

REGIONAL MUNICIPAL SECTOR ASSESSMENT

FOR

CENTRAL AMERICA

FINAL REPORT

VOLUME I: BASIC ANALYSIS

JUNE 1992

**REGIONAL MUNICIPAL SECTOR ASSESSMENT
FOR
CENTRAL AMERICA**

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VOLUME I: BASIC ANALYSIS

**Prepared for
Regional Housing and Urban Programs Office (RHUDO/CA)
United States Agency for International Development (USAID)
Tegucigalpa, Honduras**

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TABLE OF CONTENTS

PREFACE

VOLUME ONE: BASIC ANALYSIS

INTRODUCTION

EXECUTIVE SUMMARY

PART ONE: BASIC CONSIDERATIONS AND PARAMETERS FOR DECENTRALIZATION AND MUNICIPAL DEVELOPMENT

I.	Assessment Framework	9
A.	Premise: Development and Democratic Governance	9
B.	Strategic Requirements of Local Democratic Governance	10
1.	Decentralization and Municipal Autonomy	10
2.	Local Participation and Representation	11
3.	Municipal Capacity and Fiscal Base	12
4.	Municipal and Community Empowerment	12

PART TWO: REGIONAL COMPARATIVE ANALYSIS OF THE EXISTING SITUATION IN CENTRAL AMERICA

II.	Context for Decentralization and Municipal Development	15
A.	Regional/National Development Situation	15
B.	Urban and Regional Structures	16
1.	Primate City Systems: The Spheres of Influence	17
2.	Secondary City Systems: Potential for Growth	17
3.	Intra-Urban Polarization Problems: The Marginal Barrios	20
C.	Municipal Systems: (Geo)Political and Demographic Structures	21
III.	Democratic and Participatory Systems and Processes	23
A.	Decentralization and Municipal Autonomy	23
1.	Municipal Mandates	23
2.	Local Government Structure	29
3.	Conclusions	32
B.	Municipal and Community Empowerment	33
1.	Municipal Support Structures/Institutions	33
2.	Community Participation and Empowerment	37
IV.	Municipal Resource Mobilization and Utilization	55
A.	Fiscal Base and Financial Management	55
1.	Overview	55
2.	Key Findings and Conclusions	56
B.	Human Resources Development: Municipal Training and Technical Assistance Needs	58

Table of Contents, continued

PART THREE: CONCLUSIONS AND RECOMMENDATIONS

V. Recommendations: Basis for a Regional Strategy and Program	63
a. Municipal Mandates	63
b. Local Government Structure	64
c. Community Participation and Empowerment	65
d. Municipal Support Organizations	67
e. Municipal Finance and Fiscal Autonomy	68
1. Improve Resource Mobilization	68
2. Strengthen the Fiscal Basis of Decentralization	69
3. Expand and Improve Intergovernmental Transfers	70

CHARTS AND TABLES

Chart I: Municipal Mandates and Actions and Activities	25-26
Chart II: Structure of Local Government and Municipal Elections	30
Table I: Secondary Cities with Greatest Growth Potential	18
Table II: Priority Areas for Municipal Training and Technical Assistance	65

ANNEXES

ANNEX I: National/Regional Urban Structures in Central America	
ANNEX II: Municipal Mandates and Structures	
ANNEX III: Municipal Support Institutions	
ANNEX IV: Regional and International Institutions	
ANNEX V: Financial Management	
ANNEX VI: Regional and International Institutions	
ANNEX VII: Bibliographies and Persons Contacted	

PREFACE

This report, "Regional Municipal Sector Assessment for Central America," was prepared by PADCO under contract to RHUDO/CA, USAID. For purpose of this study, the region was defined as six countries: Guatemala, El Salvador, Nicaragua, Honduras, Costa Rica and Panama.

The report is based on field work in Central America carried out between October 1991 and January 1992, and the text reflects conditions as of that time. The survey process consisted primarily of review of prior studies and analyses, plus interviews with national and local government officials and other relevant informants.

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The PADCO Team worked under the direction of Ms. Dianne Tsitsos, RHUDO/CA. We would like to express our appreciation to her and the many officials of USAID and national and local governments in each country who provided time and advice as well as access to the information required to produce this report.

2

REGIONAL MUNICIPAL SECTOR ASSESSMENT FOR CENTRAL AMERICA

VOLUME I: BASIC ANALYSIS

INTRODUCTION

The changes in Central America in the last half of the decade of the 80s and now into the 90s have been nothing short of dramatic. As part of these changes, there are some indications of a transference of power and resources from centralized bureaucracies toward local government. The shift signifies not only a movement toward government that is closer to the people, but also that the local governments and the central governments of the countries of Central America are undergoing a fundamental transformation in their relationship to each other.

The objective of this report is to present AID with the elements of a regional strategy and program in support of municipal development. The elements of this strategy are based on the results of assessments of basic parameters of the municipal systems in Central America. The report also identifies strategies and approaches to create the policy climate necessary for integrating municipalities into the region's democratization and economic development processes.

The report is organized in two volumes. **Volume I, Basic Analysis**, consists of the Introduction, an Executive Summary, and three parts. Part One contains the Assessment Framework, which presents the basic premise, considerations and criteria used to guide the study. Part Two contains the regional comparative analysis of the existing situation and includes three sections: Context for Decentralization and Municipal Development, Democratic and Participatory Systems and Processes, and Municipal Resource Mobilization and Utilization. Part Three provides recommendations for required reforms which form the basis of the proposed strategy and program set out in Volume II. Volume I also includes six annexes which provide the detailed technical analysis. Finally, **Volume II, Regional Strategy**, provides recommendations on a general strategy for promoting municipal development from a regional perspective.

EXECUTIVE SUMMARY

SCOPE OF WORK

AID, in its efforts to support the recent changes in the Central American region towards greater democratization and decentralization, is engaged in a process of formulating and implementing a regional strategy and program in support of municipal development. The objective of this study is to present AID with the elements of such a regional strategy and program. As part of the scope of work, AID requested that PADCO conduct an assessment of the existing situation in Central America regarding the key components of municipal development—these being municipal mandates, municipal finance, community empowerment, municipal associations, and government structures at the local, regional and national level that impact local development and self-sufficiency. As a corollary, AID requested that PADCO develop models, ideals, instruments and/or alternatives for these key aspects of municipal development. Finally, AID asked that PADCO develop a strategy for possible AID interventions, based on the differences between the existing and ideal situations discovered during the investigation and on the specific country-by-country conditions and needs.

THE EXISTING SITUATION

PADCO based its report on the basic premise that municipal governments, as permanent institutions with elected representatives, are closest to the people and can ultimately be more responsive to local needs while increasing citizen participation in development decision-making and providing better access for the redress of grievances. As a basic point of departure from that premise, PADCO found that municipal governments and democratic processes can only be strengthened and improved to the degree that municipal governments effectively: 1) provide political representation and governance at the local level; 2) plan, organize and manage local development and respond to constituent needs for land, basic infrastructure, services and employment; and 3) integrate constituent participation within the process of local development management and decision-making. Accordingly, PADCO found that the strategic requirements for such municipal development and democratization are decentralization and municipal autonomy, local citizen participation and representation, municipal capacity and a strong fiscal base, and finally simultaneous empowerment of both municipal governments and their communities.

