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Overview of the Decentralisation Process in Latin America:

Main achievements, trends and future
challenges

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OVERVIEW OF THE DECENTRALISATION PROCESS IN LATIN AMERICA:

Main achievements, trends and future challenges

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Desk Study prepared for the Regional EU Seminar on Decentralisation and Local Governance in Latin and Central America (10-14 June – Quito, Ecuador)

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Acronyms

AECID	Agencia Española de Cooperación Internacional y Desarrollo
DCI	Development Cooperation Instrument
DIE	Deutsche Institut für Entwicklungspolitik
EC	European Commission
ECDPM	European Centre for Development Policy Management
FLACMA	Federación Latinoamericana de Ciudades, Municipios y Asociaciones
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IGFT	Intergovernmental Fiscal Transfer System
NSA	Non-State Actors
UCLG	United Cities And Local Governments
VNG	Vereniging van Nederlandse Gemeenten

Preface

This desk study has been elaborated in preparation of a series of seminars with key stakeholders from the European Commission and external experts on the challenges related to deepening decentralization and local governance reforms in Latin America. The document does not pretend to present an exhaustive state of the art of decentralization processes across the region but rather to highlight key features, trends as well as new windows of opportunities to use decentralization as an instrument to foster better development and governance outcomes.

1. THE “ACQUIS” OF THE DECENTRALISATION REFORMS OF THE PAST DECADES

1. Latin America is the most urbanized region in the developing world where around 80% of the citizens now live in cities. The region is marked by the most extreme inequality in the world¹, with some 40% of the population living below the poverty line. As a result, Latin American societies tend to display low levels of inclusiveness and social cohesion. Violence is often an engrained part of society, reflected amongst others in the phenomenon of the “maras” in Central America, political violence and huge criminality rates, compounded by growing problems of drug traffickers.
2. Local governance and municipalities have a long history in Latin America going back to the colonial times. Following the independence period, local governments played a limited role in the development process as a result of the predominance of highly centralizing systems of governance and economic management, epitomized by strong presidential powers. In the 1970s, Latin America experienced a triple crisis of the state: fiscal, administrative and, as a consequence of this, also a crisis of legitimacy of the interventionist, centralized and bureaucratic model that had existed till then². The reform of the state, including in its relations with markets and society, became a central political issue in virtually all countries of the region. This, in turn, fuelled the emergence of “uneasy coalitions” supporting decentralization as fundamental component of state reform and modernization³.
3. Three groups, with different agendas, saw decentralization as a means to advance their respective aims. Neo-liberals viewed it as part of a wider strategy to reduce the role of the state in the economy. Radical reforms saw it as progressive measure designed to overcome the exclusionary and undemocratic structures inherited from the past, particularly the successive military regimes. Technocrats viewed it primarily as a means to improve the efficiency of service delivery through improved citizen voice and local accountability⁴. While these were the proximal causes of decentralization, research has indicated the need to also look at the “distal causes”, i.e. broader explanatory factors linked to patterns of urbanization, economic change and persistent path dependent institutional and social legacies⁵. These also help to explain the specific trajectories followed by the decentralization process in each country.
4. In Latin America, political decentralization is strongly linked to the democratization processes that begun in the 1980s. Reforms were used as an instrument to increase state legitimacy and democratic governance. The main aim of the decentralization –with different types of emphasis in each country– was to generate new spaces for citizen participation, tackle problems of fiscal imbalance, and organize the State apparatus at the local or territorial level in order to implement social policies and deliver effective services⁶. The normative theory of “fiscal federalism” served as the intellectual foundation of these reforms. The strengthening of the political autonomy of local governments became the central

¹ UNDP. 2010. *Acting on the Future: Breaking the Intergenerational Cycle of Inequality*. First Human Development Report for Latin America and the Caribbean. New York: United Nations Development Programme.

² Furlan, J.L. 2012. *Reforma del Estado, Descentralización y Gobernabilidad Local en Iberoamérica*. Estudios CELADEL, No 1, Julio 2012, p. 2.

³ Nickson, A. 2011. *Where is Local Government Going in Latin America? A Comparative Perspective*. ICLD, Swedish International Centre for Local democracy. Working Paper No 6, p. 4.

⁴ Ibid, p. 4.

⁵ Montero, A.P and D.J. Samuels (eds). 2003. The Political determinants of Decentralization in Latin America. In: *Decentralization and Democracy in Latin America*. Notre Dame, Indiana: University of Notre Dame Press.

⁶ Finot, I. 2005. Decentralization, territorial transfers and local development. CEPAL Review, 86, August 2005.

issue in the decentralization process. This led to a reform agenda focused on invigorating the role and financial capacity of local governments and on the transfer of competencies from central government.

