Decentralization and Democratic Governance

A Review of Latin American Experience and Lessons for Sub Saharan Africa

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I. INTRODUCTION

This paper reviews the experience of A.I.D.'s Office of Housing and Urban Programs and The Urban Institute with decentralization and democratization programs in Latin America, and briefly examines the applicability of such programs to Sub-Saharan Africa (SSA). Decentralization and democratization are frequently discussed in extremely broad and vague terms, but here the focus is on the specific role of such initiatives in promoting the exercise of local collective choice about public services in ways that are economically efficient and financially realistic.

The Relationship Between Local Collective Choice and Democracy:

Local collective choice, when exercised in a democratic fashion, is at the root of national democratic experience. There are no countries in the world that have been able to sustain democracy at the central government level without also having democracy in local governance. For most citizens in democratic countries, control over local public services and local budgets is the most direct and consequential expression of democracy available to them. Since in the great majority of African nations, most budget and service choices are now made at the central level, conferring significant democratic choice at the local level will require decentralization of authority.

Local collective choice is most often exercised by local governments, but other collective entities can also serve this purpose. These include: community and neighborhood organizations, private for-profit firms which operate within a framework that permits expression of collective demand, and private nonprofit organizations.

II. OVERVIEW OF PROJECT EXPERIENCE

Background: Defects of the Prevailing Service Delivery System

Latin America has had highly centralized systems of local service delivery. Sometimes the service delivery agents are central government agencies. More often, they are special parastatal authorities set up to provide drinking water, wastewater, trash collection services; build and maintain roads; or install and operate telephone and electricity systems.

These organizations have been unresponsive to citizen demand. They are not subject to either market tests of responsiveness (i.e., profit generation in a competitive environment) or political tests of responsiveness (i.e., having their performance record voted on by the local electorate). If anything, the role of public service parastatals in SSA has been even greater.

One consequence of the central government and parastatal role has been to weaken local government as an instrument of service choice and service delivery. With respect to local public choice, neither citizens nor local governments typically can

a. choose the service level they are willing to pay for,
b. select the tax/fee combinations they will use to pay for services, or
c. decide which services are most important to emphasize, or who should receive them.

As a result, there is no service performance record by which to judge local officials. In this environment, even when local multi-party elections are held, they tend to be illusory, for there is no local record on which to vote. Local elections become miniaturized battlegrounds for expressing preferences regarding national-scale political issues or political ideology.

Even more fundamentally, local citizens never have to deal with the realities of budget-constrained service choice--i.e., the fact that services have to be paid for, and that the choice of service level should be made collectively in light of these costs. As a result, citizens tend to "demand" far better service than is realistic and blame

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distant bureaucratic bodies when it fails to materialize. There is no accountability in local governance. Again this characterization appears to apply as well to SSA.

In the last few years, a number of decentralization initiatives have been launched. Almost all Latin American countries have taken some steps toward decentralization. However, most frequently this has meant merely providing local governments with guaranteed sources of new revenue, such as constitutionally mandated sharing in national revenue collection (as in Brazil, Colombia, Ecuador, Guatemala, Bolivia, Mexico). In some cases, very large sums have been transferred to local governments. By itself, however, this strategy does not enhance local fiscal choice, and may even damage it. Large amounts of external funding can further obscure the true budget constraint on service supply. Studies show that large revenue-sharing transfers from central governments have caused sharp reductions in local governments' commitment to raise their own revenues.

Other grants to local governments tend to take the form of deficit-filling. That is, if local governments cannot cover their budget costs from local resources, the central government covers all or part of the deficit. This practice promotes local dependence on central government, and leads to perverse preemptive strategies, in which local governments try to run up the largest deficit in order to qualify for the most central aid.

III. LATIN AMERICAN CASE STUDIES

At the outset, it should be emphasized that it is far easier to design alternative systems than to implement them politically and administratively. Even in the United States or United Kingdom, there has been acute political resistance to strategies that attempt to identify the true tax price of local public services, and require citizens to make service choices based upon paying for these costs.

