, especially over the past decade. Results in this area, too, have been mixed. Some countries – Brazil, China and Poland among them – have focused on both encouraging governmental decentralization and raising the basic income of their citizenry. Other countries, including Chile, have attempted to improve the quality of education while encouraging political decentralization. It is not clear that such initiatives have produced any significant movement toward reducing income or wealth inequality. In fact, some of the same countries – Brazil and Chile – have made significant reductions in poverty but seen inequality grow. The same phenomenon has been true in China, where the emergence of decentralized government (if not decentralized political power and control) over the past three or four decades has helped produce extraordinary economic development while exacerbating inequality. Thus, as large urban populations have become wealthy, the income and wealth gap between them and rural areas of the country has grown significantly.

The fourth point, the relationship between decentralization and economic development, is one that has not been adequately explored and, consequently, is often not well understood. Although research on the subject has produced mixed results, it may well be the major benefit of the decentralization

movement. Some quantitative analyses using World Bank and other data conclude that increasing emphasis on local government and decentralization produces positive economic results, but other researchers point to similar studies that conclude the opposite. One basic reality holds true regarding the relationship between decentralization and economic development: the wealthier the region of the world, the greater the reliance upon subnational and local governments for delivery of important public services.

When taken together as a group, wealthy countries devote significant resources to subnational government as a proportion of government expenditures and public employees. The differences between rich and poor countries are dramatic in this regard, with the percentage of all public expenditures and public employment found at the subnational level ranging from 40%-60% in the world's wealthiest countries to 10% in the poorest ones. In the US, Canada, Western Europe and Japan, the majority of all public expenditures and public employees are found at the subnational level of government. The general pattern is reflected in the East Asian countries (China, South Korea, Malaysia, etc.), which have the next highest levels of economic development and the second greatest commitment to subnational government in terms of proportion of government staff and funding. In Latin America, about 20% of both government employees and expenditures are at the subnational level. Among African countries, generally the

world's least developed, the figure is 10%.

China illustrates this point in a dramatic way. Beginning in the early 1970s and extending into the 1980s, China made major efforts to decentralize government authority and national economic resources. One result of this is that in China today, 80% of all state-owned industries are, in fact, owned by local governments and not by the national government. The local authorities have enabled and supported the capacity of those industries for economic development, leading to a great flourishing of China's economy. Whatever China's limitations in the area of democratic development, the past three decades of the decentralization of governmental (if not political) authority have produced extraordinary economic results.

The underlying reason for this is relatively simple: Local economic development requires local capacity to support and sustain it. An important prerequisite for an effective private sector is, inevitably, an effective public sector. It is the public sector that provides the infrastructure and the critical resources necessary to support local economic development activities: adequate transportation facilities, water and electricity, a competent workforce, and a supportive legal framework (including everything from building and zoning requirements to local business regulatory policy). These are all matters that are most effectively dealt with, and most appropriately shaped and managed, at the local level. To do so effectively, however, requires significant local capacity in terms

Conference participants from Ecuador and Colombia during a networking session at Florida International University's XX Inter-American Conference of Mayors: "Building Sustainable, Equitable and Smart Cities: New Challenges for Latin America" held at the Hilton Miami Downtown Hotel from June 9-12, 2014. FELIPE SOTO.



of authority and autonomy, trained personnel and adequate fiscal resources.

Six recommendations for building effective local government

As noted at the outset, efforts to build and strengthen democratic local governance have been under way for some time in many countries. An increasing body of knowledge exists about this topic, with the most important lessons learned including the following:

1) Accountability and transparency are essential for citizen confidence

Throughout the world, citizens are increasingly demanding accountability and transparency from their governments. This is especially true at the local level, where confidence in government is directly related both to the responsiveness of government to the needs of citizens and its openness to citizen participation and involvement. Local governments in many parts of the world, given their status as relatively new institutions, have the opportunity to set a new standard of excellence in terms of accountability and transparency and, in so doing, help reverse the growing trend of citizen disillusionment with government institutions.

2) Citizen empowerment is a prerequisite for effective local governance

One of the greatest virtues of local government is its closeness to the people it serves. All too often, however, only part – frequently, a minority – of the people being governed are effectively involved in, or in a position to influence,

their local governments. This is a problem that especially affects the poor, undermining the effectiveness of local government as a democratic institution and generator of needed economic development. It is critical that efforts to build and strengthen local government include major initiatives to encourage the empowerment of all citizens – especially the poor and the marginalized. As experience in many highly developed countries has shown, the failure to undertake such initiatives will have significant costs, ranging from civil disorder to a decline in confidence in government.

3) Recognize the centrality of an adequate and dependable revenue base

In transitional and developing countries, regional and local governments often have very limited revenue-raising capacity, making them highly dependent on central government subventions. As new demands are brought to bear, they become ever more reliant upon national governments to provide funding, either through routinized fund transfers or by specific appropriations. Such dependence inevitably limits the capacity of local governments to provide the services their citizens require and to play their full role in the process of democratic institution building.

The authority and capacity to raise revenue, whether through imposing taxes and fees or incurring reasonable debt, is essential to building strong local governments, not just because revenue is a prerequisite for the provision of effective and adequate public services, but also because

the raising of revenue ultimately forces local public officials to act more responsibly. Public officials who impose taxes upon the people who vote them in or out of office are more likely to remain attentive to their constituents and behave responsibly. Without this authority, they remain dependent, giving them the luxury to act irresponsibly and pass important governing responsibility on to others.

4) Build coalitions with civil society

Another important development during the past decade for those concerned about the future of democracy and good governance has been the emergence of civil society organizations. Both through their own independent activities and, increasingly, through their ability to influence other institutions, civil society and its representatives are beginning to shape the policies and actions of local and national governments in important ways. In many instances, local civil society organizations play important roles in assisting emerging local governments to identify and meet citizen's service delivery needs.

Governments, both at the national and the local level, can create environments that are friendly and supportive of civil society growth or that retard and limit this development. Through the protection of such basic rights as freedom of speech, association and press, as well as a variety of specific legislative actions (including taxation, financial support and regulatory activity), national and local governments can have a profound impact on the ability of civil society

institutions to develop and flourish. When rivalry and conflict emerge between local governments and civil society organizations, especially as they compete for international donor funding, it harms all parties involved.

5) Strengthen local and central government partnerships

The emergence of local government has been one of the most notable achievements of the democratic institution building efforts of the past several decades. Grassroots activists, local and national leaders, and international organizations have all contributed to this outcome. Over the past decade, however, many national governments have reduced their commitment to this movement. In most parts of the world, national governments, through enabling legislation and fiscal policies, shape the environment within which local governments operate and can either limit or encourage their capacity to act effectively.

Even the most permissive and supportive national government, if acting alone, cannot ensure meaningful decentralization. Significant local demand and concern must exist for the development and continuity of local government. This is especially so since the leaders of most centralized government are not, in truth, anxious to give up resources or the authority to control them. For political purposes, national leaders often speak of the need to encourage decentralization, build local government capacity and strengthen citizen participation, but all too often such statements gain meaning only when accompanied by strong and substantial pressure from

the local community. Finally, it is especially necessary to recognize that strengthening one or another level of government does not represent a “zero-sum game” in the sense that, if one level of government is enhanced, another will inevitably become weaker. Indeed, many contemporary experiences suggest quite the opposite: When one level of government becomes stronger, pressure builds for other levels of government to follow suit.

6) Recognize the complexity and fragility of reform

Government reform is inevitably a complex and difficult process. It frequently involves negotiating among well-established interests with a strong need and/or desire to maintain existing practices. Such groups will often vigorously resist efforts to bring about system reform. In transitional and developing countries, the problem of institutionalizing reform can become even more complex. Often, the institutions of government are simply not strong enough to implement significant reforms. In other instances where reforms are implemented, the pressure to revert to past arrangements and practices is often strong.

The process of institutional reform can be further complicated by the fact that many of the organizations that support and encourage such efforts frequently provide aid only in the short term. Advocates for reform frequently leave the scene much too soon, giving those eager to limit or avoid reform the opportunity to do so with little or no resistance. In other instances, economic or political circumstances beyond the control of the participants in

any reform process complicate and undermine even well-planned and organized reform initiatives. Consequently, it is crucial that those involved in the process of building and/or reforming the institutions of local governance recognize that such efforts require both patience and a long-term commitment.

In conclusion, while the United States remains one of the most politically decentralized countries in the world, other countries have begun to take significant steps in this direction, introducing local elections and strengthening municipal institutions. Driving many of these developments is an underlying belief that dispersing political power and emphasizing local service delivery are important steps in building and strengthening democratic institutions, as well as a significant factor in a nation's successful economic development.

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It is critical that efforts to build and strengthen local government include major initiatives to encourage the empowerment of all citizens – especially the poor and the marginalized. As experience in many highly-developed countries has shown, the failure to undertake such initiatives has significant costs, ranging from civil disorder to a decline in confidence in government. In an act of civil disobedience during the Central American Games, civil society protests in Plaza Lerdo in Xalapa, Mexico, demanded greater government efforts to end violence in the state. RAUL MENDEZ VELAZQUEZ/Pacific Press/LightRocket/Getty Images.

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A Peruvian water distribution worker with a pipe fills a tank with drinking water on the dusty hillside of Pachacútec, a desert suburb, on January 22, 2015 in Lima Peru. Although Latin America is blessed with an abundance of fresh water, having 20% of global water resources in the Amazon Basin and the highest annual rainfall of any region in the world, an estimated 50-70 million Latin Americans (one-tenth of the continent's population) lack access to safe water and 100 million people have no access to any safe sanitation. JAN SOCHOR/LatinContent/Getty Images.