■ **Urban and Regional Structures: The Context**

To understand the existing situation, formulate realistic goals and identify the possibilities for improvement of Central American municipalities, PADCO found that it was imperative to recognize the regional, national, and local context by which municipalities are constrained and/or enabled, depending on their geographic location and on their place in the regional, national and urban hierarchy. Regionally and nationally, Central America and its countries are embarking on a series of policy reforms—which will be supported by AID's municipal development efforts—among which are public sector reforms that will dismantle the old statist and centralized framework. These include administrative reforms, decentral-

ization efforts, and support for improvements in local finance and independence. These reforms, however, are tied to—*albeit* circumscribed by—stabilization programs that impose austerity measures requiring public expenditure reductions. Such pressures to cut back public expenditures—at the national and local levels—affect, indeed may reduce, the possibilities for decentralization, financial transfer to local governments, and in effect municipal development and democratization. These realities simultaneously imply support for and constraint on the possibilities for municipal development.

In addition, Central American municipalities are directly affected by the urban and regional structures in which they operate. First of all, there has historically been and continues to be a growth of primate cities in every country of the region. These primate cities—largely the capitals—command spheres of influence (some beyond their own countries) that economically and politically affect the municipalities that fall within their spheres—either inhibiting or promoting their growth. However, the 1980s did witness a remarkable growth in the number of secondary cities, and 21 such cities now show high potential for continued economic growth and development. Nevertheless, despite the advantages and growth for secondary cities, they remain limited in the ability to handle growth as a result of their lack of capacity to meet basic infrastructure and employment needs of a growing population, particularly the informal sector. Municipal development and decentralization strategies and programs should make most efficient and effective use of the scarce resources available by targeting cities that hold the greatest economic growth potential as well as take into account the other positive and negative implications that urban and regional structures hold for municipalities and their development.

■ **Municipal Mandates**

PADCO found that, despite some recent and promising possibilities for decentralization, power remains to be largely concentrated in the central governments of the region. While the constitution and municipal codes mandate municipal autonomy and self-government (with the exception being Panama), laws and decrees contradict and actually reduce municipal government powers. The limitation of municipal mandates is compounded by the limited scope and coherency of national decentralization policies that are directed to address this situation, even though there are efforts underway in the various committees and commissions on municipal development in each country to develop coherent policies. Finally, the heterogeneity among municipalities make common policies, planning and programs difficult to formulate and implement. These require national decentralization policies, laws and decrees that together clearly specify the authority, competencies and resources to be transferred from the national to the local level. In this regard, decentralization strategies must take into account municipal size, capacity and potential as well as the technical assistance and training that will be required to facilitate and support the process.

■ **Municipal Finance/Resources**

FADCO found that in five countries of the region, the national constitution proclaims the "autonomy" of each municipal government and its right to provide a full range of public services to its residents. However, the realities of constrained local resources and the intervention of the central government agencies and institutions to provide basic local services too often make a mockery of high-sounding constitutional provisions. The extreme scarcity

of revenue available to support the recurrent budget is common throughout the region while capital revenue conditions vary widely. Although a wide range of taxes is generally available to municipalities, the costs of their administration often exceed the revenues generated. This problem frequently is caused by the low tax base and rates set by national governments. Municipal efforts to change or adjust these are often subject to delay or denial by national government. Real estate taxes—the basis for local finance in most industrialized countries—are generally weak or under-utilized for that purpose in Central America. Making the situation worse, most municipalities are unable or unwilling to collect even those limited taxes and service charges they are allowed to levy. Inter-governmental transfers, while substantial in Guatemala and Honduras, are extremely limited or non-existent in other countries. Not surprisingly, municipalities can generally provide only a restricted range of public services plus some revenue producing functions.

On the human—as opposed to the financial—resource side, the lack of municipal capacity throughout Central America is one of the major constraints to efficiency and effectiveness of local development activities. The scale of technical assistance and training required is enormous, yet most of the countries do not have the institutional capacity in place to provide systematic, timely and relevant technical assistance and training to municipalities. The absence of strong national institutional technical assistance and training capacity as well as the lack of systematic policies and strategies to guide effective utilization of limited resources are major constraints to the decentralization and municipal development process. In light of the large scale of assistance and training required and of the scarcity of resources available for meeting those needs, decentralization programs should make the most effective use of resources by targeting municipalities with high economic growth and development potential.

▪ **Local Government Representation/Community Empowerment**

PADCO found that community empowerment and participation are key concerns for municipal governments, as a means to not only support democratic principles but also to mobilize local resources for development. With regard to effectively engaging community empowerment, three pillars of participation were identified: 1) legitimacy and representation; 2) democratic and participatory governance systems; and 3) strong citizen participation. The first—legitimacy and representation—is based on the electoral process, which, however, is limited throughout the region. For example, in many cases municipal elections are not separate (in date or political platform) from national elections, limit citizen choice since ballots are based on a party slate of candidates, and are not in all cases based on the proportionality of vote principal.

The second—democratic and participatory governance systems—necessitate that municipal governments should have: the authority, interest and responsibility to encourage participation; the knowledge of and capability for participatory mechanisms; and should be held accountable for their decisions and actions. In all respects, however, municipal governments are limited. They may possess the authority (and even the responsibility) to encourage participation, but they generally lack the capabilities or checks to engage or ensure that participation. Finally, the third key pillar—strong citizen organization—is also critical so as to assure that the appropriate organizational structures exist within the community so that

individuals can effectively participate when that participation is allowed and requested. PADCO found that strong citizen organizations do exist but that the public-private interface has yet to be developed to effectively tap community organizations as a conduit for participation and/or the mobilization of local resources.

■ **Municipal Associations and Institutes**

Municipal participation, representation and support takes the form of two different types of institutions: municipal associations and municipal development institutes. The reality in Central America is that these institutions provide the needed functions in a very limited fashion. Municipal associations, where they do exist, are very weak or have had repeated failures, as a result of the difficulty to sustain themselves over the long term in light of limited resources or support from municipalities, national governments and external donors. While municipal development institutes provide relatively good support in technical assistance, training and financing, they often do so without a clear framework of strategic municipal development plan. In addition, these institutes are often controlled and financed by central authorities, limiting municipal self-determination and participation in their own development process. Finally, the activities of these institutes are not well coordinated with the complementary and sometimes duplicated role of municipal associations.

PROPOSED STRATEGY

PADCO recommends a strategy that supports a democratic process free of a partisan political agenda while at the same time addresses the key constraints as perceived by the actors in the municipal development process. In addition, the strategy should be simultaneously realistic, effective, efficient and sustainable. Finally, it should be complementary of individual country initiatives.

The basic goal in this strategy should be to develop stable democratic societies in the region through decentralization and the creation of local capability and commitment to respond both democratically and effectively to development needs. To achieve this, PADCO found that it is imperative to:

- transfer the authority, responsibilities and resources from local to central government as well as to consolidate the autonomy of local governments;
- strengthen citizen participation and representation in municipal government and local development activities;
- strengthen municipal administrative, financial and technical capacity; and
- strengthen the capacity and effective participation of existing intermediary support institutions, such as municipal and community associations, municipal institutes, national interagency groups, NGOs, and federations of communities.

PADCO has identified seven broad strategies that are required to address the limitations in municipal development throughout the region. These are to:

1. Design and Utilize a Conceptual Framework as a Planning and Management Tool.
2. Establish Functional Linkages and Networks Among Municipalities at the National, Regional and International Levels.
3. Promote Systematically Decentralization Policy Dialogue and Agenda Development and Implementation at the Regional and National Levels.
4. Promote Systematic Support for Community and NGO Participation.
5. Formulate and Implement Technical Assistance and Training Strategies.
6. Promote Regional and International Networking and Resource Mobilization.
7. Support the Active Participation of AID Missions in Policy Formulation and Technical Management and Coordination.