Honduras

Projects to strengthen local collective action started in neighborhoods planning to connect households to the potable water system or to commence local street paving. Given the economies of network systems, it made sense to either connect all households to a new distribution system or not to install one at all. In an effort to avoid unilateral imposition of the infrastructure costs on all the community residents, a means to determine the collective will of the community was devised.

In those communities considering water hook-ups, neighborhood development associations sponsored open community meetings in which the residents could make an informed choice. The full costs of water extension were identified, and translated into per-property costs. The neighborhood water connection project was then discussed and put to a vote in community meetings, after the service choices and principles of paying for service had been explained. The community as a whole decided whether or not to incur the costs. An eighty percent plurality was required for approval. If the project was approved, all properties were obliged to pay. Such a policy was necessary to avoid the free-rider problem, whereby individuals allowed to refuse service and its associated cost, would find a means to tap into a system paid for by others.

The mechanism has worked well. Similar experience has been accumulated in other countries. Of particular note is that the assemblies initially used for choosing infrastructure services and discussing costs often became the kernel for citizen participation in broader local government issues.

Municipal Reform

From this initial experience, the Honduras project expanded to encompass general municipal reform. Democratically elected mayors had been restored in Honduras in the early 1980s, but elections had not focused on local performance or local service levels. Reasons for the persistent weakness of local governance included:

1. Local elections were held at the same time as national elections, and were mere by-products of the national election--i.e., the party receiving the most votes locally in the Presidential election took over the city administration.

2. There was no local budget preparation; no realistic estimate of service costs; no rival election platform based on alternative service levels.

3. There was no freedom to adjust tax rates locally.

4. Water, police protection, schools, electricity, telephones, and other services were provided by central agencies or parastatals.

Over a four-year period, the Office of Housing and Urban Programs worked with local authorities to reform municipal laws and strengthen the local government system. The first priority was to generate strong support among mayors for greater local responsibility. Initially, less than 20 percent of the mayors assigned much priority to a new municipal law. By 1990 municipal reform had extremely strong and active lobbying support by mayors. The Municipal Association was revived. Mayors replaced the central government functionaries who had run the association, and competitive elections were held among the mayors for leadership positions. Mayors accepted the principle of raising their own resources to pay for municipal services, and lobbied for a municipal law designed to allow them greater tax and fee setting discretion.

A new municipal reform law finally passed in late November 1990. It includes:

- Separate elections for local mayors and city councils independent of the presidential election
- Flexibility in setting local tax rates and fees
- Local authority for budget preparation and approval

- A stable, transparent grant system, which relieves some of the local costs of service supply without a massive transfer of resources to local governments.
- Formal recognition of the neighborhood development associations and acknowledgment of their role in choosing municipal services.

Chile

Chile is an interesting special case. In the late 1960s and early 1970s, the local sector had the greatest fiscal difficulty of any local sector in Latin America. Local government deficits rose to more than 3 percent of GNP, with budget overruns of more than 100 percent. Despite this cost overrun, local governments provided no regular service functions except trash collection. Rather, they intervened on an emergency basis, funding job creation, special public works projects, and community attempts to spawn industry.

With the military takeover, there came textbook reform in local public finance. Chile adopted a professional system of local budget formulation, monitoring, and control through which the government completely eliminated municipal deficits. The central government turned over the administration of the education and primary health care systems to local governments which represented by far the greatest devolution of expenditure responsibility in Latin America.

Additionally, the country made aggressive use of the private sector by contracting out municipal services. For example, 90 percent of municipalities now contract with private firms for trash collection. World Bank studies report that per household trash collection costs are one-third the level of those in Brazil and Argentina. In another example of privatization, a nationwide educational voucher program allowed families to choose between municipal or private schooling and reimbursed the families' basic costs at the same rate regardless of which school system they had chosen.