5. It is interesting to note that the ‘drivers of change’ (in all cases except Bolivia) in terms of initiating, implementing and shaping decentralization came from the political society and the state⁷. Pressures for decentralization in that initial period originated “from above” and not from sub-national bodies or other “bottom-up” actors. This confirms the need to look at decentralization as a highly political process and to focus on the incentives of the reformers. In addition to this, several sources recognize the influence exercised by international agencies, particularly the World Bank and the Inter-American Development Bank (IDB) on the evolving decentralization agenda. However, their insistence on decentralization and municipal strengthening was more linked to issues of technical, administrative and financial efficiency -rather than being inspired by a democratic agenda and social participation⁸.
6. Three decades of decentralization reforms in the region have led to an important “acquis”. Subnational officials across Latin America –governors, state legislators, mayors and city council members- now possess a “*historical unprecedented level of political authority and fiscal autonomy*”⁹. The following indicators reflect the growing maturity of decentralization processes:
 - While in the early 1980s only three countries (Ecuador, Colombia and Venezuela) organized direct local elections, now all countries of the region (except Cuba) hold regular elections for mayors and council members.
 - In many countries, intermediate tiers of government have been created or merged as autonomous units.
 - There is huge vibrancy and diversity of local and regional authorities among the various countries¹⁰, including 350 states and regions and over 16,000 municipalities of the region.
 - The crucial sectors affected by decentralization have been health, education and basic infrastructure. Over time, the list has recently been complemented with new tasks such as the environment and the fight against poverty.
 - Political democratization at the municipal level fuelled subsequent fiscal and administrative strengthening of local governments. In the last two decades, the region has seen a general trend toward an increased level of fiscal decentralization (though with significant variations across countries); for instance, using the measure of sub-national expenditures, fiscal decentralization increased from an average of 13 percent in 1985 to 19 percent in 2005¹¹.
 - Decentralization was particularly far-reaching in terms of spending on health and education: these two sectors now account on average for around 40% of total sub-national spending in the region. In Argentina, Bolivia, Brazil and Columbia, sub-national governments are responsible for over 70% of total public spending on education and for 50% or more for health; these figures highlight the social sensitivity of sub-national spending in many countries of the region¹².
 - In several countries, the dialogue between central and local government (represented by increasingly vocal and capable national associations) has been substantially improved, allowing a more “negotiated” approach to defining the next stages of the reform process.

⁷ Montero, A.P and D.J. Samuels, *ibid.* p. 11

⁸ Massolo, J. 2005. *Gobiernos Locales y Mujeres: Nuevos Cambios y Desafíos*. Shortened version of a paper prepared for UNRISD, Beijing + 10.

⁹ *Ibid.*, p. 3

¹⁰ The four largest countries (Brazil, Argentina, Venezuela and Mexico) are federal states while the rest are unitary.

¹¹ United Cities and Local Governments. 2011. *Local Government Finance: The Challenges of the 21st Century*. GOLD II 2010. Edward Elgar Publishing Limited, p. 191.

¹² Ter-Minassian, T. and J.P. Jimenez. 2011. *Macroeconomic challenges of fiscal decentralization in Latin America in the aftermath of the global financial crisis*. ECLAC.

- The local autonomy has been strengthened through constitutional or legal changes, including in countries that have long kept to a highly centralized tradition.
 - Latin America has been in many ways a “laboratory” for new approaches to managing public affairs at local level. It has spearheaded innovations in participatory budgeting (Porto Alegre) that have gradually spread within Brazil, throughout the continent and to other parts of the world¹³. Other reforms have attracted interest from all corners of the world such as ranking systems local performance in Brazil/Columbia; per client-based transfers for health and education in Chile, or fighting poverty with direct transfers to families administered by municipalities¹⁴.
 - All this, in turn, has contributed to partly diverting the deeply rooted tradition of centralism towards greater territorial and social inclusiveness.
 - The debate on the reform of the state is still on-going¹⁵ and continues to shape and deepen the decentralization agenda; since 2000, a “third generation” of state/decentralization reforms is gaining prominence, with a focus on linking democracy and globalization, multi-level governance (to ensure competition and social cohesion) as well as intensified strategic cooperation between public and private actors (for an overview of the evolving debate on the reform of the state and implications for decentralization, see table 1 in Annexes)¹⁶.
 - There is also a growing societal debate on decentralization and local governance. The issue has become part and parcel of the national debate, involving political actors, academia, civil society, businesses and international development agencies. As a result, the body of knowledge has increased substantially. Decentralization is now studied and analysed through different lenses, including from an economic, sociological, new public management and political economy perspective¹⁷.
7. The scope, rhythm, depth and impact of decentralization have logically varied throughout the region and even within countries. Some public policies have been decentralized while others remain firmly in the hands of central governments. Some countries remain highly centralized, while other have done real moves towards genuine decentralization. Levels of political autonomy, enjoyed by local governments, tend to vary hugely. Countries such as Bolivia and Ecuador linked decentralisation to a quite radical political and institutional transformation project, aimed at empowering local actors and reducing structural territorial inequalities. Still others proceeded more smoothly to strengthen local governments (Paraguay), regional bodies (Peru) and existing federal systems (Brazil and Argentina). Chile opted for retaining strong central control. Its intergovernmental fiscal transfer system (IGFT) does not follow the regional preference for general grants and associated municipal discretion. Instead, the system largely takes the form of specific, earmarked grants for education and health for which the municipality plays an “agency role” for central government ministries¹⁸ (for a global snapshot on the current situation of the decentralization process in the various countries of the region see table in Annex 2)¹⁹.

¹³ Sintomer, Y. 2010. *Learning from the South: Participatory Budgeting Worldwide: an Invitation to Global Cooperation*. Dialog Global, number 25, December 2010. InWEnt, Germany.

¹⁴ United Cities and Local Governments, *ibid*, p. 191.

¹⁵ For a thought provoking overview of current issues in state building processes, see Eaton, K. *The State of the State in Latin America: Challenges, Challengers, Responses and Deficits*. Revista de Ciencia Política, Volumen 23, nr 3. 2012, pp. 643-657. It focuses amongst others on the “infrastructural power” of the state, or the capacity of the state to actually penetrate civil society and implement its actions across territories.

¹⁶ Based on Furlan, J. *Ibid*.

¹⁷ For an overview see: Montecinos, E. 2005. *Los estudios de la descentralización en América Latina: una revisión sobre el estado actual de la temática*. Revista EURE, Vol XXXI, nr. 939, pp. 73-88. Santiago de Chile.

¹⁸ Nickson, A, *ibid.*, p. 14

¹⁹ Rosales, M. 2011. *Descentralización en América Latina y Tareas del Municipalismo*. Colección Ideas, 2011.