Within these strategies, PADCO has identified strategic targets for project assistance. PADCO recommends that the Regional Municipal Development Project will fund six discrete activities to achieve its objectives: 1) Analysis, research and design; 2) Seminars and workshops; 3) Training and publications; 4) Networking; 5) A communications program; and 6) Work with regional institutions.

The specific project implementation strategy proposed by PADCO is an action-oriented approach that seeks to promote and support the formulation and implementation of decentralization and municipal development initiatives at the regional and national levels in a manner that strengthens the capacity of municipal associations, related municipal institutes and national inter-agency groups to organize and manage such activities over the larger term. This approach is predicated on the comparative advantages that such municipal associations and institutes potentially hold for promoting and supporting municipal development. They provide a means for leverage, cross-fertilization of ideas, prioritization of activities based on scarce resources, support for a regional and national policy agendas, the mobilization of resources, and the implementation of action plans. As a result, PADCO supports implementation programs through: 1) FEMICA for regional-level programs; 2) national associations for both regional and country-level programs; and 3) bilateral mission programs for specialized national-level activities. Finally, through these existing municipal associations and development institutes, support will be required for a dynamic municipal development process in which continual research, analysis, formation of ideas, and innovative programs and projects will develop and occur. Only through such an approach can municipalities effectively receive support, formulate programs, obtain leverage, and manage—as well as generate—the scarce resources required for their development.

9

PART ONE: BASIC CONSIDERATIONS AND PARAMETERS FOR DECENTRALIZATION AND MUNICIPAL DEVELOPMENT

I. ASSESSMENT FRAMEWORK

A. PREMISE: DEVELOPMENT AND DEMOCRATIC GOVERNANCE

Serious political, institutional, social and economic challenges confront the countries of the Central American Isthmus as they enter into the last decade of the 20th century. In response, each national government, in its own way, is undertaking policy and institutional reforms directed to stimulate and ensure economic growth and peace, based upon the principles of social justice and the full recognition of the individual rights of all citizens.

Central American countries are increasingly considering decentralization and municipal development as important elements of such national reform agendas. In some, there are clear trends towards a gradual but tangible transfer of power and resources from centralized bureaucracies to local governments. The implicit premise that underlies these efforts is that municipal governments, as permanent institutions with elected representatives, are closest to the people and can (ultimately) be more responsive to local needs while increasing citizen participation in development decision-making and providing better access for redress of grievances. That premise suggests an emerging paradigm for democratic governance in the region that is based on progressive decentralization. It also recognizes and emphasizes the functional interdependence of development, local governance and community participation. Thus considered, democratic processes can be strengthened at the local level only to the degree that municipal governments effectively:

- provide political representation and governance at the local level;
- plan, organize and manage local development and respond to constituent needs for land, basic infrastructure, services and employment; and
- integrate constituent participation within the process of local development management and decision-making.

The viability of the paradigm will depend on the promotion and implementation of a series of political, institutional and fiscal changes required to support the decentralization and municipal development process in each of the countries. That process will take place at the same time that the countries continue to face serious macro-economic, and fiscal problems, which limit the resources available for supporting that process. For this reason, the constraints and opportunities associated with structural and institutional reform need to be understood in order to formulate and implement realistic decentralization and municipal development objectives, policies and programs. Equally important to consider are urban and regional development patterns that maximize economic development potential as well as the geo-political and demographic characteristics of municipalities. All of these conditions and possibilities constitute the basis for a realistic and effective decentralization process in the region.

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B. STRATEGIC REQUIREMENTS OF LOCAL DEMOCRATIC GOVERNANCE

The status of the transition to local empowerment continues to be fragile and uncertain. This is perhaps due in part to a lack of understanding about the implications of such empowerment and the limited knowledge, awareness, consensus and commitment, all of which are fully required for its implementation.

This section briefly identifies the major requirements of local democratic governance and discusses the basic considerations and criteria used to guide this assessment. These reflect and expand upon the discussions and conclusions of municipal leaders at their November 1991 regional meeting in Tegucigalpa, Honduras.

1. DECENTRALIZATION AND MUNICIPAL AUTONOMY

Decentralization and municipal autonomy are two essential and interrelated elements of the municipal development process. Strong functional and territorial centralization that has heretofore characterized governments of the region is gradually undergoing decentralization. However, this period of transition suggests the need to evaluate and compare both the legal (*de jure*) framework and the actual (*de facto*) situation for that decentralization. The following criteria will be used for that purpose.

a. Decentralization

Decentralization is understood as the transfer of specific competencies (authority and responsibility) to organisms that do not belong to the central government administration and which are not subordinated to it. Effective decentralization requires not only the transfer of areas of authority and responsibility but also of the resources required to effectively carry out associated functions. The clear functional definition of respective central and municipal government responsibilities requires the specification of: 1) solely held or independent functions; 2) shared functions; and, 3) delegated functions.

b. Municipal Autonomy

In order to carry out its responsibilities efficiently, a municipal government must have a clearly defined level of autonomy with respect to other levels of government, most particularly the executive power of central government. The concept of municipal autonomy refers basically to the form and nature of the central-municipal government relationship and implies the distribution of power to govern, emanating from the population. The state recognizes those areas in which its powers should not be implemented through central institutions but rather through municipal governments that possess the mandate and capacity for self-government within determined limits.

Autonomy does not refer to a delegation of functions nor an administrative deconcentration of powers. Rather, it incorporates the definition of specific political jurisdiction of authority related to the geographic area within which the municipal government exercises its power. At least three key aspects need to be examined, as follows:

(1) Political Autonomy refers to the right of a municipality to establish local development objectives and to select and implement strategies, policies, plans and programs required to achieve those objectives.

(2) Administrative Autonomy refers to the right of a municipality to define and implement an internal organization and management structure to meet its assigned responsibilities.

(3) Financial Autonomy refers to the freedom of a municipality to set, collect, administer and use local fees and taxes that are exclusively within municipal jurisdiction.

2. LOCAL PARTICIPATION AND REPRESENTATION

The quality of citizen representation in the municipal government and its participation in the development of the municipality is, along with the degree of decentralization and autonomy, a key element associated with the qualitative and quantitative importance of municipal mandates or competencies.

Three aspects are of particular concern: a) Municipal Government Legitimacy and Representation; b) Democratic and Participatory Systems and Processes of Governance; and, c) Citizen Organization and Leverage, as follow:

a. Municipal Government Legitimacy and Representation

Local electoral processes should ensure and provide for the broadest possible political legitimacy and representation of the municipal government in order to guaranty its credibility and the continued support of citizens in the exercise of its mandates. For this reason, to the maximum feasible degree, municipal elections should be: direct and universal, separate from national elections, and based on local platforms and programs proposed by the candidates. The electoral process should permit the potential participation of civic groups and other organizations not affiliated with political parties. The political representation of municipal corporations or councils should maintain the principle of proportionality according to results of the popular vote.

b. Democratic and Participatory Systems and Processes of Governance

Municipal governments offer substantial comparative advantages for the planning and management of local development activities with local participation. In order to maximize this potential, municipal governments should have:

- (i) The authority, interest and obligation to encourage community participation;
- (ii) The capability and mechanisms to promote and incorporate community participation in the assessment, planning, decision-making and evaluation of development activities; and,
- (iii) Policies, systems and procedures that ensure accountability to the community in all aspects of local development administration and finance.

c. Citizen Organization and Leverage

Although not a primary role of municipal (and central) governments, these public entities can also influence meaningful community participation and empowerment by promoting and supporting (directly or indirectly) the development of private, non-governmental or quasi-governmental community organizations which have the following critical "traits":¹

- (1) Participatory Mechanisms (internal and external)
- (2) Representation (at a broad level)
- (3) Legal Status
- (4) Regional Leverage
- (5) Large-Scale Benefits
- (6) Access to Financial Resources
- (7) Means to Improve Capacity/Capability (through TA and Training)
- (8) Public/Private Linkages

These traits constitute some of the critical elements of community organizations that best promote meaningful participation.