In spite of theses gains in decentralization and privatization, there was still no democratic choice in this system, and no accountability of officials to the local electorate. There were no local elections, no local authority to approve budgets, and no local authority to set tax rates or impose new taxes. However, upon the restoration of democratic government in Chile, the challenge to expand democratic involvement to the arena of local public finance, while retaining the fiscal discipline installed by the military regime, was accepted.

A.I.D.'s Office of Housing and Urban Programs is now working with the Chilean government to design a project in the context of the new municipal law which will:

- re-establish local elections
- restore responsibility for budget oversight to local councils
- introduce some flexibility regarding tax and fee rates for local governments.
- introduce greater local choice regarding local service provision.

A key to this process will be the municipal council's preparation and oversight of budgets. In the past, local governments have always handled budget-making irresponsibly when they have had budget discretion. In addition to the freedom to make service choices at the local level, a realistic, financially responsible municipal fiscal system will require:

- technical competence in budget preparation;
- political commitment to differentiated service platforms in local elections;
- a national fiscal system that refuses to bail-out local governments facing overruns;
- and, most importantly, institutions and procedures for laying out choices, realistic cost estimates, and the implications for local fee or tax payments to the local electorate.

El Alto, Bolivia and Inner Kingston, Jamaica

Devolution of authority to local governments, to be workable, requires adequate local revenue sources and reasonably technically sophisticated local political authorities, as well as the legal discretion to enter new service areas. In many countries, these conditions are lacking. In such a situation, is unrealistic to look to local government to exercise many aspects of local collective choice.

In El Alto, Bolivia (a rapidly growing area of informal settlements, with an approximate population of 500,000), the national revenue system prevents the city from generating significant sums of money. In Kingston, Jamaica, most of the functions and revenue sources of local government were abolished, in favor of central provision of services. Therefore, in structuring new local economic development and service delivery programs, it has made more sense to create umbrella private sector

organizations, which have taken over some of the municipal government's traditional functions, and serve as a transitional structure in preparation for the eventual re-transfer of such responsibilities back to the local government.

In El Alto, a private nonprofit group working closely with local government has taken on the responsibility of coordinating foreign assistance projects, and developing new services based on cost recovery and community choice. These services are typically delivered through the private sector. For example, the group (Pro El Alto) launched a demonstration project in trash collection. Bicycle carts were used to collect trash. Costs per property were calculated and community members voted whether to sign up for trash collection given these costs. The community as a whole became guarantor of the individual household fee payments, and therefore placed pressure on households for payment.

The experiment had considerable success. After the first six months, three purely private, for-profit firms sprang up following the same procedures in other neighborhoods. Pro El Alto then negotiated an agreement with the city government. Instead of trying to provide household trash collection, which the city was legally required to undertake but in practice was unable to provide, the city would concentrate on operating and improving the environmental soundness of the city's landfill sites. Private firms, operating in the individual communities, undertook responsibility for trash collection and transport to the landfill.

In Inner Kingston, a private not-for-profit company (Kingston Restoration Company--KRC) was created, and has assumed all of the economic planning and redevelopment responsibilities of local government. Principles of collective choice, in this instance, have been applied to the local business sector. For example, businesses on a given block voted whether to pay for street upgrading based on the costs of alternative plans, then each firm abided by the collective decision. The local government now views the company as a collaborative planning and implementation body, and has given the KRC responsibility for virtually all new "public" action.

In both El Alto and Kingston, the economic development organizations were created outside of the public sector, in order to avoid the politicization, restrictions, and technical staffing problems of government. Some suspicion of their operations was originally expressed by local governments. However, both organizations have designed their operations so that they are now seen as an extension of local government and a training ground for local responsibility. Both participate in collaborative projects with local government agencies, and increasingly have introduced their methods of operation into the public sector.

IV. LESSONS

The following lessons can be drawn from the case studies and experiences of the Latin American countries discussed above:

1. Local collective choice is critical to the experience of democratic governance.

2. Programs which strengthen local government are fundamental to democratization in countries which do not have a tradition of local democratic authority.