8. Results of decentralization processes have also not been uniform. The systems of intergovernmental transfers and their impact in terms of efficiency and equity in providing decentralized goods and services (e.g. health, education, infrastructure) continue to be very heterogeneous. A word of caution is required here with regard to results. These should not be mechanically linked to the sole explanatory factor of decentralization. Other conditions of a more structural nature impinge on the effectiveness of the reform process. In the Latin American context these include the high inequalities in income distribution; the high levels of urbanization and territorial inequalities; and the limits to public policy action arising from low levels of taxation at both central and local levels.
9. Decentralization is not necessarily an irreversible process. In the mid 1990s, a reorientation took place as a result of the financial crisis in the region (e.g. Argentina), focused mainly on better controlling subnational borrowing and debt accumulation. Several countries introduced fiscal responsibility laws to this end. More recently, trends toward some forms of “recentralization” have emerged in different parts of the region. For example, in Argentina, the Law of Economic Emergency of 2002 and the Budget Law of 2006 have given central authorities increased discretion to assign federal funds or unilaterally interrupt their disbursement. In the Dominican Republic recentralization occurred through the Municipal Law of 2007 establishing fixed budget shares for different types of expenditures on personnel, services, public infrastructure, etc. Similarly, in Peru recent legislation has revoked the prerogative of municipalities to issue building licenses or rezoning the use of land. The regular transfer of funds allocated to municipalities has been significantly reduced (with 22%) in the last five years. In Venezuela, municipal authorities have been denouncing the continuous curtailment of competencies and resources as well as the political interference under the Chavez administration²⁰. Another related obstacle to advancing the decentralization agenda stems from the worldwide financial crisis that started in 2008. This has led to a significant drop in incomes for most municipalities and deficits in the automatic transfers of resources from the central level. It has also spurred central governments to set up special social programmes to target the poorest segments of society directly from the top (such as Progreso in Mexico or Bolsa Familia in Brazil).

2. CHALLENGES OF DEEPENING DECENTRALISATION AND LOCAL GOVERNANCE

10. The abundant literature from the region and abroad converges in stressing the on-going relevance of decentralization and local governance –as component elements of a major transformation process of the state in its relation to markets and society. In the globalized world system, they are seen to be potentially powerful instruments (“herramientas”) to address the many pressing development challenges of the region such as ensuring political stability, preventing conflicts, embedding democracy, creating wealth and jobs, or fostering social cohesion.
11. Yet the various authors also agree on the need to further consolidate and deepen decentralization and local governance reform processes across the region. Important progress has been achieved in many countries yet major bottlenecks still make it difficult to realize the full potential of decentralization and local governance as tools to get better development outcomes and political dividends (such as improved local democracy, effective resource mobilization, local accountability, etc.). There is also a

²⁰ Examples drawn from the GOLD II of the UCLG report mentioned above, p. 192.

wide consensus that this deepening is not primarily a question of designing the right mix of technocratic policies. The 'politics' of decentralization are key to understanding progress or stalemate in implementing the various components of the wide decentralization agenda. Further progress will essentially be determined by political choices and the existence of power configurations that make it possible to overcome longstanding barriers and factors of resistance.

12. While trajectories followed by the various countries in the region differ substantially, it is possible to detect a number of common challenges in terms of deepening the on-going decentralization and local governance processes and increasing their overall impact, including:

- *Rooting a culture of local democracy (beyond formal institutions).* Several studies have demonstrated empirically that decentralization reforms do not necessarily put more power in the hands of local governments and their mayors²¹. In an authoritative review of various country experiences, A. Montero and David Samuels observe that “*partisan politics, not lofty principles of efficiency or accountability, are often the main motivation for devolving political power: where leaders see opportunities to strengthen their parties or win local elections, they change the rules to transfer power to local authorities (their cronies)*”²². Beyond the façade of formal institutions, a culture of clientelism, “caciquismo” and “caudillismo” is still structurally present, fuelled by pervasive forms of corruption²³. Another manifestation of the political influence on decentralization processes is the phenomenon of “municipal subdivision” or the creation of new, generally small and non-viable municipal entities, primarily for political, clientelist reasons. This practice continues in violation of municipal codes prescribing a minimum population size. The effect is to keep most Latin American municipalities well below the critical size needed in order to reap the economies of both scale and scope that would justify the trained personnel and capital investment necessary to provide adequate provision to its citizens²⁴.
- *Improving the quality and coverage of public services.* Municipalities in Latin America deliver services in four ways: (i) directly through municipal secretariats and departments; (ii) indirectly through municipally owned foundations; (iii) through enterprises owned by the municipalities or as joint ventures with the private sector; or (iv) through contracts to private companies or voluntary agencies. Does the devolution of responsibilities for service delivery to elected local authorities improve service delivery to poor and marginalized populations? This critical question does not lend itself to easy answers. Country conditions differ widely and available evidence tends to be fragmentary and inconsistent. Yet most research does not show an automatic correlation between decentralization and improvement of the quality, access and equity of public services. Decentralization may also accentuate horizontal inequities between richer and poorer areas as a consequence of differential levels of administrative capacity and ability to raise local resources²⁵. This does not invalidate the potential for decentralization for improved service delivery but suggests that a number of supporting conditions are required such as political commitment, political mobilization of the poor, institutional participation and accountability mechanisms,

²¹ See for instance: Tulia, G. Faletti. 2010. *Decentralisation and Subnational Politics in Latin America*. Cambridge University Press.

²² Alfred, P. Montero and D. Samuels. 2004. *Decentralisation and Democracy in Latin America*. Helen Kellogg Institute for International Studies

²³ Massolo, A. 2005. *Ibid*, p. 3.