3. MUNICIPAL CAPACITY AND FISCAL BASE

Municipal administrative, financial and technical capacity is clearly a paramount consideration in the formulation and implementation of decentralization and municipal development policies, strategies and programs. The planning and implementation of integral and intensive technical assistance and training to support the decentralization process is essential. Sufficient financial resources must be available to ensure municipal autonomy and to support the transfer of service responsibilities. The key areas to be assessed include:

- (1) The relative municipal share of total government revenue;
- (2) Municipal authority and efficiency in local revenue generation activities;
- (3) The levels of intergovernmental transfers and the policies governing their destinations and use;
- (4) Public or private credit mechanisms available to municipal governments to finance local development activities; and
- (5) Municipal financial management capacity.

4. MUNICIPAL AND COMMUNITY EMPOWERMENT

Practical decentralization and municipal development is a long-term process. Therefore, it is important to consider a larger institutional and policy framework that sustains municipal and community participation and empowerment in and through that process over the long term. Specifically, the characteristics and potential role and responsibilities of existing intermediary support institutions in both the public and private sector should be assessed.

¹A further discussion of these traits and the concept of "meaningful community participation" is contained in Annex IV, Community Participation and Empowerment.

a. Public Sector Intermediary Institutions

Public sector intermediate support institutions include both municipal associations and municipal development institutes. Municipal associations can enhance municipal representation and participation at the national level while providing the means for resource coordination, leverage and mobilization. In order to possess clear legitimacy as municipal intermediaries, such associations should have the following traits:

- (1) voluntary membership;
- (2) a political representativeness and participatory management; and,
- (3) independence from the central government.

Municipal Development Institutes are normally central government entities created for the purpose of supporting municipal development through the provision of technical assistance and training and, in some cases, financial assistance. Their character as central government entities can limit their potential as municipal representatives and advocates. A key issue in this regard is the degree of representation and control that municipalities exercise in the determination of assistance policies and programs. As such, majority municipal representation on the Executive Boards of these Institutes appears to play a critical role in assuring that representation and control.

b. Private Sector Intermediary Institutions

Second and third tier private sector intermediary institutions can support community participation and empowerment by providing links between beneficiary and primary community organizations and municipal and central governments, donors and financial entities. These may include non-governmental "membership" or "advocacy" organizations, or coordinating networks of such organizations. In general, the traits of intermediate organizations that make participation and empowerment more meaningful, include external and internal economies of scale and scope, organizational flexibility, territorial reach, regional and national leverage, and participatory management.

**PART TWO: REGIONAL COMPARATIVE
ANALYSIS OF THE EXISTING SITUATION
IN CENTRAL AMERICA**

**II. CONTEXT FOR DECENTRALIZATION AND MUNICIPAL
DEVELOPMENT**

A. REGIONAL/NATIONAL DEVELOPMENT SITUATION

According to the Inter-American Development Bank (IADB) 1991 Report, the region encompassing Central America and Panama (i.e., excluding Mexico) is gradually emerging from the problems of the last decade, particularly in the cases of Costa Rica, El Salvador, and Guatemala, each of which registered growth rates of 3.5 percent in 1990. Despite these positive growth rates and successes in non-traditional exports, Central American economies continue to be subject to the sway of commodity prices for both imports and exports, to unfavorable trade arrangements, and to the challenges of the last decade related to increasing debt service ratios and deteriorating economic conditions.

In response, Central American countries have embarked on a series of policy reforms designed to open up their economies [through the Enterprise of the Americas Initiative (EAI)], to reassess integration movements (by concluding trade agreements with each other and the U.S.), to modernize their productive capacity through private sector development, and to engage in public sector reforms that will dismantle the old statist and centralized framework. Such public sector reforms are intended to result in leaner but stronger systems of public sector management, capable of supporting more efficiently the economic and social development of the region. Key among these reforms are administrative reforms and decentralization efforts that will aid governments in the region to respond more effectively to the needs of their respective populations. As part of these reforms, revenue sharing and local taxation mechanisms should improve the finances of local governments and reduce their dependence on the central government.

National conditions and strategies reflect the regional trends outlined above and are closely linked with—albeit circumscribed by—economic and stabilization programs in each country. Perhaps the most difficult challenge faced by these countries in carrying out effective stabilization programs is to reduce the public deficit, on the one hand, and to simultaneously meet basic human needs, on the other. All countries are experiencing minimal if any success at balancing these opposing demands on the public finance and service systems, even though in almost every country "safety nets" have been established in the form of "Social Investment Programs" to compensate the poor for the austere measures posed by expenditure reduction measures.

While the economic program in at least one country (El Salvador) has been comprehensive and produced positive results, programs in others have been comprised of only partial measures with less than satisfactory results, as in the case of Honduras and Guatemala. The challenges faced by these two countries lies in their ability to confront, as previously mentioned, public deficit problems: For Honduras, in its ability to reduce the public deficit,

which will be contingent on increased public utility rates and reductions in public sector employment; and for Guatemala, in its ability to successfully increase the tax burden so as to meet basic needs of the population. In Costa Rica, the Calderón Administration announced and appears to be committed to a new economic program that if effective, however, will be (as in other countries) politically costly due to the associated austere wage and employment policy. Nicaragua's stabilization program, while making improvements in several areas, is anticipated to be modest, depending on the government's success in controlling both the public deficit and domestic credit expansion in addition to obtaining a large inflow of capital. Finally, Panama has shown signs of recovery during the past two years, as a result of a normalization process, but is still faced with high unemployment levels and widespread poverty.

As a result of these opposing demands on the public sector, the main challenge posed by such economic stabilization programs is to mobilize sufficient resources. The ability of the public sector to achieve the necessary resource mobilization will simultaneously depend on and influence the success of other programs aimed at economic liberalization, privatization and decentralization. In light of the public deficit and stabilization-associated austerity measures at the national level, central governments will continue to be limited in their ability to offer financial transfers to local governments. As a result, decentralization—the focus of this report—will undoubtedly need to be complemented by increased resource mobilization at the local level in the form of taxes, user fees, direct external donor financing and public-private partnerships. It is within this context and these challenging conditions that Central American municipalities are seeking to achieve greater autonomy, increase their resources, and develop their communities in the overall process of decentralization.

B. URBAN AND REGIONAL STRUCTURES

In addition to the broader economic context, the urban and regional structures in which Central American municipal governments function also shed light on the larger "forces at play" that directly impact the current situation and future potential for municipal development. Central America's rapid urbanization during the 1950s through the 1970s produced an ever increasing concentration of wealth and population in the large capital cities, expanding urban primate city systems² in the region. In addition, policies and efforts that were built upon the neo-classical theory and the "doctrine of unequal development" promoted concentrated urbanization, which reinforced these primate city systems. Associated strategies concentrated development in a core region under the assumption that development would diffuse out to peripheral areas. While this diffusion did not occur as expected by the late 1970s, and while the growth of primate cities has continued to the present, the 1980s did in fact witness a remarkable growth in the number of secondary cities. This may be in part associated with subsequent decentralized strategies promoted as a result of the problems with centralized ones. In addition to the growth of secondary cities, Central

²A primate city system is one in which the secondary cities are smaller than would be predicted by the lognormal rule. This rule holds that the second largest city is half the size of the largest, the third largest is one-third the size of the largest, and so on. A flat or unhierarchical system is one which the secondary cities are larger than expected according to the lognormal rule (Chase-Dunn 1985, p.18).