Has Decentralization Worked?

By Marcelo Giugale

Think back to the 1990s. The Soviet Union had just disintegrated. The US economy was on a roll. Technology and the Internet were starting to connect people, and democracy was spreading fast, especially among developing countries that never had it before. The newspapers were full of reports about new presidents and voters speaking up freely. Behind the headlines, a more subtle political change was taking place: Power was beginning to shift from central governments to states and municipalities. Vital public services for the common citizen – education, health, water, electricity and many others – were becoming the responsibility of governors and mayors. With this responsibility came money, some in the form of transfers from the national budget, some as new local taxes, and some from lenders eager to gain new clients. This was the heyday of “decentralization,” the catchy idea that closer proximity – literally – between those who govern and those who are governed is always a good thing. No one can know people’s preferences better than their local authorities, right? And if local leaders fail to deliver, it is easier to hold them accountable – after all, they are more likely to be your neighbors. Decentralization, or so the thinking went, was sure to improve service, reduce corruption

and save money.

Several decades later, it is fair to ask: Has decentralization worked? The answer is a bit anticlimactic. When it was done well, decentralization did work. Success came with smart design and careful implementation. Decentralization was – and still is – a high-risk, high-reward reform. A lot can go wrong. Local bureaucracies may not have the capacity to manage a school system or a power distribution network. They may not have the “scale” to keep costs down. You can negotiate better prices for, say, garbage trucks if you buy them by the thousands for a country rather than by the dozen for a county. Small-town politicians may be easier to lobby – or to bribe. Labor disputes, obsolete equipment and irresponsible pension promises are just some of the common problems plaguing decentralized public services, and federal governments are only too happy to pass the blame on to someone else. Left to fend for themselves, remote poor areas may become even poorer, while big cities close to ports grow bigger and richer. This is when geography begins to matter and regional resentment begins to fester. And then there is the bailout issue: What should the central government do if a local government goes bankrupt? Can it watch and do nothing as a province’s children go without school and its hospitals go without power? South America is living proof that “the federation” has no choice but to step in and pay

up, in effect making everyone in the nation pay up, too.

With so much at stake, it is not surprising that few countries can claim success in decentralization. In fact, there is no evidence that when the government is more decentralized, the economy grows faster or is more stable. Not enough data exist to tell one way or the other. Nor is it clear that giving more power to local governments automatically translates into less poverty.

A growing inventory of experiences from around the world shows specific public services improving – sometimes a lot – when local authorities begin to run them. For example, giving Swiss cantons control over education raised student test scores. In Canada and Spain, infant mortality fell faster when provinces were responsible for it. Bolivian municipalities managed to invest in water and sanitation where it was most needed, leading to healthier local populations. Enrollment in Ethiopian primary schools shot up when *woredas* – a type of territorial division somewhere between a neighborhood and a municipality – were put in charge. The list goes on. It is just as easy to make a similar list, however, of public services that deteriorated when they were decentralized.

The real question is not whether decentralization has worked or not, but whether the cases where it has succeeded share common factors. This seems to be the case.



Across the region, new strategic partnerships have been developed to address local challenges creatively and effectively. Country Director of the World Bank for Colombia and México, Gloria Grandolini (L), and Colombian singer and songwriter Juanes (R), founder of the Mi Sangre Foundation, attend a joint press conference in Bogotá, Colombia, on July 16, 2013, to present their partnership achievements and progress in the field of peace education. GUILLERMO LEGARIA/AFP/Getty Images.

First, decentralization makes innovation easier. Governors and mayors often experiment with new ways to deliver old services. Take the case of schools in Bogotá, Colombia. In an effort to improve its education system, the city hired some of the best and most exclusive private schools to run 25 educational centers in low-income areas. Students in these “concession schools” – where the power of teacher unions was limited – did much better on standardized tests than their peers in the rest of the public system. (Many actually scored higher than their peers in the parent private school!) It would have been politically and practically impossible for the central government to try something like that on a nationwide scale.

Second, technology helps decentralization. In the past two decades, computers, cellphones and the web have made it easier to control and provide public services at the local level. Municipal officials can now be trained online and provided with the same information as big bureaucracies in the capital. They can learn from each other with a click of a mouse. New gadgets such as transponders,

remote meters and barcodes have made it simpler to charge for highways, water and licenses. And how about the power of Twitter, Facebook and YouTube to embarrass the mayor if he is caught red-handed committing an impropriety? Or the local electricity company if it fails to restore power fast enough? Or the city’s sheriff if he keeps pulling over drivers of a certain skin color? Neighborhoods have instant accountability at their fingertips.

Third, debt has to be kept low. Over time, local governments develop their own sources of income. Many have received large transfers from national sales of oil, gas and minerals, making them more creditworthy. Bankers have started to offer them loans. Governors and mayors who avoid, or are not allowed to go on, borrowing binges do better than those who do. Why? Because paying off hefty debts means less funding for schools, hospitals and roads. The alternative is, of course, to beg for money from the federal government in exchange for political favors – a very messy alternative. Not surprisingly, central governments have tried to ban or at least control “subnational” borrowing, with mixed results. (For good ways to regulate

this, see the example of Mexico.)

One might ask, if decentralization needs such careful fine-tuning to work well, why do it at all? The answer is, because it’s what people want. We like to choose our local leaders and have a voice in the services we use day in and day out. There is no going back on that. The genie of decentralization is out of the bottle already. In the average developing country, states and municipalities are now in charge of a fifth of all public expenditures. The proportion is above a third in places such as Argentina, India, Russia and South Africa. It will continue to grow. That’s why, the next time there are local elections where you live, be sure to vote.

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Decentralization in Latin America: History and Future Prospects

By *Cristina A. Rodríguez-Acosta*

Latin America is a diverse continent with more than 570 million inhabitants. It is highly urbanized (77.8% of the population lives in cities), with great social and economic inequalities.

This diversity extends to the number of municipalities. Some countries, such as Brazil, have more than 5,000 municipalities, while others, such as Uruguay, have as few as 19. Municipal populations also vary greatly among countries, although nearly 90% of Latin America's municipalities have fewer than 50,000 inhabitants (Rosales and Valencia Carmona, 2008).

Similarly, Latin American countries vary with regard to the extent and depth of their decentralization processes. Over the last 30 years all countries have initiated or deepened political, administrative and fiscal decentralization, although in some instances, particularly in the case of Venezuela, serious regression has occurred.

Historically, Latin America has been a region characterized by highly centralized governments. Only four countries – Argentina, Brazil, Mexico and Venezuela – have federal structures. All others are organized in a unitary system but with different structures of regional and local governments and varying degrees of decentralization. In all

countries, the national executive branch predominates and politics remain highly centralized (Rosales, 2012).

With the return to democracy in many Latin American countries in the 1980s and early 1990s, the emphasis has been on political decentralization. In the early 1980s, very few countries elected their local authorities by popular vote. Today, mayors are directly and freely elected in all countries except Cuba, where candidates are nominated and approved by the Cuban Communist party. Administrative and fiscal decentralization have followed more slowly.

In general, the larger countries of South America – Argentina, Brazil, Bolivia, Chile, Colombia and Ecuador – have initiated important reforms and redistributed competencies and resources to subnational governments, but not without many controversies and difficulties. Mexico initiated a policy of “new federalism” and opened up its political system, but administrative, political and fiscal reform has tended to favor state governments more than local ones. Peru saw a slowdown of decentralization under former president Alberto Fujimori, but the trend has re-emerged in the years since 2000. Central America and the Caribbean have moved more slowly in this direction, with

countries such as Guatemala and Nicaragua emphasizing political decentralization and Honduras and El Salvador moving incrementally toward fiscal decentralization. Costa Rica, one of the most stable countries in Central America, introduced the direct election of mayors by popular vote as recently as 2002. Panama, in contrast, has registered very little progress towards decentralization (Rosales, 2012; Rosales and Valencia Carmona, 2008).

In terms of administration, the trend has been to decentralize the provision of certain services (in particular, health and education) to subnational governments. The extent of these reforms varies greatly, as does their financing and the legal frameworks that regulate them.

Local governments in Latin America are usually in charge of providing such basic services as trash collection, sewer and water services, urban planning and zoning, parks and recreation, market regulation, transit, cultural activities, environmental protection and public safety. Some countries, including Brazil, Bolivia, Chile and Colombia, have gone further and transferred additional services such as primary health care, elementary and secondary education, and other social programs to local and regional governments (Rosales, 2012). In Argentina and Mexico, the three



Hundreds of teachers demonstrate along the streets of Guatemala City on January 23, 2014 demanding that the government of Otto Perez Molina increase the budget to improve education. JOHAN ORDONEZ/AFP/Getty Images.

levels of government share delivery of social programs, as well as health and education, but in Central America local governments have had difficulty providing even basic services. Fragmentation of policy implementation has characterized the decentralization process in Latin America over the last 20 years, with little synchronization between assigning responsibilities, tax collection powers, transfers from central governments, and implementation capacity in many countries (Lora, 2007).

Fiscal decentralization in Latin America has also had a mixed evolution over the last 30 years and has been characterized by great asymmetry between devolution of expenditure and devolution of taxing responsibilities (Brosio, 2012; Martinez-Vasquez, 2011).