3. Local government projects sponsored by A.I.D. traditionally have focused on technical training of local government officials. However, it is equally important to establish and nurture local grassroot institutions and practices that can provide a framework for democratic collective choice.

4. The goals of "local democratic governance" and "more effective and responsible delivery of local public services" are not incompatible. On the contrary, the challenge to both A.I.D. and host countries is to design programs that encourage democratic choice about significant aspects of service delivery, while equipping local authorities to make these choices with financial realism.

5. Most programs will require three types of technical assistance:

   a. projects that help build local processes for expressing "choice" or "collective demand" about public services or local public investment. These projects can draw on A.I.D.'s extensive experience in "popular participation," while ensuring that the institutions created are part of a general plan for strengthening local democracy;

   b. supporting reforms in central-local relations and inter-municipal relations. These usually will take the form of decentralization

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programs that: i) confer new, significant authority on local governments. Without such legal authority to exercise discretion over local public services, municipalities' attempts to create local choice-making mechanisms are fruitless; ii) revise central-local fiscal relations to provide stable, transparent fiscal support to local governments, while absolutely requiring local governments to live within their budgets; and iii) strengthen collaborative municipal organizations (like municipal associations) so that mayors can reinforce one another, get new ideas for service delivery or municipal cooperation, and lessen vertical dependence on central government; and

c. technical assistance (TA) to increase local government officials' skills in the procedures of democratic governance. Rather than across-the-board technical assistance, TA projects should emphasize those aspects most central to developing fiscal responsibility and realism at the local level. Such skills include preparing and presenting budgets and budget choices to the citizenry; city council monitoring of local administrative execution of the budget; and mechanisms of reporting by local government to the local citizenry. The same procedures can build both accountability to the electorate and improve internal reporting within the administration. Too often A.I.D.'s technical assistance has focused on internal administrative priorities, without addressing the external reporting requirements which are essential to develop the accountability on which democracy is founded.

6. Measured against the objectives of the Africa Bureau's *Strategy on Democratization*, local government programs of this type serve four of the basic goals identified for a democratization strategy:

   a. political (and fiscal) accountability,
   b. more effective governance,
   c. broader political participation, and
   d. decentralization of choice making.

7. In countries where local government authorities are not highly developed, projects with other collective organizations are often better points of entry than projects with government itself. In some places, existing nongovernmental organizations and community-based

organizations can be strengthened. In other places, the creation of new umbrella organizations will be more effective. The strategy in either case is to:

a. Introduce experience with collective choice-making in a setting where decisions can be made relatively rapidly and implemented effectively. Rapid implementation will enable citizens to understand the service consequences of their choices. In most cases, frustration with local democratic governance has probably stemmed more from the local government's failure to implement community decisions than from any other source.

b. Have the nongovernmental organizations gradually develop formal links with local government, so that their actions have the authority of government and so that their style of operation (emphasizing financially realistic and effective democratic governance) gradually infiltrates government.

8. Any project of this type will require:

a. intensive use of TA, including a new type of TA that deals directly with setting up accountability mechanisms,
b. intensive project monitoring and oversight by A.I.D.,
c. a long-term commitment, realistically in the range of 8-10 years,
d. substantial resource commitments by A.I.D..

The high costs, in dollar and resource terms, imply that A.I.D. should carefully target its resources, both by country, and within countries, to local governments or organizations with the greatest potential. The most promising strategy appears to be one that focuses on a handful of communities, while also reforming central-local relations, thus ensuring central government support for broader program goals. Municipal associations or their equivalent should also be nurtured as a means of supporting and spreading democratic experience. A certain level of resources should be reserved for a second phase in which the program can be spread to those communities which have aggressively sought participation. Reserving resources in this manner so that additional municipalities can enter the program is the best means to guarantee that all communities will focus on the initial demonstration activities.