²⁴ Nickson, A.. *Ibid*, p. 8

²⁵ Robinson, M. (ed). 2007. *Introduction: Decentralising Service Delivery? Evidence and Policy Implications*. IDS Bulletin, Volume 38, Number 1, January 2007. IDS, Brighton.

adequate financial resources as well as technical/managerial capacities in local governments²⁶. Furthermore, empirical evidence suggests difficulties with the decentralization of public investments. The fiscal decentralization discourages Latin American municipalities from financing investments whose benefits are likely to spill over across jurisdictional borders and whose costs are too high for subnational budgets, especially in the presence of constraints on subnational borrowing. Many countries have failed to put in place arrangements for joint financing and service delivery across and within the different levels of administration that could address these difficulties²⁷. A related problem is the growing territorial inequalities in terms of service delivery, particularly between the capital/intermediate cities and poor urban centres and distant rural localities.

- *Fostering social cohesion in highly unequal societies.* Social cohesion is a key development challenge in Central and Latin America, linked to the history of structured inequalities and ethnic diversity affecting the region. The existence of social cohesion generally refers to two broader intertwined features of society: (i) the absence of latent conflict whether in the form of income/wealth inequality; racial/ethnic tensions; disparities in political participation; or other forms of polarization; and (ii) the presence of strong social bonds –measured by levels of trust and norms of reciprocity; the abundance of civic society associations and the presence of institutions of conflict management. These features are often not available in many societies across the region. Limited research has been done on the potential linkages between decentralization and social cohesion. The issue is handled more from the perspective of decentralization and conflict management. The outcome of that literature is inconclusive, with different camps arguing respectively that (i) decentralization mitigates conflict and social cohesion; (ii) exacerbates conflict by creating new conflict drivers leading to the breakdown of social cohesion within a given territory²⁸; or (iii) that it the ultimate effects all depends on how decentralization is implemented in a given context.
- *Promoting territorial planning, local wealth creation and economic development.* Political decentralization is not only pursued in Latin America for promoting citizen participation and social inclusion but is increasingly linked to economic development. It is now generally agreed that competitiveness depends not only on the firms themselves, the macroeconomic balances and active national policies, but also on the capacity of each locality/territory to tackle its own development through processes of concerted public-private action facilitated through local authorities acting as brokers in support of integrated local development. Yet for this happen, local governments more, not less autonomy. Finot²⁹ argues that so far decentralization policies –and related transfers- have been aimed mainly at the implementation of social policies and less to enhancing economic competitiveness and incorporating small and medium producers into this effort while ensuring equal opportunities for all localities. Except in Brazil, local actors have very little autonomy for deciding, initiating and controlling the execution of local development strategies and this autonomy is tending to grow still smaller (through conditional transfers). He pleads for a different transfer system regarding basic infrastructure services, whereby the whole process of

²⁶ *Ibid*, p. 3. Within the same IDS Bulletin see also the contribution of Salazar. J. *Decentralisation, Politics and Service Delivery in Mexico*, which focuses on the education sector to observe important horizontal imbalances in decentralized service delivery, amongst others linked to the weak accountability of public officials and the high degree of fiscal centralization.

²⁷ Mello, de L 2010.. *Fiscal decentralisation and Public Investment. The Experience of Latin America*. OECD Economic Department Working Papers, No 824. OECD Publishing.

²⁸ An example relates to the drives towards enhanced autonomy/separatism of the eastern oil-rich provinces in Bolivia (Santa Cruz, Tarija).

²⁹ Finot, I. 2005. Decentralisation, territorial transfers and local development. CEPAL review 86, pp. 40-41.

their provision, should be in the hands of the subnational authority whose territorial area of authority best corresponds to the common characteristics of the demand for such a public good. These changes in the system of territorial transfers could be accompanied by changes in local decision-making processes to promote the effective citizen participation in the identification of priorities not only on “what” and “how much” to provide but also on how much of their income should contribute for that provision.

- *Managing the rents from natural resources.* In several countries, the strategic importance of natural resources has turned the allocation and distribution of revenues and royalties from these sectors into one of the main “battlefields” in terms of decentralized governance. In this context, it is important to see how local governments try to address the matter as part of the local governance agenda and how central governments manage the possible tensions and risks for national unity³⁰.
13. In order to get progress on these various common challenges, most sources concord that four interrelated challenges are of central importance in the coming years: (i) the enhancement of local autonomy; (ii) the adaptation of the prevailing systems of fiscal decentralization in ways that incentivize local governments while ensuring greater equity and efficiency; (iii) effective intergovernmental relations; and (iv) the consolidation of citizen participation and effective domestic accountability systems. Below we review some of the main pointers associated to each of these questions.
14. A useful way to capture some of the key challenges associated with the issue of local autonomy is the distinction made by Nickson³¹ between two visions of local government: the “managerial type” and the “governmental type”. The former is built on the premise that the primary purpose of local government is the efficient delivery of services. Under this type, local government’s competencies are clearly defined and regulated. In essence, local governments act as local administrations for the central government following efficiency concerns. Embedded within the managerial function of local governments is an implied political subordination to the dictates of the central government. In pursuit of efficiency in service delivery, central government tends to strictly earmark intergovernmental transfers, impose territorial reorganization and adopt an instrumental approach to citizen participation (with limited possibilities for citizens to engage collectively, exercise voice in policy formulation and resource allocation or demand political accountability). The author argues that this ideal-type of local government (associated to experiences in England, Australia and New Zealand) is also the preferred option of the multilateral agencies. The second type, i.e. the “governmental type” ascribes much wider roles to local government. Service delivery is important but there is a wider role for local government both as the mouthpiece of shared community interests of a locality and also in making policy choices in its name. Under this type, local governments exercise considerable discretion over the power of local taxation. Central-local relations are characterized by negotiations and consensus rather than confrontation. The overlapping of competencies is addressed through partnership modalities. Rather than being a supervisor the role of central government is to provide advise to local governments. Accountability relations are primarily oriented towards citizens. Voice and participation are actively pursued while the municipal executive seeks to play a key role as “broker” within a network of public and private agencies. The author then looks at ten basic features of local government systems in the region to ‘locate’ municipalities within this typology. Interestingly he tentatively concludes that the