Between 1980 and 2009, the percentage of subnational governments' expenditures as a part of total national expenditures increased from 11% to almost 19%, with countries such as Colombia and Bolivia (both unitary governments) showing important increases, from 26% to 33% and from 15% to 27%, respectively. Since Fujimori, Peru has also increased its subnational expenditures from 9% to 34% of total government expenditures. Among federal countries, Brazil shows the largest increase, from 32% to 55%, with Argentina and Mexico recording important gains as well. Venezuela experienced the smallest increase, from 2.4% to just 8%. Central American countries generally show a decline in subnational expenditures as a part of total governmental expenditure. The exception is El Salvador, which has

had a very small increase.

Latin American subnational governments, and local governments in particular, have as their main source of revenue locally collected taxes and fees (especially property taxes); transfers from the central government (conditioned or unconditional); loans from different financial institutions or agencies (this option varies greatly by country); and other revenue, such as royalties, grants, gifts and donations.

The most common tax that almost all countries in Latin America assign to local governments is the property tax, which is by far their largest source of local revenue, though the ability to collect it varies greatly by region and country. Other taxes and fees include vehicle registrations, driver's licenses, construction permits and regulation of public markets.

One important aspect of measuring fiscal decentralization is the level of autonomy of subnational governments to generate their own revenue. In Dickovick's ideal types (2011), Latin American countries range from moderate, with large amounts of legally mandated transfers and major tax bases but inconsistent transfers (Brazil, Argentina, and Colombia), and low, with small amounts of legally mandated transfers, minor tax authority, and minimal transfers (most other countries).

Adding to the lack of revenue autonomy, many countries still have insufficient expenditure autonomy. Only six countries (Argentina, Brazil, Ecuador, El Salvador, Uruguay and Venezuela) allow local governments to create new taxes, and in seven others (Bolivia, Costa Rica, Mexico, Nicaragua, Panama, Paraguay and Uruguay) the regional or central

government has veto power over local governments' budgets. Many countries suffer from a lack of local administrative capacity, as well as too much fragmentation (local governments that are too small), a lack of clear legal frameworks for assigning expenditure responsibilities, confusion over revenue sharing (formulas are not clear, leading to extended debates and discussions over the conditionality or not of revenue sharing), irresponsible borrowing, and overreliance on transfers from the central government.

Because Latin American subnational governments have come to rely heavily on transfers from the central government, their own tax resources have remained stagnant (Gomez Sabaini and Jimenez, 2012). This overreliance on transfers exposes subnational governments to budget cuts stemming from macroeconomic fiscal and economic imbalances, as occurred during the 2008 economic crisis, for example. It also makes them vulnerable to conditions imposed by central governments (Rezende and Veloso, 2012) and to shifting political alliances.

Some of the main flaws identified by Rezende and Veloso (2012) in the intergovernmental transfer system in Latin America include the lack of clear principles and objectives for organizing such transfers, the multiplicity of transfer sources and criteria, rules that are neither clear nor stable, new and multiple conditions on the use of such funds, and the absence of periodical review of the transfer regime. This overreliance creates a disincentive for subnational governments to improve their own revenue collection capacity

**Percentage of Total Governmental Expenditures by Subnational Governments
1980 to 2009**

Brazil (1980)	32.4	Brazil (2008)	55.0
Argentina (1980)	22.2	Argentina (2006)	50.8
Mexico (1980)	22.0	Mexico (2007)	31.8
Venezuela (1979)	2.4	Venezuela (2007)	8.0
Colombia (1982)	26.3	Colombia (2006)	33.0
Ecuador (1980)	18.3	Ecuador (2004)	22.1
Bolivia 1986	14.8	Bolivia (2008)	27.0
Peru (1990)	9.1	Peru (2007)	34.0
Uruguay (1980)	8.6	Uruguay (2005)	13.2
El Salvador (1978)	5.8	El Salvador (2007)	7.0
Paraguay (1980)	5.5	Paraguay (2007)	6.5
Guatemala (1980)	4.5	Guatemala (2009)	4.4
Costa Rica (1980)	4.0	Costa Rica (2007)	3.7
Chile (1980)	3.7	Chile (2007)	14.0
Dominican Rep. (1980)	3.5	Dominican Rep. (2006)	5.3
Panama (1980)	2.0	Panama (2005)	1.7
Average Latin America	11.6	Average Latin America	18.9

Source: Adapted from Rosales (2012, page 25), based on IMF, World Bank, IDB, and UCLG data.

(Martinez-Vasquez, 2011), reducing their negotiation ability vis-à-vis the central government. Some of these weaknesses need to be addressed if subnational governments in Latin America are to achieve expenditure and revenue autonomy, both key factors in the delivery of public services.

Some final perspectives on decentralization in Latin America

After more than 30 years of political, fiscal, and administrative decentralization, results in the hemisphere are mixed, difficulties and challenges are many, and, in some instances, a sense exists that decentralization is no longer a

priority. It could be that the region's tradition of strong executive leadership and its resulting tendency toward centralization is too strong and difficult to overcome (Restrepo, 2006).

Decentralization is by no means the perfect answer to a country's development. It does not ensure better service delivery, and it is not the only factor influencing citizen participation. Weak administrative or technical capacity at the local level can hinder the process, and the resulting inefficiencies can entail the loss of economies of scale. Local elite capture of service delivery can also be a serious problem, increasing or creating tensions between local

and regional governments and central governments over control of scarce financial resources (World Bank Report, 2007; Rondinelli, et al 1984).

Nevertheless, some achievements are associated with decentralization in Latin America. These include popular election of sub-regional and local authorities. Further, the legal framework for decentralization has brought important political reforms and increased citizen participation in most countries. Subnational governments have increased their share of expenditures and revenues and have more decision-making authority as to how those funds can be spent. The transfer to subnational



Brazilian Minister of Planning Miriam Belchior talking during a press conference in Brasilia on August 29, 2013 about the increase in the 2014 budget. EVARISTO SA/AFP/Getty Images.

governments of policy-making decisions and implementation has contributed considerably to increased capacity at the local level. Citizen participation has led to innovations in social policy implementation, as well as the inclusion of previously excluded social groups in the policymaking process. Municipal associations in particular have been strengthened, and overall subnational levels of government have taken a more proactive role (Rosales, 2012). Their increased relevance is reflected in the number of subnational authorities going on to become national leaders in their countries.

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Basic Conditions for Decentralization and State Reorganization in Latin America

By Victor-Jacinto Flecha

It is a well-known fact that the two major contributions of the eighteenth-century revolutions that led to the organization of the modern state are, first, the division of power, facilitated by the French Revolution; and second, the decentralized system of power introduced by the American Revolution. Both of these revolutions adopted state structures according to an existing political praxis of social organization.

France, with a long tradition of absolutism and centralization, used the division of powers as a method to disperse authority. A decentralized system in France, had it been implemented at that time with the imposition of the new democratic system, risked the breakout of lawlessness, precisely because of the absence of a tradition of local governance.

The history of the United States reflects the other side of this argument: With its long tradition of local development, including a citizenry not only aware of its rights but also of its duties and obligations to society, the young nation would have found it difficult, if not impossible, to install a centralized system. This political reality required the establishment of a federal decentralized state, achieved via the alignment and consolidation of the states associated under the Articles of Confederation.

The French and US cases highlight

the fact that political systems are not born by spontaneous generation, but come about as the result of long historical processes that reflect cultural symbols and a vision of the past. The great leaps of social change that occur during a revolution also arise within a set of complex processes. A revolution is, in fact, a special situation that exacerbates the fundamental political and civil society relationship along key elements. The new state arising from this process will reflect the outcomes and trade-offs between the defining characteristics of various interests or social sectors.

In this manner, the overthrow of military dictatorship in South America led to the emergence of new democratic processes. Most countries proclaimed new national constitutions and approved decentralized systems to secure newly won freedoms and return to citizens the power to decide their own destinies, and, in so doing, bring the state closer to the citizens. These new governments worked to enable people, either as individuals or as a community, to participate in the management of public affairs, a right denied to them under previous dictatorships.

Nonetheless, even while South Americans were demanding their rights and instituting measures to limit the powers of political leaders, there was still no consensus on the best way to create institutions to

limit those powers and allow greater citizen control. Many proponents cited decentralization as a great way to disperse state power, but it is unclear how deeply they understood the details and implications of such a system, or whether it was a bottom-up approach to politics. Argentina, Brazil and Mexico, for example, adopted federal systems in the nineteenth century but never reached the level of decentralization of the United States, nor did their local governments gain sufficient power and resources to manage their own territories. Today, after more than a quarter of a century of decentralization in Latin America, the results of this process vary among countries. Some decentralized nations are more successful than others, and some have begun to reverse the process and consolidate power in the central government.

How can we explain the sluggish adoption of decentralization policy in the region? In principle, it should be the best policy for countries with absentee governments and countless forgotten regions. One possible explanation is a lack of social eagerness to take advantage of the new possibilities offered by a decentralized system. The conservative opposition exploits this weakness to block the legislative and financial policies that would allow for the complete implementation of a comprehensive decentralization policy.

Several basic conditions must be met prior to the initiation of the decentralization process. The average citizen needs to have a clear understanding of what decentralized power means, the political class has to have a real desire to pursue decentralization, and strong and able institutions must exist at the local level of government. Another key factor is a society in which individuals are capable of assuming their role as citizens. Without these conditions, which must progress in unison, the decentralization process will be only symbolic.