America's urbanization patterns reflect increased polarization *within* both primate and secondary cities due to the expansion of the urban informal sector and marginal populations. Hence, three recent trends are evident: 1) the continued expansion of primate cities; 2) the rapid expansion of secondary cities; and 3) increased polarization within cities.

1. PRIMATE CITY SYSTEMS: THE SPHERES OF INFLUENCE

The real primate city for the entire Central America region is Miami, serving as the key regional specialized financial, commercial and even service center, with Houston and New Orleans also playing a significant commercial role. Seen as one geographic region, however, Central America's primate city is Guatemala City, with about 20 percent of the region's urban population. San Salvador and Panama City each have about 10 percent, followed closely by San José and Managua, each with 8 percent. The smallest primate capital city is Tegucigalpa with 6 percent of the region's population.

However, this primacy in terms of population size belies the sphere of economic influence these cities command. For example, Guatemala City (the largest in terms of size) has a commercial and industrial influence restricted largely to Honduras and El Salvador, while Panama City (at half the size of Guatemala City) maintains international influence in trade and finance, second only to Miami. Some national capitals have solely a national sphere of influence, as in the case of San José and San Salvador. Others do not even have their entire country as their hinterland. For example, Tegucigalpa is the primate city for the Pacific side of Honduras while the country's second largest city (San Pedro Sula) actually functions as a primate city for the Atlantic side. In addition, Managua's sphere of influence covers only the Spanish-speaking Pacific half of Nicaragua.

2. SECONDARY CITY SYSTEMS: POTENTIAL FOR GROWTH

While primate cities maintain certain advantages with regard to agglomeration economies, secondary cities are beginning to offer these advantages and show the most growth potential in the region. In addition, they can offer some limited relief from migration pressure on the primate cities that is feeding the explosive growth of the marginal *barrios* in those cities, even though some secondary cities (such as San Pedro Sula) are faced with their own migration pressures from the hinterland. Finally, secondary cities can play a role in fostering non-traditional exports that do not have to be located near the principal internal market. While not all secondary cities show high potential for continued growth, 21 secondary cities do show such potential, as Table I illustrates, based on expanding agricultural exports from the city's hinterland.

Panama City, as previously mentioned, has become a financial, commercial and transportation center for an international market. However, with the growth of Miami and the drastic decline in the South American demand for Panama's services, the government has begun to promote non-traditional manufacturing for re-export. Five new intermediate-sized cities that developed in the 1970s have continued to grow: David, Chitre, Santiago, Penonome and Aguadulce. David serves as the primary cultural, administrative, commercial, service and industrial center for the northern province of Chiriqui. Meanwhile, the cities of Chitre,

Santiago and Penonome serve as the most important service centers for the agricultural hinterlands.

TABLE 1 SECONDARY CITIES WITH GREATEST GROWTH POTENTIAL (Outside of Primate Cities and their Immediate Zones of Influence)			
	Population (000s)		Population (000s)
GUATEMALA - 1985 Escuintla Mazatenango Coatepeque Realhuleu Sta. Lucia Cotzumelgualpa	54.9 28.0 26.9 34.7 21.0	HONDURAS - 1988 San Pedro Sula Tocoa Juticalpa Catacama Choluteca	279.6 13.0 20.0 17.4 53.8
EL SALVADOR - 1987 Santa Ana San Miguel	144.8 92.9	COSTA RICA - 1984 Ciudad Quesada San Isidro de El General Nicoya	21.7 28.3 21.5
NICARAGUA - 1990 Leon Chinandega	98.0 68.8	PANAMA - 1990 David Santiago Chitre-Los Santos Penonome	120.5 60.3 34.6 60.6

Guatemala City, the largest primate city in Central America, is the hub of the nation's transportation network, the country's most productive agricultural region, the largest industrial center, and the main beneficiary from the growth of non-traditional exports. Despite the growth of the capital and its incorporation of surrounding municipalities into its metropolitan area, secondary cities are also playing an increasingly important role. A new secondary city, Escuintla, has blossomed (as the most important service center for the wealthy Pacific region) and overtaken Quetzaltenango as the second largest city. Other major growth areas include the productive sugar cane zone, the city of Coatepeque (which is growing from increased trade with Mexico), Santa Lucia Cotzumalguapa, and Flores.

In El Salvador, the capital of San Salvador is rapidly growing due to its expanding tertiary sector (including construction, finance, commerce and services) and to its attraction for migrants from the guerilla zones and subsistence areas (which are largely the same). Unlike in other Central American Countries, secondary cities showed little change during the 1980s. However, the country's intermediate and small secondary cities are well distributed around the country, and are connected by a fairly well integrated transportation network that belies San Salvador's primacy. In addition, several key secondary cities exist: Santa Ana (outside of guerilla zones), San Miguel (inside guerilla zones), La Union (a recipient of military assistance), Sonsonate (an expanding commercial center). In addition, a number of small urban centers are growing.

Honduras, as previously mentioned, is divided economically into two large regions: the southern region, whose primate city is the capital, Tegucigalpa; and the northern region, whose primate city is actual second largest city of San Pedro Sula. While Tegucigalpa is the political and administrative center, San Pedro Sula is the economically dominant region of the country and is expected to expand that dominance further, particularly now that San Pedro's growth has radiated out to the nearby secondary cities and free-trade zones (of Choloma, La Lima and Villanueva) into a metropolitan area. Accordingly, most of the explosive growth of secondary cities is concentrated in the Sula Valley and the San Pedro-Tegucigalpa axis. In addition, the population of the entire San Pedro Sula metropolitan area is fast approaching that of Tegucigalpa. However, other growth centers exist in Tocoa and Puerto Cortes (as a result of agricultural exports), as well as in Juticalpa and Catacamas of the eastern region (as a result of new roads and colonization), and Choluteca, a regional service center in the Pacific coastal plains.

In Costa Rica, the capital city of San José continues to dominate the urban hierarchy, and some of the major secondary cities of the 1970s lost their dynamism in the 1980s, such as is the case of the two port cities (Puerto Limon and Puntarenas) and two inter-coastal axis cities (Turrialba and Liberia). However, three major secondary cities within a 20-mile radius of San José (Alajuela, Cartago and Heredia) are now important residential, commercial and service centers. In addition to these existing strong secondary cities are three new secondary growth cities: Ciudad Quesada (San Carlos) and San Isidro, which are new service centers for agricultural markets; and Nicoya, a new tourism center.

In Nicaragua, Managua continues to grow rapidly as the administrative and political hub as well as the site of a newly reopened free trade zone. Four large secondary cities are growing: Leon and Chinandega are the two largest and fastest growing; Granada and Masaya, meanwhile, are key commercial centers in the south central region. Otherwise, two major market towns and service centers exist for the northern highlands (Matagalpa and Esteli). Rama, one of the few towns in the isolated Atlantic coast region, also shows some potential for growth in non-traditional exports.