³⁰ For an overview of key issues and country experiences see: Brosio, G. and J.P. Jimenez. 2012. The Intergovernmental Allocation of Revenues from Natural Resources: finding a balance between centripetal and centrifugal pressures. In: Brosio, G and J.P. Jimenez (eds). Decentralisation and Reform in Latin America. Improving Intergovernmental Relations. Edward Elgar Publications, 2012.

³¹ In: Where is Local Government Going in Latin America? A Comparative perspective, mentioned above.

“managerial type” is gaining ground in the region, as part of a wider move towards liberalization and market-led development. Its overriding focus on the service delivery role of local government may prove to have a wider appeal –than a participatory style of local democracy- in a region with probably the greatest disparity in the provision of public services in the world.

15. Closely linked to this debate are the on-going efforts to improve local government capacities to be an effective actor in development. It is a task involving authorities at different levels, national associations of local governments as well as international cooperation actors (including Western municipalities involved in decentralized cooperation). Available evidence suggests that these investments have yielded considerable advances (e.g. in local government planning and financial management) but that the more systemic governance challenges prove much harder to tackle. New challenges also arise for local governments as a result of deepening globalization and the intrusion of multinational companies at local level. Strengthening the negotiating capacities of local governments is key to protecting local interests against powerful market forces³².
16. The fiscal decentralization “battle” opens a huge agenda. The above mentioned GOLD II report by UCLG (2011) contains a detailed chapter on the current state of the local public finances in Latin America, providing a comparative overview of the structure and performance of local government finances, the local expenditures and assignment of competencies, the revenue assignments and the systems of intergovernmental transfers (largely based on some form of general revenue sharing with a predominance of unconditional grants). It also deals with a wide range of special issues, constraints and opportunities for local and intergovernmental finance in the region, including (i) the fragmentation and sub-optimal scale of municipalities; (ii) the trade-offs between economies of scale and representation; (iii) the lack of clarity in the assignment of expenditure responsibilities to local governments; (iv) the insufficient revenue autonomy (compared to the devolution of spending responsibilities) which gave rise to large vertical imbalances; (v) the need to rationalize the transfer system and (vi) to increase fiscally responsible borrowing.
17. The World Development Report of 1997 recognized both potential benefits and pitfalls to decentralization processes. Among the latter category it identified greater inequality, macroeconomic instability and submission of local governments to interests groups –risks that are also visible in the Latin American context. The Report insisted on the need to find an appropriate division of responsibilities between central and local levels of government. Brosio and Jimenez³³ and associated experts provide a broad analysis of the issue of improving intergovernmental relations in Latin America. They tackle the problem through a through a wide range of angles, including social spending decentralization; social cohesion among widely disparate territorial units; property tax collection systems; or the increasingly pressing issue of intergovernmental allocation of revenue from natural resources. In the introductory chapter, the authors stress the importance of incentives to building efficient and sustainable intergovernmental relations. For instance, they argue that political incentives for both central and most local governments work in favour of revenue centralization. Central governments prefer to maintain control of most revenue bases and to provide resources to local governments through transfers. The latter tend to prefer avoiding the political costs of raising resources from their constituencies and blaming the central government for any shortfall of such resources. They plead for a wide-spectrum analysis and further research on the workings of subnational governments, focused on questions such as the effective outcomes of decentralization,

³² For an example see: Rull, M. 2004. *El poder local en América Latina en los tiempos de la globalización neoliberal: Reflexiones sobre el caso de Guatemala*.

³³ Brosio, G. and J.P. Jimenez. 2012. *Decentralisation and Reform in Latin America. Improving intergovernmental relations* (eds). Edward Elgar Publishing. 2012.

the impact of the reforms on equity and poverty or the macro-financial consequences of devolution of power and finance.

18. As mentioned before, decentralization and local democracy were intimately linked objectives in Latin America in the context of state reform processes. The newly established governments therefore regarded citizen participation as a means of containing social tensions and strengthening the long-term prospects of democracy through dialogue and consensus-building at the municipal level through a variety of (legally enshrined) consultative processes (e.g. “cabildos abiertos”). Citizen participation was also seen as a way of improving performance in service delivery by introducing greater transparency into municipal resource allocation and participatory budgeting. More recently, the “social accountability” function of civil society towards local governments has emerged and is quite rapidly gaining momentum across the region³⁴. However, there is a considerable gap between formal arrangements and effective implementation of citizen participation. In addition to the legacy of clientelist practices, levels of participation remain rather low, characterized by a lack of continuity and a predominant role played by political society. The impact of citizen monitoring and policy influencing is equally less than optimal in most countries, though there are indications of civil society organizations adopting more structured and sophisticated intervention strategies to demand further decentralization reforms from below.