To help meet the above conditions, the international organizations that support democratization in Latin America should take into account the differences between countries in the region and their historical experiences. Projects and strategies cannot be transferred from one country to another without passing through cultural filters. They must address the various issues that make for an empowered local government, including leveraging the local cultural elements that strengthen citizen participation and control without overlooking crucial capacity building and training of municipal officials.

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Amazonian indigenous activists march from Trinidad, Beni department in northeastern Bolivia toward La Paz, June 21, 2010, to ask President Evo Morales to assign budgets to their autonomous governments. CARLOS VARGAS/AFP/Getty Images.

Mexican Decentralization in the Context of an Evolving Nation

By Ilyana Albarrán

Decades of decentralization efforts have, without doubt, brought changes to the Mexican federal system. The democratization process of the 1980s resulted in a shift of power to the local level and an insistence on reform. This resulted in the decentralization of decision-making authority to local governments, with legislation that allowed for a more transparent, formula-driven distribution of fiscal transfers.

Political pluralism began in 1988, with opposition parties progressively winning state elections and reducing the power of the hegemonic party. For 70 years (1929-2000), a single political party, the Partido Revolucionario Institucional (PRI), had effectively concentrated power in the executive branch. Political pluralism was promptly followed by electoral reforms, with the period of democratic transition culminating in 2000, when majority control of the national government shifted from the PRI to the Partido de Acción Nacional (PAN).

During the 1980s-90s transition, constitutional amendments limited state authority and redefined municipal responsibilities. Municipalities benefited from the strengthening of their powers and resources through reform of Article 115 of the Constitution in 1983 and 1999. These modifications



On December 2, 2012 in Mexico City, President Enrique Peña Nieto and the main three political parties of Mexico signed an agreement to launch reforms to strengthen democracy, fight social inequality and promote economic growth. ALFREDO ESTRELLA/AFP/Getty Images.

decentralized responsibility for the management of basic services to the municipal levels, giving municipalities the right to collect property taxes from private industries. In addition, new fiscal formulas distributed federal funds more transparently and reliably. Reforms allowed municipalities to organize their public administrations and regulate their service delivery. Municipal fiscal and regulatory responsibilities and power increased significantly; no longer mere administrative bodies controlled by a national government run by a single political party, municipal councils ceased their dependence on the resources and decisions of the

Presidency of the Republic.

Following fiscal decentralization, efforts grew to increase citizen participation in the allocation of resources at the local level, with the aim of bringing government closer to the people. Poverty alleviation programs were designed to allow communities to manage projects within their communities, with the goal of creating more accountability for federal funds and locally raised revenue destined for public works and social programs. Municipal governments are currently the principal institutional players in the operation of public policy at the local level, including urban development and planning, local

transportation, building permits, public services, municipal public security and, to varying degrees, health and education policy.

The focus on decentralization has brought an enormous increase in the role of local government in shaping the nation's future. At the same time, however, frustration with the country's systemic inequality and corruption, especially the collusion between law enforcement and drug trafficking interests, have called into question the ability of decentralization efforts alone to bring about a less corrupt and more accountable government.

Mexico, despite being the world's fourteenth largest economy, continues to be plagued by high levels of inequality. The country's Gini index score — a measure of income inequality — places Mexico at a comparable level with much poorer countries, including Paraguay and Bolivia. Moreover, in 2014, Mexico scored a dismal 35 on Transparency International's index of perceived public sector corruption, on a scale ranging from 0 (highly corrupt) to 100 (no corruption). Drug traffickers routinely infiltrate and control police and prosecutors at the municipal, state and federal levels. Atrocities such as the police abduction and massacre of 43 students in Guerrero in September 2014, at the direct order of municipal authorities, paint a grim picture of some of the newly empowered local authorities and their ability to govern. Since the massacre, 19 more mass graves have been found in the area and 26,000 people remain missing. Overall, the drug war has claimed more than 100,000 lives across the country since 2006.

Attempts to strengthen Mexico's municipalities have come at the cost

of weakening the national state. As the Mexican federal government lost its power to take action as a single body, lower-level governments became more autonomous and able to act independently in discordance with the central government. Criminal organizations, able to seek protection from conflicting government powers, have increased their propensity for violent confrontation, effectively creating their own private armies. Following the student massacre in Guerrero, for example, the federal government took 10 days to open an investigation of the crime, and the army — even with a military base close to the incident — was unable to stop the kidnapping or the incineration of the student's bodies.

State oversight is a requirement for establishing accountability, and different levels of government need to coordinate security operations. Local governments must serve the needs of their constituents while coordinating with state and federal agencies to create unified leadership for the future. Mexico's democratic transition and its concurrent political decentralization have fallen short of empowering society at the local level; instead, the transition has only diversified power bases for members of the business and political class. In recent polls, confidence in government institutions, such as the police, military and politicians at all levels, has fallen drastically. The resulting lack of government legitimacy has led to apathy, less voting, and less participation at the local level, putting democracy at risk. To address this threat, Mexico is in need of structural overhaul and civil service reforms to target

impunity and corruption within municipalities and all levels of government to restore confidence in bureaucratic and political institutions.

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Managing Subnational Debt in Times of Crisis: Lessons from Mexico

By Heidi Jane Smith

Capital markets in the developing world have grown in recent years. This is nowhere more prevalent than in Mexico, which now has four options for state and local governments to obtain loans. Public officials may select from development bank loans, commercial banks, trust funds, or bonds tradable on the Mexican security market. With the plethora of options, Mexican subnational governments are taking out more loans for productive measures to encourage economic development.

Many state governments have substantial debt loads, but municipal public officials are only now seeing the influence of these loans on their local economies. The news media have warned of the potential problem: “Fiscal Hole. State public finances faced a difficult fourth quarter of 2014 due to an accumulated gap of \$1.1 billion pesos missing from federal contributions,” reported Mario Verduco in a February 3, 2015 article in *El Universal*, a Mexican daily. Also in *El Universal*, José Manuel Artega reported on August 13, 2009: “State and local authorities are hedging and issuing debt in order to deal with the financial crisis.”

The global financial crisis of 2007-09 had strong repercussions in Mexico, and the recent decrease in the price of oil has raised fears of financial trouble in the near

future. Mexico’s closeness to the US economy, especially because of its free trade relationship through NAFTA, has created inevitable economic slowdowns. In an effort to reduce the effects of the financial crisis, then President Felipe Calderon allocated the largest obligation in history, more than 1.8 billion pesos (around US\$120 million) to the national development bank (Banco Nacional de Obras y Servicios Públicos, or Banobras) to finance small, economically feasible projects at the state and local government levels, but low oil prices have slowed economic growth.

The administrative structure of municipal debt in Mexico

Since the 1997 reform of Article 9 of the Fiscal Coordination Law (Ley de Coordinación Fiscal, or LCF), which gave municipalities the right to take out commercial bank loans, Mexico has seen a new emphasis on public debt. Part of the decentralization efforts of the 1990s, the LCF aimed to centralize tax collection efforts at the state government level so the federal government could redistribute the national budget fairly and equitably across Mexico’s 2,400 municipalities, 32 states and capital district. Mexican states collect tax and leasing fees, and municipalities have the right to collect small fees and other minor

taxes. The LCF created a system of federal transfers, earmarking 85% of state revenues for social programs and another 7% for non-earmarked discretionary funds. But the new tax system created large fiscal holes in local government accounts, and without appropriate incentives and policies to encourage local governments to collect taxes, fiscal federalism has failed to live up to expectations. Many state and local governments have turned to the municipal bond market to leverage additional revenues to finance public projects and infrastructure development.

Along with fiscal decentralization, the political environment has opened up to vastly greater competition. In 1997, the Institutional Revolutionary Party (PRI) lost its majority control in the national congress after nearly a century of hegemony. It lost the presidency as well to the right-leaning National Action Party (PAN) in 2000. The PRI reclaimed the presidency in 2012, but by then Mexican politics had become more competitive than ever before. In this new climate of political competition, municipal governments have had more opportunities to increase their debt usage, especially during election years (Ibarra, 2009; Benton and Smith, 2013), when, some analysts have argued, both state and local governments use debt for political promises.



Although Mexico's overall subnational debt is still relatively small compared to other forms of credit available in the country, current budget constraints at the local level could fuel excessive funding trends in the absence of national legislation governing the rights and responsibilities of subnational governments.

Mexico's subnational debt framework is a hybrid between rules-based and market-based approaches (Canuto and Liu, 2010). Specifically, current legislation encourages local governments to seek out private rating agencies to appraise their budgets, although not all municipal governments have a rating or can afford to hire an agency. With positive evaluations of their financial systems, operational activities, economic profiles and performance, local governments can find better terms and sources for their public sector loans. The Mexican Ministry of Finance requires state and local governments to report long-term debt loads directly to the federal government, which provides oversight of subnational capital markets by monitoring the total loan amounts. States typically set debt ceilings; for example, as a percentage of GDP,

a ratio of debt to state income, or a set total. This is an effort to limit municipal borrowing capacity, which has the potential to spin out of control.

Increased consumption of municipal debt

Total subnational debt in Mexico grew from 990 pesos per capita in 2001 to 3,450 pesos per capita in 2011 (Benton and Smith, 2013). Yet, Mexico has a very low debt-to-GDP ratio: slightly more than 40%, with the state and municipal portion hovering around 2.5% (IMF, 2012). For comparison, debt levels in Chile in 2009 were around 13% of GDP, while in Brazil they were around 48% (Carranza, Daude and Melguizo, 2011). The pace of subnational government debt accelerated during the 2009 economic crisis, when national GDP decreased substantially (by

around 6.5%). The last quarter of 2014 was difficult for the public finances of Mexican states, which accumulated a gap of 1.1 billion pesos (approximately US\$77 million) due to lower federal contributions. The fiscal gap reported by all states during that period is partially explained by the decrease in national accounts from the collecting of oil rents (Verdusco, 2015).