Despite potential advantages and growth for secondary cities, they remain limited in their ability to handle growth as a result of their lack of capacity to meet basic infrastructure and employments needs of a growing population, particularly in the informal sector. This reality lends support to the case that municipal development assistance should be concentrated in the primate cities to take advantage of the best urban infrastructure, not to mention to address the need: of the large urban marginal population (Urban Institute/Nathan Report). Nevertheless, support for successful secondary city growth management could help these cities relieve migration pressures on the primate cities, offer services where primate cities have resulted in diseconomies, play a role in non-traditional exports, benefit smaller towns in their hinterlands, and attend to the needs of their own inhabitants. However, any secondary city/municipal development program should take into account the growth potential of urban centers as well as their ability to effect social equity.

As a result, secondary cities in Central America face a number of common issues, such as how to:

- develop a secure economic base in the new global economy;
- promote non-traditional exports;
- meet the infrastructure needs of their growing populations;
- facilitate informal sector economic development;
- build beneficial linkages with their rural hinterlands;
- work cooperatively with other cities nearby; and
- respond to opportunities created by regional economic integration.

Secondary city municipal governments across Central American should share with each other their experiences in facing these issues and build a common agenda for development.

3. INTRA-URBAN POLARIZATION PROBLEMS: THE MARGINAL BARRIOS

The third key trend in urban structures—intra-urban polarization—while not the focus of this study, is an important dimension of urban development because it is a common and rapidly growing problem in all capital and now, increasingly, secondary Central American cities. This polarization is a result of the growing number of inhabitants in informal (spontaneous) settlements (in part due to rural-urban migration) and in marginal barrios, which encompass both (recent) informal settlements and longer-term disenfranchised populations. This phenomenon represents a substantial challenge to municipal and city governments in their efforts to plan and finance local development, including the provision of municipal services and infrastructure.

Data on the informal sector is scarce and difficult to obtain, making assessments, urban development planning, and improvements in housing, infrastructure and services all the more difficult. Nevertheless, improvements in data and data collection are improving and increasingly available. For example, according to one source³, in 1988 20% to 50% of the urban labor force in the capital cities work in the informal sector, with San Jose on the low end and Managua on the high end. While the percentages of urban informality in the capital cities (relative to their total populations) have not increased much during the 1980s (except for Managua), the absolute numbers of people in the informal sector have grown.

In the secondary city of San Pedro Sula, Honduras, a substantial amount of information has been collected on the informal sector through surveys. Such surveys have contributed to an urban development plan specifically targeting this area, known as the "Consolidation Zone." This zone consumes 30% of the population and is the fastest growing yet lowest income area of the city, necessitating that the city seriously incorporate this area into its broader development strategies and plans. Such an approach, while more difficult to achieve in cities where the informal population is significantly larger in number, will nonetheless be increasingly

³Juan Pablo Perez Sainz and Rafael Menjivar Larin (eds.), "Informalidad Urbana en Centroamérica," San Jose, Costa Rica: Editorial Nueva Sociedad, 1991.

necessary in order for cities (capital, secondary and otherwise) to contend with the needs of their informal or "marginal" population as well as realistically and effectively plan for their future.

C. MUNICIPAL SYSTEMS: (GEO)POLITICAL AND DEMOGRAPHIC STRUCTURES

In addition to the broad regional and urban context, general political structures and demographic characteristics also offer insight into the systems and realities in which Central American municipalities must function. Central American countries have political and geographic divisions at the sub-national level in the form of either provinces or departments. Below this level, provinces or departments are divided into sub-department levels, known as municipalities, districts or "corregimientos." For simplicity, this report will utilize the term "municipality" when referring to all these terms. In this context, therefore, municipalities constitute the basic territorial unit of political administrative divisions in Central American countries. Unlike in the USA or South America, there are no counties or county seats, implying that the concept of a municipality is broad in Central America. This difference may be partially due to the relatively small size of Central American municipalities (and hence lack of need for another "intermediate" political division) compared to the opposite experience of U.S. and South American countries.

There are 1,170 municipalities in Central America (including Panama), each with an average area of 370 kilometers (or approximately 20 km²). This reflects the relatively small land area of Central American municipalities. In addition, with a total regional population of 29.0 million, the average population size of a municipality (24,786) is also relatively small.

In terms of actual population distribution among municipalities, however, the differences are marked. In addition, a relatively large percentage of the population (50 percent) resides in urban areas. For example, only 1.5 percent of municipalities have more than 100,000 inhabitants. This contrasts sharply with the 5 percent of municipalities that have 50,001 to 100,000 inhabitants, 20 percent that have 20,001 to 50,000, 51 percent that have 5,001 to 20,000, and finally 21 percent with less than 5,000. This heterogenous distribution makes it possible to identify municipalities that are urban, urban-rural and rural. With regard to the latter (i.e., rural areas), approximately 200 municipalities (or 17 percent), covering a land area of 500 square kilometers, are tropical and forest areas with very little population.

III. DEMOCRATIC AND PARTICIPATORY SYSTEMS AND PROCESSES

A. DECENTRALIZATION AND MUNICIPAL AUTONOMY

1. MUNICIPAL MANDATES

a. The Legal Basis for Municipal Autonomy

The political Constitutions of Guatemala (1985), El Salvador (1983), Honduras (1982), Nicaragua (1986), Panama (1970), and Costa Rica (1949) all make reference to the municipality as an autonomous entity. They define its authority, giving it autonomy and establishing its right to self-government and self-determination. In the absence of other intermediary *elected* authorities between the national government and the municipality, the municipality becomes the basic democratic unit, whose power emanates from people's direct vote.

This view of the municipality is very similar to the one contained in the municipal codes or laws these countries: Guatemala (1988), El Salvador (1985), Honduras (1990), Nicaragua (1986), Panama (1971) and Costa Rica (1971). However, in most countries of the region, despite the fact that municipal codes establish municipal autonomy, both the Congress and the Executive power try to maintain strict control over municipal governments through laws, decrees and the revision of municipal codes. In many cases, these actions ignore constitutional mandates, producing internal inconsistencies, contradictions and a substantial reduction of municipal authority.

Municipal *financial* autonomy is exemplary of such contradictions. While the Central American municipalities are, theoretically and legally, endowed with the financial authority to generate their own resources as well as the freedom to spend them, they do not possess the freedom to establish their income. Generally, municipalities propose their tax plans (Planes de Arbitros) which are approved by the Executive (as in Nicaragua's case) or by the Congress as in other countries. This is a key restriction on municipal autonomy.

With respect to municipal mandates, it is also necessary to distinguish between an institution that has the responsibility and capacity to plan, organize, and manage development in its jurisdiction and one that is solely responsible for rendering limited services. A municipality can reach a high level of development as service provider without being transformed into an entity for local governance. Alternatively, a municipality that "governs" must necessarily be involved in the provision of such services—directly or indirectly—while possessing broader and greater functions that enable it to serve as a legitimate and democratic representative of the populace, achieve self-determination, and meet the needs of its constituents.

b. Service Responsibilities

In Central America, the municipality is usually considered an organization that renders services; accordingly, municipal legislation tends to classify it that way.

The actions and activities that municipalities do or might carry out, according to law, can be assembled in four great divisions:

- Urban services
- Public services
- Social services
- Public security services

Chart I summarizes the actual municipal and national roles and responsibilities with respect to the provision of these services.

In general, the **Chart** illustrates that the municipality—even as just a "service provider"—is severely circumscribed in its power and responsibilities.