3. WHAT NEXT? THE NEED FOR A POLITICAL ECONOMY ANALYSIS

19. The above analysis has provided a panoramic view on the overall advances of the decentralization process across the region and on some of the common challenges facing the various countries in terms of deepening the reforms for better development outcomes and governance. While situations vary substantially across countries, there is a large agreement among societal actors and academia that decentralization remains one of the biggest challenges in the region, presenting as many risks as opportunities. In a similar vein, the on-going debates in the region seem to have gone beyond a purely “normative” approach to decentralization (based on a belief in the intrinsic added value of decentralization as an end per se) and embrace a more pragmatic approach, based on a realistic assessment of the political economy underpinning the reforms in a given context, on the critical role of institutions (formal and informal) and on a need to creatively combine “centralization and decentralization” in the framework of sound, balanced and result-oriented intergovernmental relations.
20. In deciding what next, the focus should therefore less be on “best models” of decentralization but on “best fits” with the prevailing political and institutional system and norms. Progress will depend on the configuration of power in a given context, the mix of incentives available for politicians and bureaucrats at various levels and the capacities of societal actors and coalitions to exercise pressure and change the rules of the game. The relative strength of the various actors and the degree to which some have common interests will ultimately determine the shape and outcomes of the reform process.

³⁴ Hernandez, A. 2011. Análisis y Estudio de Experiencias de Accountability Social en América Latina. CIDER. Universidad de los Andes.

21. There is a growing body of literature providing guidance on what such a political economy approach entails. Eaton and others³⁵ stress the need to consider at least four major elements of the national and intergovernmental political economy of decentralization, including: (i) the initial context and motivations for decentralization reforms; (ii) the key actors involved in the process (politicians, bureaucrats and citizens) and the incentives that condition their behaviour with respect to reform design and implementation; (iii) the current stage of reform and its trajectory as it has unfolded since the initial decision to decentralize; (iv) the role and incentives of key external development partners with respect to decentralization, both individually and collectively. The authors map and analyse the various types of incentives faced either by elected politicians (e.g. electoral, partisan, institutional and coalitional) or by appointed bureaucrats (e.g. consolidating institutional power, improving career trajectories or checking rival agencies). For example, particularly critical in understanding support for decentralization is whether national or subnational politicians dominate the parties to which they belong. Reference is made in this context to the pioneering study of Willis, Garman and Haggard³⁶ that sought to explain diverging levels of decentralization in five Latin American countries as a function of internal party structures. They found that legislators who are beholden to subnational officials within their parties are more likely to support decentralization than legislators who are responsive to national party leaders. In case the careers of national legislators are substantially controlled by governors in their home states or provinces these governors are in a good position to demand the passage of decentralized legislation “from below”.
22. Political economy approaches may also help to explain the sequencing of administrative, fiscal and political decentralization. Recent political science has begun to explore the possibility that these three forms of decentralization do not need to be adopted at the same time. If anything, the institutional incentives faced by national politicians are likely to induce non-simultaneous approaches³⁷. Also with regard to fiscal decentralization, political economy approaches gained momentum. The second generation of fiscal federalism theories³⁸ follows the typical political economy approach by replacing benevolent government assumptions (i.e. existence of a ‘political will’ for reform) with the more realistic one of self-serving officials and politicians³⁹.
23. The challenge at hand is to effectively apply this political economy approach to identify actors, incentives and triggers for change in a given context at a particular time. This is a task for both national actors and international development partners that have an interest in supporting decentralization as an instrument for achieving certain goals. An interesting example is a 2005 study by the German Institute DIE/IAD on the evolving political economy of the decentralization process in Ecuador and the role/incentives of external partners therein⁴⁰.
24. It is not possible in the framework of this basic desk study to give an overview of the various actors, incentives or triggers for deepening decentralization processes. This has to be done in the context of country specific analyses or when external development partners programme their future

³⁵ Eaton, K, K. Kaiser and P. Smoke. 2010. The Political economy of Decentralization Reforms. Implications for Aid Effectiveness. The World Bank.

³⁶ Willis, E, C. Garman and S. Haggard. 1999. *Decentralization in Latin America*. Latin American Research Review 34 (1), pp. 7-56.

³⁷ Eaton, K, K. Kaiser and P. Smoke. *Ibid*, p. 19.

³⁸ See for instance Lockwood, B. 2006. *The Political Economy of Decentralization*. In: Ahmad E and G. Brosio (eds). Handbook of Fiscal Federalism. Cheltenham, UK, Edward Elgar., pp. 33-60. See also Weingast, B.R. 2006. *Second generation fiscal federalism: implications for decentralized democratic governance and economic development*. Working Paper, Hoover Institution. Stanford University. CA

³⁹ Brosio, G and J.P Jimenez, *Ibid*.

⁴⁰ F. Arneeth and others. 2005. Descentralización y el rol de la cooperación internacional en el Ecuador. Instituto Alemán de Desarrollo (IAD/DIE). Bonn.

interventions. Yet a few examples can be provided of possible actors and triggers for accelerating reforms:

- *The importance of “champions of change” within government.* Experience across the world underline the critical role that can be played by central offices or agencies with a solid political and technical mandate to push decentralization “from above”. These agencies need to be backed by a strong and consistent political support from the highest level in order to play their catalytic role. It could be argued that Ecuador provides an interesting laboratory to assess the power and influence of such institutional arrangements. The Correa administration has put decentralization and the empowerment of local governments at the top of its state reform process and “*revolución ciudadana*”. Besides new legislation, the government has several new agencies with an explicit mandate to accompany the implementation of the reform process and provide support to local governments in order to help them adopting new roles and responsibilities. Evidence suggests these various institutions have so far been quite successful in this role⁴¹.
- *Incentive-based approaches towards local governments.* Macroeconomic policy constitutes a possible area where an incentive-based approach to local governments could find an ideal ground for application. Since local governments have limited elected responsibility for macroeconomic performance and since fiscal sovereignty is in the hands of central governments, intergovernmental relations have become “a political game”⁴² where local governments tend to overspend and then ask central governments for financial support once they have exhausted their borrowing capacity. To improve macroeconomic performance the bulk of the literature points to the importance of fiscal institutions and in particular a greater reliance on local taxation instead of transfers from central government. Inducing local governments to raise their own revenue and tax collection capacity could be hugely beneficial for governance and accountability purposes.
- *Coalitions of bottom-up actors.* The “municipal movement” has made much progress in recent decades at national (through representative associations), regional (FLACMA) and global levels (UCLG). The voice of the local governments is increasingly heard and lobbying strategies have yielded breakthroughs and a growing recognition of the specific role and added value of local governments in development processes. Yet there is also a wide consensus that decentralization processes have suffered from an “atomización” of the various stakeholders concerned. According to Rosales⁴³, the municipal movements, the territorial agents, the academia and the organizations of civil society with a democratic governance mandate, have not dialogued enough nor been able to agree on common decentralization agendas in the various countries that they defend together through appropriate implementation strategies spread over a larger period of time. Hence, a major challenge will be to look more closely at the political economy drivers of broader and more effective coalitions in support of decentralization.