All forms of subnational debt in Mexico that are subject to sovereign risk are guaranteed by the national government (including some corporate loans, financing for state-owned enterprises, municipal and state bonds, and credit for public private partnerships), the assumption being that the government of a sovereign nation will honor its debt obligations. Mexico's sovereign rating is very high for Latin America, and it was only the second country in the region after Chile to earn a coveted



Bankruptcy Law

Mexico's Ministry of Finance may need to review, publicize and improve bankruptcy laws to cope with moral hazard issues. In the United States, for example, Chapter 9 bankruptcy clauses have helped avoid numerous federal bailouts in recent history. These laws assist in deterring politicians and public budgeting professionals from taking out too much debt and create alternative clauses, such as Chapter 11, to identify ways to renegotiate debt packages.

“A” grade from Moody’s. The recent upgrade to A3 from Baa1 was the result of economic reforms President Enrique Peña Nieto pushed through Congress during the last part of 2013 (Sarmiento, 2015). Mexico’s peso and leading share index both turned positive after the upgrade, which should help lower the country’s national borrowing costs.

Although Mexico’s overall subnational debt is still relatively small compared to other forms of credit available in the country, current budget constraints at the local level could fuel excessive funding trends in the absence of national legislation governing the rights and responsibilities of subnational governments. Proposals for such legislation include: 1) harmonizing state and local government accounting standards; 2) increasing transparency and improving reporting requirements; 3)

expanding fiscal policy by reviewing policies for managing debt sources; and 4) improving bankruptcy laws to cope with moral hazard issues.

How to manage the common pool resource

Mexico has learned many lessons from developed countries on how to limit state and local borrowing while allowing the local debt market to work with little national government control (Laubach, 2005; Kincaid, 2012). Historically, voters have acted as a political constraint on curbing the common pool resource problem of overreaching municipal debt in the United States. Von Hagen (1991) explained that the principal-agent aspect of the voter-politician relationship helps the electorate constrain politicians from taking out too much debt. Yet, he found that politicians are likely to find ways to circumvent the rules as necessary

for self-interest. For example, a governor’s veto power can serve to eliminate or change rules regarding incurring debt (Von Hagen, 1991).

Subnational governments, including states, cantons and provincial governments, should have the authority to create balanced budget rules, whether statutory or constitutional; establish tax and expenditure limitations, if they so choose; or create some sort of local bankruptcy or fiscal distress provisions in their state constitutions (Spiotto, Acker and Appleby, 2012). State variations reflect local policy preferences and fiscal decisions at the local level. Rodden (2006) suggests fiscal discipline can only be created to constrain subnational credit markets when there is a strong national government. Ultimately, the most important element of fiscal rules is how to control public managers from over-consuming

the common pool at all levels of government. Mexico reformed its accounting codes in 2012, and the National Auditors Association is implementing the new rules.

State governments can set balanced budget requirements, tax and expenditure restrictions, and debt limitation schemes. Mexican states have improved their transparency laws and reporting requirements by creating fiscal rules and reporting all long-term debt to the Undersecretary for Debt. State governments have also expanded their fiscal policy by publicizing their debt packages. This includes announcing sources of public debt (from commercial banks, Banobras, trust funds or bonds) and identifying how each loan will be paid off, either from budget expenditures or user fees. Local governments can identify better rates for their debt loads and find the best terms for their public sector loans. Ascertaining local own source income, such as user fees and service fees to be paid directly to their loans, also decreases costs. Cost benefit analysis or feasibility studies can be used to identify if a project is viable and requires long-term finances.

Finally, the Ministry of Finance may need to review, publicize and improve bankruptcy laws to cope with moral hazard issues. The literature questions whether sanctioning public officials, either with punitive charges or financial ones, will deter violators (Spiotto, Acker and Appleby, 2012). Some academics argue that over-scrutiny of small amounts of corruption is no deterrent for public officials (Levitin, 2012), especially when large-scale corruption is often not exposed. In the United States, for example, Chapter 9 bankruptcy

clauses have helped avoid numerous federal bailouts in recent history (Kelemen and Teo, 2014). These laws assist in deterring politicians and public budgeting professionals from taking out too much debt and create alternative clauses, such as Chapter 11, to identify ways to renegotiate debt packages. Clear rules, strong public management principles, and improved financial systems and planning will ensure sustainable subnational public finances in the future.

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Decentralization and Intergovernmental Relations in Colombia:

Issues for a State Still Searching for Structure and Capacity

By Pablo Sanabria

This article explores some aspects of intergovernmental relations with the aim of identifying key elements to help advance a better understanding of decentralization in Colombia. We begin by analyzing two decades of decentralization in Colombia, going on to propose some central questions and identifying key challenges and recommendations.

History of intergovernmental relations in Colombia

In 1991, Colombia passed a new constitution in response to strong citizen activism, particularly from college students, demanding a new set of institutional arrangements for a state that was falling apart under the manifold pressures of drug lords, guerrillas, urban crime and paramilitary factions. This constitution made Colombia a unitary decentralized state.

Despite some steps toward decentralization before this point, including the adoption of the popular vote to elect municipal mayors and department (provincial) governors, the 1991 constitution was the key to adapting the nation's political and administrative structure to a less centralized model. The new constitution was also an opportunity to respond to the persistent demands

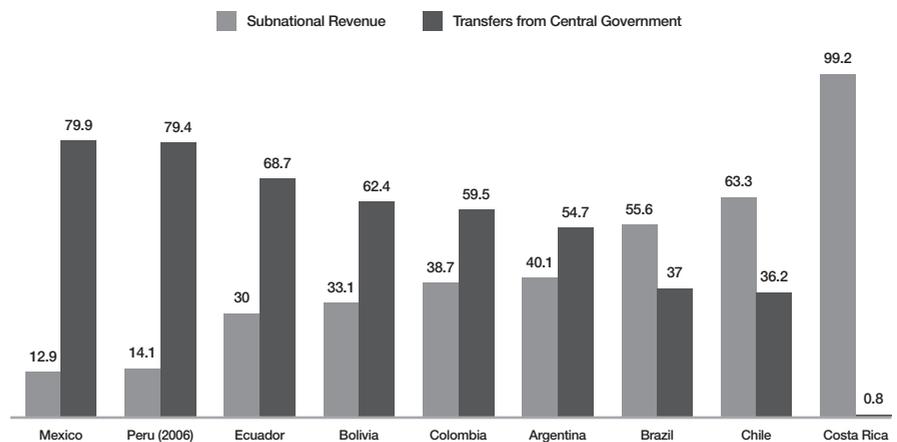
of regional politicians and key local actors for greater autonomy.

The new institutional arrangements allowed departments and municipalities to implement social policy directly, specifically health and education policy. This decision considerably increased transfers from the central government to municipalities and departments, but above all, it increased the amount of resources directly managed by subnational units. Colombia ranks high among Latin American

countries in terms of such transfers (See Figure 1), but demand for greater decentralized autonomy remains high.

In spite of continuous efforts to improve provincial autonomy, Colombia's subnational governments still show divergent levels of institutional capacity. As Figure Two shows, subnational governments' dependence on the central government has remained almost unchanged during the last decade. The levels of fiscal effort of

Figure 1
Total Revenue Distribution Subnational Governments, Selected Latin American Countries 2008 (% Total)



Source: Gómez and Jiménez, 2011



Best Practices Panel at Florida International University's XX Inter-American Conference of Mayors: "Building Sustainable, Equitable and Smart Cities: New Challenges for Latin America," held in Miami June 9-12, 2014. From left to right: Hon. James Cañas Rendón, Mayor, Municipality of Montenegro, Colombia; Dr. Allan Rosenbaum, Director, Institute for Public Management and Community Service, Florida International University; Hon. Angel Erreyes, Mayor, Municipality of Yantzaza, Ecuador; Mr. Lenin Villeda Carvajal, Manager, Mancomunidad of Guisayote, Honduras; and Mr. Gustavo Espinoza Gómez, Administrative and Financial Manager, Municipality of La Molina, Peru. FELIPE SOTO.

municipalities and departments still appear low in the Latin American context, although they have increased over the last two decades.

Even more, the relevant data shows an enormous degree of disparity

in institutional capacity among subnational units (i.e. Antioquia or Valle del Cauca compared to neighboring Chocó). Although some regions exhibit greater ability to implement policies and generate

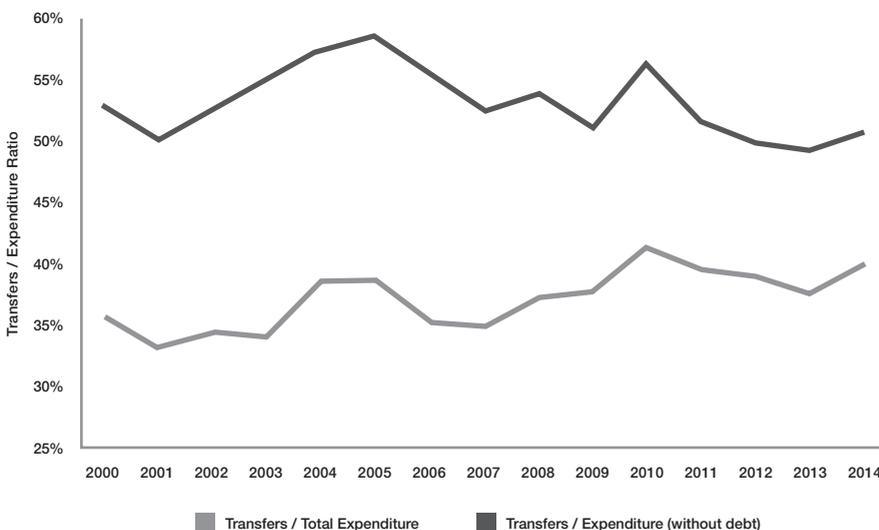
fiscal resources, most of the country's municipalities and departments still rely heavily on central government transfers and technical assistance.