Urban services include street construction, potable water systems, sewage/drainage systems, garbage collection/disposal, street cleaning, city lighting, and urban development planning/land use zoning. Five of the seven urban services are performed almost exclusively by central authorities for the municipalities (Guatemala being the exception in several cases). The general tendency is for central authorities to receive recommendations for required services from sectoral planning offices at the regional and local level, Congressional requests, or direct appeals from the municipalities or lower level organizations like juntas comunales. These requests as well as central authority plans provide the inputs into national, provincial, and departmental investment plans. Municipalities get involved with voluntary labor and municipality contribution of supplies. Only the largest municipalities exercise substantial influence and control over urban development planning and regulation within their jurisdictions.

Garbage collection/disposal and street paving, maintenance and cleaning, the two exceptions, are exclusively performed by municipalities; however, only larger municipalities perform these services well and are able to collect user fees from urban residents. In some cases, municipalities contract with private companies for the provision of these services. Many smaller municipalities do not even have these services.

CHART I. MUNICIPAL MANDATES AND ACTIONS AND ACTIVITIES

CATEGORY	GUATEMALA	EL SALVADOR	NICARAGUA	HONDURAS	COSTA RICA	PANAMA
MUNICIPAL MANDATES						
1. Year of Constitution	1985	1983	1987	1982	1949	1970
2. Constitutional Character of Municipality	Autonomous corporations	Autonomous Entity	Autonomous unit Politico-administrative	Independent	Deliberating Body and City manager	Municipal Council
3. Legal Mandate of Municipality	Municipal Code	Municipal Code	Municipal Code	Municipal Code	Municipal Code	Municipal Code
4. Effective Year	1988	1985 Reforms 1986, 1987	1988	1990; Revised 1991	1971; Revised 1983	1973
5. Municipal Codes Titles and Articles	148 Articles	159 Articles	73 Articles	8 Titles 115 Articles	8 Titles 190 Articles	10 Titles 241 Articles
MUNICIPAL ACTIONS AND ACTIVITIES						
URBAN SERVICES						
1. Urban Street Construction	Municipality	Shared by municipality and Ministry of Public Works	Municipality	SECOPT provides designs and works; municipality assists with labor	MOPT principal function; minimal local assistance	MOP major responsibility; local support for labor
2. (Potable) Water Systems	Municipality has competency; UNEPAR & INFCM for rural areas	Central government (ANDA) in 1962, 5% of municipalities; municipalities the rest	Central government with some municipal participation	SANNA design and local labor	Instituto Costarricense de Acueducto y Alcantarillado major function; about 50% municipalities involved in construction	IDAAN central control water systems; Junta Comunales assist labor
3. Sewage/Drainage Systems	IDEM	Central government	Central government (INAA)	SANNA design and labor	AyA provides all as above	IDAAN major provider
4. Garbage Collection/Disposal	Municipality, Some private operation	Municipality	Municipality	Municipality	Municipality	Municipality
5. Street Cleaning	Municipality	Municipality	Municipality	Municipality	Municipality	Municipality
6. City Lighting	Instituto Nacional de Electrificación-INDE	Central government (LEL)	Central government (INE)	Empresa Nacional de Electrificación (ENEE)	Compania Nacional de Fuerza y Luz, Co-operatives and some Municipalities	IHRE and has provincial offices
7. Urban Planning/Land Use Zoning	Municipality with some BANVI participation	Shared by municipality and central government (DUA)	Central government	Dirección General Urbano (GDU of SECOPT design and most labor	Central government; cities sell land for profit	Land zones at central, provincial, and municipal level

CHART I. MUNICIPAL MANDATES AND ACTIONS AND ACTIVITIES

CATEGORY	GUATEMALA	EL SALVADOR	NICARAGUA	HONDURAS	COSTA RICA	PANAMA
PUBLIC SERVICES						
1. Parks and Recreation	Municipality and central government	Shared by municipality and central government	Municipality	Municipality	Municipality	Municipality
2. Cemeteries	Municipality. Some private operation	Municipality and some private parties	Municipality	Municipality	Municipality, and some private parties	Municipality
3. Slaughterhouses	Municipality. Some private operation	Municipality	Municipality with some private participation	Municipality. Some private operations	Municipality, and some private parties	Municipality
4. Public Markets	Municipality	Municipality	Municipality	Municipality	Municipality	Municipality
5. Licenses and Activities	Municipality	Municipality	Municipality	Municipality for stores, bars, municipal markets	Municipality for commerce, industry and services	42 local licenses permitted municipal level
6. Transportation Terminals	Municipality	Municipality	Municipality	Municipality	Municipal or Private	National Government
SOCIAL SERVICES						
1. School Construction	Ministry of Education	Municipality and central government	Municipality	Ministry of Education design and construction; local labor and supplies	Ministry of Education design and construction	Ministry of Education responsible; local labor and supplies
2. Sports and Culture	Ministry of Culture and Sports	Municipality and central government	Municipality	Municipality small efforts; central government major activities	Municipality for small events but central government big events	Municipality for small events but central government for large events
3. Health	Ministry of Health. Some municipality participation	Municipality and central government	Central government and municipality	Ministry of Health full control; local labor	Ministry of Health full control	Ministry of Health full control
PUBLIC SECURITY						
1. Police	Municipal Police for enforcement of local ordinances	Municipal Competency	Central government	Municipal police for traffic and minor offenses; central government rest.	Ministerio de Seguridad Publica control	Security representative at district level
2. Fire Department	Municipality	Municipality	Municipality	Municipality percentage coverage is minimal	Central government	Provincial level fire departments

Public services⁴ include parks and recreation areas, cemeteries, slaughterhouses, public markets, licensing, and transportation terminals. In general, these services are performed by municipalities. There is greater involvement by the municipalities since central authorities tend to consider them of lesser importance. However, if efficiently managed, these services can generate revenues. There is also some variance regarding licenses and fees for which central authorities may get involved. In Costa Rica and Panama, transportation terminals are regulated by central authorities.

Social services include school construction, sports and culture, and health services. The building maintenance or rehabilitation of schools are legally a municipal responsibility, with the national ministries of education and health providing those services. However, municipalities normally support national school construction efforts by providing voluntary labor and some local supplies. The construction of small and uncomplicated sports and cultural facilities and the management of related events are normally handled and regulated by the municipalities. Larger municipalities generally assume more responsibilities for these activities than smaller municipalities. Almost all health programs in Central America emanate from central authorities, with municipalities providing some local support and voluntary labor.

Public security includes the police and fire departments. The general tendency is for central authorities to take control of police security at the national level, permitting some municipalities in some countries to handle traffic and minor offenses. Both Guatemala and El Salvador have municipal police. There is a mixed responsibility for combatting fires; in some countries like Honduras, it is municipality responsibility while in Panama it is a provincial-level responsibility, and in Costa Rica it is a central government responsibility. The municipalities in Guatemala, El Salvador and Nicaragua also assume these functions to a certain degree.

Another municipal mandate in most of the countries is the Civil Registry, complemented with the Registry of Citizens, which are in effect birth and voter registrations. These functions are carried out according to the specific laws existing in each country.

An important and final element, in terms of municipal mandates is the promotion of the citizen participation. Municipal laws are consistent in terms of insisting on citizen participation. The mandates imply (and sometimes make explicit) the need for democratic proceedings for decisions-making such that channels are opened for full citizen participation. Democratic management supposes an open relation between officials and employees as well as an open attitude to hear the initiatives of the non-governmental and private institutions and organizations existing in the municipality. It is this type of democratic process that the mandates embrace in theory. In fact, however, this type of democratic process is severely limited at the local level throughout Central America. Both the **Annex II** country case studies and the section on community empowerment describe and underscore this reality.