⁴¹ See the report on the advances made in the decentralization process of the ‘Consejo Nacional de Competencias’, a multi-actor consultation mechanism, in their meeting on 4-12-2012.

⁴² Brosio, G and J.P. Jimenez. *Ibid*

⁴³ Rosales, M. *Ibid*, p. 25

4. THE ROLE OF EXTERNAL AGENCIES WITH A FOCUS ON THE EC

25. As mentioned before the multilateral agencies (World Bank, Inter-American Development Bank) have been influential actors at both policy and implementation level in the evolving decentralization processes in the region. At a more technical level, other important actors include the GTZ, the Spanish agency for cooperation (AECID) and decentralized actors such as the VNG (Dutch Association of Municipalities, International Office). There is less evidence of a major influence exercised by the European Commission, at least on the general policy level.
26. Both key policy documents related to EU-Latin America relations and actual aid flows indicate that the EC has been a relatively modest player when it comes to supporting decentralization and local governance in the region. An analysis of Summit conclusions, regional dialogue processes and programming documents indicate that decentralization and local governance concerns are rarely explicitly mentioned as shared objectives. Contrary to (francophone) Africa, there is very limited tradition of engaging directly in national reform processes (with the exception of Honduras and Venezuela). The recent Thematic Evaluation on EC support to decentralization found that only 10% of EC funds in this area are directed to Latin America. In recent years, there is a growing political momentum to engage in dialogue with local authorities and to increase cooperation through adequate modalities. Yet this is not yet clearly and consistently reflected in the practice of cooperation processes, with local authorities remaining a rather marginal actor.
27. However, these figures do not tell the whole story. When analysing the EC cooperation with the region over the past decade, it appears that many inroads have been made into the decentralisation arena, albeit mainly in an indirect manner. Thus, many EC-supported programmes under the geographic instruments, have addressed key development challenges that are also core to the decentralisation agenda (such as social cohesion, regional/local economic development, social service delivery, domestic accountability, civil society strengthening, etc.). While not labelled as such, these programmes have had a bearing if not a direct influence on decentralisation and local governance processes at country level. In addition to this, the EC has funded projects under thematic instruments that were geared towards local authorities, including decentralised cooperation activities such as the highly successful URB-AL programmes⁴⁴ or the activities geared at promoting social cohesion under the Eurosocal programme⁴⁵, both financed under the regional envelope 2007-2013. Another potentially interesting instrument is the thematic programme on “Non State Actors and local authorities in development” that started in 2007 with a rather limited global financial envelope (1.639 million Euro) with roughly 20% attributed to Latin America. Local governments are eligible for support in specific countries and purposes. A mid-term review conducted by the EC concludes that there is a need to differentiate the approaches adopted for local authorities and non-state actors (NSAs) when it comes to programme management, as the former have specific features (as governmental bodies) that distinguish them from NSAs⁴⁶. Particularly the call for proposals seems an ill-suited instrument to engage in a strategic way with local governments.

⁴⁴ According to the evaluation of Phase II of URB-AL the programme was highly successful and praised for its horizontal cooperation framework which allowed for innovative learning experiences, the establishment of new relationships with European partners and international visibility.

⁴⁵ The Eurosocal programme (40 million euro for the period 2007-2013) is implemented by the Fundacion Internacional para Iberoamérica de Administración y Políticas Públicas. It seeks to promote social cohesion and includes “decentralization” as one of its focal areas of attention.

⁴⁶ European Commission. 2011. *Thematic Programme. Non-State Actoes and local authorities in development*. 2011-2013 Strategy Paper.