Exploring and explaining the challenges of decentralization in Colombia

Since 1991, a number of social actors have shown greater interest in effectively implementing decentralization efforts. That goal remains distant. Three important elements explain some of the difficulties that Colombia has faced in this process: 1) a de jure vs. de facto gap in decentralization; 2) an existing dichotomy between providing autonomy and ensuring institutional capacity; and 3) a high level of divergence in public policy that tends to deepen dependence on the central government.

Colombia epitomizes the tendency of developing countries to issue norms in response to administrative problems with very low enforcement capacity. The country's decentralization strategy relies on normative efforts that look like a

Figure 2
Transfers from Central Government to Municipalities and Departments (Provinces), Colombia 2000–2014



Source: Ministry of Finance, Colombia

good idea on paper but in practice are not implemented, given the lack of state capacity. Decentralization in Colombia embodies important legal advancements, but in terms of actual implementation a number of goals remain to be achieved, including local fiscal responsibility and autonomy, improved institutional capacity, etc. The point is, while a law can distribute and decentralize power, it cannot always distribute institutional capacity, which varies widely between subnational governments.

Colombia has aimed to improve the autonomy of municipalities and departments. The catch is ensuring that each area has the institutional capacity to take advantage of this increased autonomy. The actual autonomy of the subnational units to administer resources from central government transfers is restricted, since the central government predefines the use of such resources. Additionally, while the bigger municipalities have greater leeway to manage their own resources, many smaller and medium sized municipalities still depend on the provincial level, creating a new locus of conflict between departments and municipalities.

The decentralized unitary model of 1991 continues to evolve while adjusting to the realities and capacities of both the national and subnational governments. In principle, a model based on autonomy should reveal differences in orientation and shape between national and subnational policies, while maintaining the overall criteria for defining action frameworks and policy instruments. In practice, however, what has emerged is a high level of technical dependence

on the national government, particularly in policy formulation. The central government remains the main provider of policy, given that many subnational units lack the institutional capacity to fully implement this legislation.

Decentralization agenda for Colombia

These challenges demand a better understanding of the context of intergovernmental relations in Colombia to reduce the gaps between *de jure* and *de facto* decentralization and the divergence between the different layers of governance. The following recommendations, though not exhaustive, aim to open avenues for rethinking the formulation and workings of intergovernmental relations in Colombia. They can be understood as both a research agenda and also as a policy agenda for the government to enhance the decentralization process.

1. What is the optimal level of vertical cooperation between national and subnational governments? Research should work to identify the actual modes by which the center and the territories relate to each other, especially the formal, and more important, informal mechanisms whereby the center and the regions work together and separately. The state should develop empirical studies to disentangle the various effects of the Colombian decentralization process in public policy (formulation, implementation, etc.) and generate evidence for the benefits of an intergovernmental collaborative model beyond the usual federalism/centralism clichés.

2. Just as important as the relationship between the center and the territories, an understanding is also critical of the controversial and divergent relationship between the provincial level and the municipalities. Studies should identify the new forms of horizontal collaboration that have appeared in response to decentralization efforts or suggest a new set of intergovernmental communication mechanisms for those units with low institutional capacity. Horizontal intergovernmental relations must become more diversified, along with mechanisms to address problems that exist outside of the traditional administrative boundaries between (and within) departments and municipalities.
3. The field should also pursue a regionally based and contextually driven definition of institutional capacity versus the traditional central government definition. Research needs to expand the definition of what it means to be capable in regional terms. Territories, departments and municipalities are inherently different; in a country like Colombia, these institutions are affected in different ways, and in varying magnitudes, by innumerable phenomena (i.e., conflict, poverty, inequality, etc.). Forcing these diverse units into a single measurement of their ability is unfair and unhelpful. Researchers should consult with departments and municipalities about their goals, expectations and abilities to define a more comprehensive concept of institutional capacity in its

various dimensions. A regionally articulated construction of development plans could help to initiate these shifts.

4. The deployment of regionally based information systems is key to a better understanding of the policy process at the subnational level. The central government can help generate better policies at the municipal and provincial levels by releasing reliable and systematic information on key topics such as budget and financial administration, local management, policy formulation and implementation. A dependable regional information system would facilitate multilevel governance by enabling the central government to develop an informed view of developments in the territories. In turn, this information could help subnational governments better use evidence and implement best practices in decision-making and policy. The role of the National Planning Department is crucial in developing such a system.
5. Generating public management skills at the subnational level involves more than the implementation of centrally issued protocols, paperwork and checkpoints. Subnational units need support to develop public management capacity and specific competencies at the local level. A new strategy could take a different approach to the current organizational structure at the national level and reconsider how central government offices and officials are dispersed across the territory. This type of capacity development strategy should

also include a formal plan of action with contingent technical assistance for the development of hard management skills at the local level (e.g. budgeting, human talent, organizational development) as well as cognitive skills (e.g. leadership, effective communication, teamwork, ethics). Universities have an important role to play as repositories of knowledge and sources of creativity, development and innovation.

6. Last, but not least, the nation must take immediate concrete action to strengthen human capital at the local levels of government. Different programs have sought to improve local capacities in such fields as public finance, program formulation and investment projects, but less attention has been given to the creation of a modern, professional civil workforce in Colombia's subnational units. Despite recognition that clientelism and cronyism still prevail in some municipalities and departments (Sanabria, 2010), few concrete actions (either central or regional) address these fundamental problems. Colombia clearly needs a unified strategy to ensure the adoption of a merit-based civil service in the territories. Enhancing the recruitment and selection processes of the National Civil Service Commission (CNSC) is a key step in any effort to create a professional civil service, with the input of the Administrative Department of the Public Function (DAFP) and the Higher School of

Public Administration (ESAP) (Sanabria et al, 2014). The creation of a formalized, merit-based public service, like the other topics discussed above, requires a bottom-up approach that takes into account the particular traits and requirements of the territories, as well as their own political and administrative processes.

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GOVERNO FEDERAL
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Brazilian President Dilma Rousseff delivers a speech during a ceremony at the city hall in São Paulo, Brazil, on July 31, 2013. Rousseff announced the investment of R\$ 8.1 billion (USD 3.5 billion) for urban mobility projects, infrastructure and housing in the city of São Paulo.
NELSON ALMEIDA/AFP/Getty Images.

GOVERNO FEDERAL

Brazil: A Prime Example of Decentralization – and Recentralization

By *Gretha Burchard*

While reforms aiming at decentralization have taken place in many

Latin American nations, the case of Brazil is particularly interesting. The history of Brazil's government system is often referred to as a cyclical one, with decentralizing and recentralizing regimes taking turns in power. Today, 30 years after the transition from military dictatorship to a federal republic, decentralization remains an important force shaping the Brazilian government – as does recentralization.

When Brazil first became a republic in 1889, it gave states and municipalities a high degree of autonomy. The country experienced two major moves towards recentralization in the twentieth century, first under the dictatorship of Getúlio Vargas (1930-1937) and again during the military regime (1964-1984). While the first decade of the military dictatorship was marked by an economic boom, in the 1970s an increasing amount of debt and inflation led to protests and strikes. Rapidly increasing urbanization was accompanied by a dramatic increase in poverty, with social movements pushing for reforms, a return to democracy and

regional autonomy.

The election of José Sarney in 1985 is regarded as the moment when democracy returned to Brazil. In an effort to reverse the economic recession, Sarney decided to fight inflation and high external debt by following a strict plan of price controls and salary reductions. While the immediate outcomes seemed successful, his plan ultimately failed. Brazil faced severe economic challenges, including hyperinflation, income inequality and a weak import substitution industrialization program. At the same time, the government made little headway on social issues such as high illiteracy, poverty, infant and maternal mortality, violent crime, and access to basic sanitation. The consequence was a strong public reaction against the centralized government and increasing pressure to decentralize authority to local units. Subnational governments and regional elites, longing for authority over finances and administration, played an important role in shaping new laws.

In 1988, Brazil passed a new constitution that emphasized democratization, universal rights-based welfare, the professionalization of public management, federal cooperation to reduce regional inequalities, and

the creation of municipal public services. State and municipal autonomy increased significantly, particularly in the areas of health, education and social policy.

The challenges facing Brazil on its path to a decentralized form of government became obvious soon after the promulgation of the new constitution. The overall aim was high autonomy for local government and greater efficiency at all levels, but in practice decentralizing decision-making power turned out to be complicated. The lack of accountability and coordination between federal, state and municipal authorities caused several subnational governments to accrue major fiscal deficits.

Brazil's approximately 5,570 municipalities are not subdivisions of its 26 states, as they are in other federal systems; instead, they are part of the federation. The 1988 Constitution granted the states a number of exclusive powers, including control over the criminal justice system and police force. Other responsibilities, such as education, health, and economic development, are shared between state and national governments. The municipalities, in turn, share all of these responsibilities with the national and state level. The only



PREFEITURA NO BAIRRO

The mayor of Florianópolis, Brazil in Coconut Park for the ninth edition of Prefeitura no Bairro which aims to engage citizens in public administration and provide enhanced public services for the general population. DIRCINHA WELTER/Moment/Getty Images.

area in which they have complete responsibility is transport.

State governments, given their stronger political position, the lack of a clear separation of powers between municipal and state authorities, and disparities in financial resources, often obtain the most advantageous terms when negotiating with local government units. Power struggles have also developed between the state and federal level, with some federal legislators regarding their positions as merely a steppingstone to becoming governor of their home states and therefore privileging them in their legislative work.

In recent years, Brazil has reversed some of the autonomy granted to states and municipalities, ostensibly to prevent further inequality. The reversal includes such measures as reducing discretionary transfers to state and municipal authorities, requiring them to publish revenue and spending accounts, and making public servants legally liable for their actions. To some critics, a recentralization of powers was needed to fight organizational chaos as well as corruption and nepotism. However, another approach to the accountability of local officials has been to increase citizen participation in the decision-making process. The Municipality of Porto Alegre, for example, introduced participatory budgeting in 1989. By 2007, this policy had spread to more than 100 Brazilian municipalities. A similar measure is the establishment of Local Citizen Councils.

Specific sectors reflect the trends toward de- and recentralization, respectively. Two sectors often seen as success stories are public health and education. The new constitution

establishes universal access to free health care, with municipalities receiving federal transfers to provide health care services. It took more than 20 years to make the decentralized and universalized health care system work effectively, but as a result infant and maternal mortality rates decreased by 50%; life expectancy increased by nine years, from 64 to 73 years; and universal immunization for most major diseases has been achieved.

Educational reforms seem to have followed a similar trajectory. The constitution envisaged universal, decentralized education, and 20 years later the adult literacy rate had increased from 75 to 90%. Universal primary school enrollment is now a reality, and the number of primary and secondary students leaving school has decreased by 50%.

A closer look at the health care and education sectors suggests, however, that they developed in rather different ways. While the education sector was always well-funded at all three government levels, the government had severe problems distributing health care funding effectively. Several recentralizing reforms were necessary to provide for fairer, more efficient and effective service provision. The two sectors also differed regarding their reform champions. While the education reforms were initiated and promoted by cabinet ministers and other government officials, a number of social movements pushed for health care reform. Nevertheless, both approaches have led to effective cooperation by all three levels of government and, eventually, to successful outcomes benefiting the Brazilian people.

Equally interesting is the case of

social welfare policy. Due to the aforementioned power struggles and differing capacities for generating revenue, regional inequalities increased and poorer governments were more dependent on the federal government to finance the provision of services. To address these problems, several constitutional amendments reversed some of the autonomy that had been granted to subnational governments. Targeted conditional cash transfer programs had first been implemented at the local level, but in the late 1990s the federal government began issuing monthly payments directly to financially underprivileged citizens. The reason for the centralization was the urgent need to find efficient ways of dealing with extreme poverty while at the same time preventing pork barrel politics at the local level. The new policies led to a recentralization of decision-making power and implementation at the federal level.

A prime example of a conditional cash transfer program is the “Bolsa Família.” It provides poor families with cash transfers if their children attend school and have regular health checkups. The money comes from the federal level, but the success of the program relies on well-functioning cooperation between the center and the municipalities; therefore, it can be regarded both as an example of recentralization, on the one hand, and of successful collaboration between municipalities and the federal government, on the other. The program has been criticized for “only” distributing money without looking for alternatives for generating income and employment, but it is also praised

for having contributed to the social empowerment of women and the reduction of inequality and poverty.

One important outcome of fiscal decentralization has been the increase in local government capacity. In the 1990s, Brazil made tax collection at the local level compulsory. The stable decentralization of tax resources has benefited municipalities and states. Ten years after the new constitution was promulgated, own local revenue had increased from 0.7 to 1.6% of GDP, exceeding federal constitutional transfers. The federal government levied 22.9% of the GDP and the states, 9.5%. In 2001, local governments managed 12.5% percent of Brazil's total public revenue, considering own revenue and main constitutional transfers. Adding federal grants, municipal governments administered 15.5% of total public revenue. On average, local governments made a successful effort to raise their own revenue by modernizing their fiscal systems, changing their methods of property value evaluation, and increasing their service activity.

In sum, 26 years after the promulgation of Brazil's new constitution, reforms in the health, education and welfare sectors have had clear positive results. Some issues, however, such as the lack of alternatives for generating income and employment, have not been successfully tackled. One striking feature of Brazil has been its deep-rooted inequality. While inequality has decreased, it still persists and affects local resources and local governments' capability to implement policies, and thus, the nation's democracy.

In the last two years, Brazil has

seen two major waves of public protest, both of which addressed – albeit with different objectives – the problem of inequality. Some of the protesters' demands have already been granted. What happens next remains to be seen, but these developments raise hope that Brazil could slowly be finding its way toward a more equal society. Both decentralizing and recentralizing tendencies have played crucial roles in this process.

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Promises and Risks: Challenges to the Decentralization Agenda in Chile

By José Inostroza Lara and Javier Fuenzalida Aguirre



Chile is experiencing a true civil revolution, with citizens demanding public policies that address income inequality and the quality of education. Students and teachers march in the streets of Valparaiso, Chile during a protest to demand public education on May 14, 2015. For four years, Chilean students have taken to the streets to demand high-quality, free public education and an end to the current system of private financing. MARCELO BENITEZ/Latincontent/Getty Images.

Chile has one of the most successful records of social, economic and democratic development in Latin America.

Over the last 25 years, the country has implemented public policies that expand coverage of basic services and has maintained impeccable and efficient fiscal discipline. The

mortality index has been reduced and poverty has decreased by 65%, while life expectancy and the quality and coverage of education have all increased.

These improvements have brought with them more sophisticated and complex public demands. Chile is experiencing a true civil revolution, with

citizens calling for public policies that address income inequality and the quality of education. Accompanying these demands are calls for improved democracy with increased public participation in the decision-making process, and greater recognition of and respect for sexual and reproductive rights. These demands, particularly

those regarding democracy and citizen participation, are linked to the deficit in the distribution of territorial power and authority. In many circles, decentralization is considered key to addressing these problems.

For the last two decades, however, Chile's decentralization has been insufficiently dynamic. A few policies stand out – the creation of municipalities (1989), the direct election of mayors (1992), and laws addressing local civil servant incomes and local personnel management – but on the whole, the decentralization process can be characterized as a sum of relatively isolated, formalistic and low-impact initiatives.

The failed experience of municipal administration of public education serves as an important example of a poorly designed and implemented decentralization policy. Advances in regionalization have also been mediocre, despite the 1992 creation of regional councils (CORES) and regional governments (GORES). The current institutional framework has not provided the GORES with sufficient tools to lead and coordinate the development of public policies in their territory and relegates their leadership to an *intendente*, a representative of the central government. In 2013, Chile finally passed a reform providing for democratic election of CORES representatives.

Considering this modest progress, a 2014 government commission offered the following recommendations: 1) the democratic election of intendants; 2) greater involvement of subnational governments in raising revenues and determining expenses;

3) the transfer of functions to the subnational level; 4) strengthening of subnational management; and 5) greater citizen participation and democratic control.

The imminent deepening of decentralization policy has set off alarms in political and technobureaucratic sectors, which warn that the process will jeopardize the efficiency and effectiveness of service delivery and the country's famed fiscal stringency. Key questions include: How to enjoy the benefits of decentralization without threatening the gains derived from the country's fiscal rigor? With political power distributed geographically, how can basic national standards in the delivery of public services be assured? And last, how can the national government guarantee the efficient design and implementation of public policies made at the local level? To answer these questions, the next section analyzes the country's proposed decentralization agenda, the risks of inadequate implementation, and possible safeguards against potential problems.

The Presidential Commission on Decentralization: proposals and reality

The commission's recommendations are multidimensional and address each separate element of decentralization. In the area of political decentralization, the commission recommends the democratic election of intendants, who are currently presidential appointees, by 2016. In the administrative sphere, it recommends transferring management of several national public services to the GORES, with binding contracts to aid in

coordination between different levels of government. In fiscal matters, the presidential commission proposes a significant increase in revenues and autonomous spending for GORES and municipalities. It also proposes a new Regional Revenue Act authorizing the GORES to issue debt and borrow up to 7% of their budget. The act would include an investment fund for those areas lagging in the administrative decentralization process. To strengthen local and regional capacities, the commission suggests incentives to attract more human capital and speed development in science and technology. Finally, with regard to citizen participation and democratic control, it proposes the facilitation and creation of political parties at the regional level.

Given the current state of public discussion of these proposals, political incentives at the national level seem insufficient to implement this agenda. When it comes to decentralization, Chile has a long tradition of incrementalism and formalistic reforms that are more symbolic than substantive. Any effective action must include both incentives and operational mechanisms that will lessen the fears of centralist sectors. Reformers, therefore, should aim at an enabling sequence that focuses on the long-term consolidation of reforms based on the nation's history of incrementalism. A series of regional political reforms is also needed to facilitate these decentralization efforts. To address these issues, we recommend the following:

1. Subnational political leadership to initiate regional democracy. The first elected intendants could coopt the regional

bureaucracy to their individual electoral interests. To do so, they would have to compensate the figures who pose the initial challenge to elected authorities, create effective social control systems, and maintain national controls on the performance and integrity of regional authorities.