28. There is not really an institutional memory at EC level on (direct/indirect) interventions made in the field of decentralisation and local governance in Central and Latin America. No global reviews were made of lessons learnt across the region. A community of practitioners is lacking and there is also limited knowledge and exchange on current programmes that deal with or indirectly touch upon decentralisation in the region. This may also explain the limited visibility and profile of the topic on the EC cooperation agenda in Latin and Central America, despite its political importance for the region and the de facto involvement of the EC in these processes.
29. Major changes are underway that will affect cooperation with Latin America. First, the application of the “differentiation principle”. Countries that have achieved middle or higher income status will graduate into new partnerships that are not based on bilateral aid from 2014 onwards. Traditional EU development aid will continue with only six countries⁴⁷ of the region. With the other partner countries relations would evolve towards forms of international cooperation based on mutual interests or centred on development objectives, to be pursued through regional programmes or thematic instruments. In this new setting, the question arises how EU Delegations, particularly in countries graduating out of aid, will be able to pursue support to important domestic reforms such as decentralisation and local governance.
30. In addition to this, negotiations are on going at EU level to agree on a new Multi-financial framework and related regulations that organize cooperation with the different regions, such as the ‘Development Cooperation Instrument’ (DCI) that covers Latin America. The proposed regulation for the DCI with regard to Latin America foresees various cooperation areas that show clear linkages with decentralization and local governance, such as support for governance reforms, public finance management and taxation, security, economic vulnerability, inclusive growth, food security and climate change⁴⁸, thus providing opportunities for targeted and strategic interventions through a reconfigured portfolio of instruments.
31. Thinking on how to support decentralization and local governance is also evolving at EC headquarters levels as a combined result of new policy documents (e.g. the Agenda for change) and the recently concluded EC Thematic Evaluation of EC support to decentralization. First, while the EC has accumulated quite some relevant experience and many programmes had yielded positive effects, evidence suggest that the overall track record is less satisfying in terms of promoting systemic change, as confirmed by the recent Thematic Evaluation on EC support to decentralisation⁴⁹. Hence, there is a clear need to better assess the political dimensions of decentralisation (through political economy analysis) and to define more realistic implementation strategies (aligned to what is feasible in a given context). Second, decentralization should not be seen as something “religious” (reflecting a normative good governance agenda) but appreciated from an instrumental perspective. Decentralisation should not be pursued as an end in itself but rather as a means to obtain better development outcomes (e.g. service delivery) and governance (e.g. improved local transparency and accountability, enhanced public sector efficiency, consolidation of state building processes). Third, in order to achieve these outcomes –using decentralisation as a vehicle- it is critical to enable local governments as policy interlocutors and agents of development/wealth creation at local level. The May 2013 EU Communication on ‘Empowering Local Authorities in partner countries for enhanced

⁴⁷ Nicaragua, Salvador, Honduras, Guatemala, Bolivia, Paraguay

⁴⁸ For more details see: http://ec.europa.eu/europeaid/how/finance/documents/prop_reg_instrument_dev_coop_en.pdf

⁴⁹ A key conclusion of the evaluation was that the “EU has a unique but largely unrealized potential for global support to decentralization in partner countries”. The report recommends the EU to “develop an explicit response strategy that clearly embeds future support for decentralization within a wider public sector reform agenda”.

governance and more effective development outcomes' is a positive step in that direction. Fourth, the mainstreaming of decentralisation and local governance will require the elaboration of smart, context-specific support strategies, based on continuous experimentation, learning and adaptation, involving communities of practitioners. Regional seminars can help to address the knowledge and capacity challenges related to this agenda.

Annexes

Table 1 - Overview of the evolution of state reform policies in Latin America:

	First Generation	Second Generation	Third Generation
Period	1970s and 1980s	1990s	After 2000
Context	Crisis of the national-developmental state Fiscal crisis Authoritarianism (first phase) Democratic transitions (second phase)	Consolidation of globalisation and democratisation	New problems and challenges for democracy in the context of globalisation
Approach	Neoliberal (cost efficiency) Washington Consensus	Neo-institutional (efficiency in terms of achievements and welfare) Post Washington Consensus	Multilevel governance (efficiency in terms of competitiveness and social cohesion)
Main ideas	Reduce the size of the state along the lines of the "Washington Consensus" in order to achieve greater efficiency. Diffuse the distribution conflicts exacerbated by the crisis and prevent them reaching the central government Bring legitimacy to the processes of democratic transition (second phase).	Creation and restoration of institutions, mechanisms and relationships that ensure good governance and local development. Development of the notion of citizenship in its political, social and civil aspects (participation, control and deliberation)	Strategic cooperation with public and private sector actors Active participation of citizens in public action, both at the stage of policy and project formulation, as in the execution and control of said policies and projects. Intergovernmental coordination and innovation in public management with the intensive use of new information and communication technologies (ITC).

Adapted and translated from: Furlan, J. (2012) Reforma del estado, descentralización y gobernabilidad en Iberoamérica

Table 2 - Overview of the current state of the decentralisation process in the countries of Latin America:

Synthesis of the current decentralisation process in Latin American countries		
Start date of the decentralisation process towards municipalities		Current situation of the decentralisation process and trends in the national political agenda
1. Argentina	----	Stagnant. It is not a priority in the current political agenda
2. Bolivia	1994	In revision. Alignment of decentralisation laws to the new constitution
3. Brazil	1988	Consolidated decentralisation is not a priority in the current political agenda
4. Chile	1990	Stagnant since the late 1990s. Not on the current political agenda
5. Colombia	1986	Recentralisation trends, due to fiscal crisis and armed conflict.
6. Costa Rica	2001	The transfer law of 10% of national budget is not applied
7. Ecuador	1997	In process of revision: decentralisation laws alignment to the new constitution
8. El Salvador	1992	There is a decentralisation trend and demand for an increase in resources
9. Guatemala	2002	Stagnant. Not on the current national political agenda
10. Haiti	1987	Stopped. Crisis of the political and institutional system both at national and local level.
11. Honduras	1993	Postponed due to crisis. Debate on the municipalisation of public education
12. Nicaragua	2003	Recentralisation due to political conflict: less power and resources at the municipal level
13. Mexico	----	States and Mexico City strengthened but the municipalities are not included in the process
14. Panama	2004	Stopped. The decentralisation law has been suspended by the current government.
15. Paraguay	1992	More transfers to the municipalities. How to strengthen municipal management?
16. Peru	2002	In process, but municipalities' call for a reduction in the transfer of resources.
17. Dominican Republic	2003	The law that assigns 10% of the national budget to municipalities is not applied.
18. Uruguay	1996	Creation of 89 municipal governments: the third level of government
19. Venezuela	2005	Recentralisation and weak municipal level due to political conflict.

Adapted and translated from Rosales, M. (2011) Descentralización en América Latina y tareas del municipalismo – Colección Ideas - FLACMA

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