2. Analysis of which services to transfer gradually and which should remain in the central government's domain. Lack of experience, technical capacity and other factors may result in a relaxation of technical standards as well as other performance measurement standards. Transferring services will require a definition of "national standards," a topic Chile has not developed sufficiently to date.
3. A system to distinguish between types of subnational spending: a) ongoing expenditures less prone to changes in national fiscal policy (fixed financing); and b) financing for projects or utilities subject to changes in national macrofiscal policy (flexible and dynamic financing). The Chilean government has an effective and well-designed system for managing the rate and direction of spending. The Budget Directive (DIPRES) has particularly effective staff and is built on a strong foundation of human capital. Increasing autonomy in spending and income at the subnational levels could generate a deficit in this capacity and an eventual loss of

fiscal efficiency. Distinguishing between spending types is especially important considering that few regions in Chile are financially self-sufficient, making national financial support mechanisms necessary for the long-term.

4. Professional and transparent mechanisms to recruit, select, retain, train and evaluate public personnel. Chile does not have an effective civil service system for subnational government officials. Such a system should be a requirement for the delivery of more resources and authority from the central to the subnational governments.
5. Enhanced post-performance evaluation of subnational decisions, with the possible creation of a new agency to evaluate public policies.
6. Voluntary associations between GORES and municipalities for some specific services. Chile already has initiatives along this line, including the aggregation of demands for the purchase of medicines and shared software repositories. Chile has a relatively small population and a great deal of land, making it likely that national economies of scale will be lost at the subnational level. Collaboration between regional governments and municipalities could mitigate this problem.
7. Effective compensatory programs to support regional capabilities and ensure greater equity among subnational units. The development gap between regions poses a major

threat to decentralization efforts in Chile, with many measures that promote greater revenue generation – and autonomy at the regional level – favoring those regions with mining potential.

Conclusion

Moving forward with decentralization is critical to Chile's future development. One of the principles that should govern the design of decentralization policy is the development of regional capacity for resource generation and control, and compliance with national standards. Developing this capacity should be viewed not as a barrier to the dynamism of the country's decentralization process, but rather as a way to contribute to greater depth and sustainability in policy. Subnational governments need to learn to drive their development with greater autonomy, with the national government exercising its irreplaceable capacity to ensure a global outlook. A balanced and sophisticated design will ensure a positive outlook for the future.

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Decentralization and Recentralization in Latin America

By Daniel Cravacuore



Latin America is currently experiencing a “re-centralization” cycle, reversing the municipal empowerment trend of the last three decades. Following Cohen and Peterson, countries explore and experience various forms of decentralization: spatial, market-oriented, political and administrative. The first limits the concentration of development in

a few territorial enclaves, while the second encourages the transfer of services traditionally provided by the state to the private sector. Political decentralization proposes a redistribution of power and a new democratic legitimacy in favor of local communities. Administrative decentralization implies the devolution of resources and decision-making capacity to territorial governments, enabling

them to provide public and social services and carry out public works.

Decentralization in Latin America traditionally involves the political and administrative dimensions of the process. A quarter-century ago, it was a major topic on the regional agenda, not only at all levels of government, but also at academic institutions, international agencies, political parties on both the left and right,

and civil society organizations, in countries large and small. The concept has manifested itself in constitutional and legislative reforms that promote the popular election of local authorities and the transfer of skills and resources to strengthen municipal autonomy.

A brief history of decentralization

Latin America's decentralization process was initiated in 1980 with the direct election of mayors and councilors in Peru, followed by the first direct elections for mayors and local parliamentarians in Colombia (1986), Bolivia (1987) and Ecuador (1988). By the end of the decade, many Latin American local authorities were being elected by universal suffrage. It was a time of democratic normalization, of trust in institutions and belief in civic participation. In just over a decade, countries across the region regained full democracy: Ecuador (1979), Peru (1980), Honduras (1982), Bolivia (1982), Argentina (1983), El Salvador (1984), Nicaragua (1984), Uruguay (1984), Brazil (1985), Guatemala (1986), Panama (1989), Paraguay (1989) and Chile (1990). A second wave of decentralization followed in countries including El Salvador (1999), Guatemala (2002), Panama (2004) and Dominican Republic (2003).

In 1979, the Chilean government promoted the decentralization of health policy and, two years later, education services, serving as the immediate predecessor for other countries that initiated the transfer of various competencies. These reforms responded to the subsidiarity principle – a fundamental tenet of the European Union designed to ensure that

power is exercised as close to the citizen as possible – and the assumption that service delivery at the local level was more effective and efficient. This involved creating new mechanisms for intergovernmental transfers in favor of the municipal and subnational levels. In short, decentralization found its momentum in the strengthening of emerging democracies through citizen participation and finding innovative ways to solve part of the state crisis.

Thirty years of decentralization efforts allow us to take stock of the movement's achievements. The inclusion of municipal concerns in the public agenda transformed local governments in terms of policy implementation and innovation, leadership building and electoral competition. Municipalities became the arenas of public debate and the intersection of civic and public policy demands that pushed for open and democratic governments. The gains have been significant, but the process of decentralization is still unfinished. Not all of the desired results have been achieved: Some reforms were never deployed, and the policy's political appeal was based more on symbolism or international pressure than a firm belief in its advantages.

Four debates have emerged from this perceived failure. Unitary countries argue over the degree of empowerment of intermediate levels of government, while socialist countries debate radical change with an underlying desire to build new state organizations. A third debate is the fate of territorial royalties for the exploitation of natural resources, with proposed

limits on or suppression of local capacity. Finally, a fourth debate involves the reduction of regular resources for municipalities and their replacement with discretionary transfers from the state or state enterprises in an effort to limit local autonomy to determine priorities and allocate resources.

Recentralization in Latin America

Recent research suggests that, beyond national nuances, the region is witnessing the beginnings of a reversal of administrative decentralization and its consequent impact on policy. Uruguay's 2010 law of municipal decentralization and citizen participation, which created a third level of government below the department level, was the last reformist law passed in Latin America. In unitary countries, decentralization efforts seem to have shifted to a parsimonious process not without doubts and setbacks. In larger federal countries, the process appears to have stopped without any real prospects for transformation. In this context, some critics propose recovering the powers transferred, and international organizations, political parties, and municipal organizations are abandoning their efforts to encourage decentralization. Municipalities are experiencing a crisis characterized by low-level local participation, conflicts with national governments (often followed by cooptation), and a lack of unity.

The reduction of regular budget transfers to local governments is well-known: Growing national budgets (driven by raw material exports) provide national

governments with more funds to transfer extraordinary resources and use them politically to discipline mayors who fall out of line. Moreover, concrete limitations have been placed on citizen participation, the very notion of which clashes with the historical political practices and authoritarian behavior of many political leaders in the region. Recentralization has found few major obstacles to limiting political decentralization and, with it, local democracy, by imposing restrictions on routine electoral processes. Two broad ideological positions sustain this process: a drive toward state recentralization, and an emphasis on the fiscal costs of decentralization. Ironically, the same neo-liberal and progressive sectors that favored decentralization in the 1980s and 1990s support recentralization today.

The starting point of this trend was a ruling of the Constitutional Chamber of the Supreme Court of the Bolivarian Republic of Venezuela in 2001 declaring that national legislation takes precedence over state law in regulating municipal organization. Until then, the government of Hugo Chávez had held out some promise of decentralization (including an acknowledgement in the 1999 Constitution that “Decentralization, as national policy, should strengthen democracy, bring power to the people and create optimum conditions for both the exercise of democracy and the effective and efficient delivery of government commitments”), but it soon shifted to regular subjugation of local autonomy. This process

has occurred in a context of false consensus concerning the importance of municipal government. The most relevant public actors (e.g. political leaders, entrepreneurs, academics) do not hesitate to laud local governments’ role in development, but they are notably silent when the transfer of obligations or resources is involved. The problem is compounded by the habitual failure of community leaders (mayors, councilors, and representatives of municipal associations) to confront regional restrictions. This may be a result of the fact that local government office often is only a steppingstone on the path to national political ambitions.

Possible consequences of recentralization

This article has focused on the emergence of a centralization cycle in Latin America that reverses the municipal empowerment of the last three decades. Originating early in the century, recentralization seems to have become a trend that transcends ideological differences. It is manifested most drastically among socialist governments, which seek to subordinate local authorities with hierarchical logic and limit the expression of democratic opposition. Other governments, while respectful of the popular will, justify recentralization by citing the alleged inefficiency and corruption of local governments (as if this phenomenon were limited only to the local level). A more elaborate argument points to the need for territorial equity and uniform protection of rights.

Recentralization does not mean

returning to the political realities of three decades ago. The dimension most affected is likely to be administrative, but discretionary cuts in budgetary transfers will also have an impact on the political sphere, limiting the role of local leaders, such as mayors, by transforming them into mere agents of the central government’s will. In most cases, citizen participation is still too weak to provide an effective counterweight and collides with traditional authoritarian political practices and behaviors. Moreover, as already noted, mayors and municipal organizations themselves seem little inclined to confront or fight regional restrictions. Taken together, these developments raise doubts about the future of local democracy in Latin America.

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