⁴It is important to note that these "public services" could be managed by the private sector, as is sometimes the case.

c. The Status of National Decentralization Policies

With the possible exception of Panama, central governments throughout the region have expressed their intention to decentralize government functions and have taken, or are considering, discrete actions related to municipal empowerment. A brief summary of the potential impact of such initiatives in each country follows:

(1) Guatemala

In Guatemala, the constitution calls for decentralized administration of government and a system of urban and rural development councils. The 1986 decision to transfer 8 percent of the national budget to municipal governments each year was also considered an important step in the decentralization process. However, despite these actions, the decentralization and municipal development movement has not been significantly advanced. Rather, decentralization has been understood largely as a deconcentration of public administrative authority and functions, and very few (if any) central government attributes and responsibilities have been devolved to municipal governments. The development "councils" were unopposed by municipalities and have, in fact, been unconstitutional, due to their challenge to municipal authority. Finally, financial resource transfers have not been accompanied by any coherent policies and strategies to strengthen municipal financial management and fiscal base.

(2) El Salvador

Thus far, decentralization in El Salvador has generally been based on the concept of the municipality as a provider of services. In that regard, the transfer of service responsibilities is seen, along with privatization initiatives, as part of efforts to reduce the size of the central government. A Municipal Development Coordinating Committee (CCDM), organized in 1991, and composed of representatives of COMURES, ISDEM, CONARA and MIPLAN, is responsible for identifying and recommending those mechanisms and procedures that will be required to provide an operational framework for implementing decentralization policy.

(3) Nicaragua

Nicaragua's national plan for social and economic development highlights the importance of municipal development and the Ministry of the Presidency is preparing a statement of decentralization policies. An inter-institutional Committee for Decentralization and Municipal Development (CIDMD) was formed in early 1992. The Committee includes representatives from the Ministry of the Presidency, the Ministry of Government, INIFOM and the Mayors. It has been charged with providing concrete direction to guide the transfer of the areas of authority, responsibilities and resources that will be required.

(4) Honduras

Decentralization and municipal development is established as a national policy. The General Public Administration Law highlights the autonomous character of municipal governments and the need to clearly establish their political, administrative, and financial jurisdictions and competencies. The 1990 Municipal Law further defines municipal roles and responsibilities. While operative policies, strategies, and programs have yet to be

put in place, a National Commission for Modernizing the State has municipal representation and is expected to address such issues.

(5) Costa Rica

Reform of the constitution (Art.170) for the purpose of transferring resources and areas of authority and responsibility to municipal governments has been tied up in the National Congress since 1989. A series of proposals for decentralization and municipal strengthening have been made since that time. However, it is generally believed that such changes will come only as part of proposed state reforms (CORECII) currently under consideration. A pilot plan for the transfer of functions and municipal strengthening has been initiated in 18 municipalities, with the participation of MIPLAN and IFAM.

(6) Panama

Municipal *dependency* has been a long established policy in Panama, and most observers believe that the government of Panama has only become more centralized since 1989. There are indications that local elections may be reinstated, but even that possibility is highly uncertain giving current centralized tendencies.

2. LOCAL GOVERNMENT STRUCTURE

Central American countries have political and geographic divisions at the sub-national level in the form of either provinces or departments. Below this level, provinces or departments are divided into a sub-department levels called variously municipalities, districts, or corregimientos. There are no counties or county seats in Central America as would be found in South America or in the United States. This means that the concept of municipality in Central America is broad.

a. Electoral Processes at the Municipal Level

Chart II summarizes the structure of local governments and electoral processes in Central America. Four of the countries (El Salvador, Honduras, Guatemala and Nicaragua) have a Mayor-Council form of government. Costa Rica has a Council-City Manager form of local government. With the exception of Panama, where they are named by the President of the country, municipal authorities are elected through universal, free and secret election. In Nicaragua, Honduras, Costa Rica, and Guatemala (in cities with more than 20,000 inhabitants), municipal elections are held simultaneously with Presidential and legislative elections. In El Salvador, municipal elections are performed separately and independently from the Presidential ones. This is also the case for Guatemalan cities of less than 20,000 inhabitants.

In five countries, the term of office of the municipal government is the same as that of the President. In Guatemala, municipalities of less than 20,000 inhabitants elect their government only for two-and-a-half years and not for five years, which is the President's term of office.

CHART II. STRUCTURE OF LOCAL GOVERNMENT AND MUNICIPAL ELECTIONS

CATEGORY	GUATEMALA	EL SALVADOR	NICARAGUA	HONDURAS	COSTA RICA	PANAMA
STRUCTURE OF LOCAL GOVERNMENT						
1. Local Authorities Elected	Mayors, Syndicos and Councils by direct vote	Mayor, Syndicos and Councils	Councils elected by direct vote; elect Mayor from among members	Mayor, Syndicos, and regidores elected direct vote	Regidores elected by direct vote	Representatives of corregimientos by districts
2. Local Authorities Selected	--	Governors	--	Governors	City Managers by Municipal Council	Governors of provinces; Mayors of municipalities
3. Municipal Councils	Mayors, Syndicos and Regidores	Regidores, Syndicos and Mayor	Regidores elected make up Municipal Council and elect Mayor	Mayor, Syndico, and regidores make up Municipal Council	Regidores elected make up Municipal Council; elect own President; select City Manager	Elected representatives of corregimientos organize Council and elect President
4. Municipal Administration	Council integrated by a Mayor, Council, Syndico under a Strong Mayor/Weak Council system	Council integrated by a Mayor, Councils and Syndics with a Strong Council/Weak Mayor system	Municipal Council integrated by Councils and Mayor with Strong Council/Weak Mayor system	Municipal Corporation and Municipal Development Council	Municipal Council made up of regidores, Syndicos, and City Manager	Municipal Council made up of elected representatives cor-regidores; Mayor appointed separately by President
5. Relationship Municipal Government and Lower Levels of Representation	Auxiliary Mayor and municipality delegate	Municipalities responsible for entire municipal region	Formal relationship with popular Councils, municipal popular committees and auxiliary Mayors	Municipality responsible for entire municipal region; informal relationships with aldeas, caserios, and patronatos	Municipality has formal relationship with asociaciones based on budget presentations	510 corregimientos correspond equal with 510 juntas comunales; representatives are President of Junta Comunales
MUNICIPAL ELECTIONS						
1. Electoral Model	Direct for Mayor, Syndicos and Councils	Direct for Mayor and Regidores	Direct for Council, indirect for Mayor	Direct for Mayor and Regidores	Direct for regidores who form Municipal Council; indirect for municipal executive City Manager	Direct for 510 cor-regidores of corregimientos; Mayor appointed by President
2. Relationship Candidates with Parties	Listed by parties, 10% by civic movements	Listed only by political parties	Listed only by political parties	Mayors, Regidores, Syndicos listed by party	Regidores listed by parties	Corregidores listed by parties
3. Period of office	5 years in municipality with more than 20,000; 2-1/2 for rest	3 years	6 years	4 years	4 years	4 years
4. Last Election	January 1991	March 1989	February 1990	November 1989	February 1990	March 1989

It is also important to point out that, with the exception of Guatemala, the candidates for Municipal Council seats must be presented by political parties. Civic groups or community institutions are not eligible to present candidates.

In Guatemala, the election of the Mayor is direct, by means of a majority system. Meanwhile, the election of Councilmembers is performed by means of a "cifra repartidora" system, which lightly benefits the majorities but permits the minority representation.

In El Salvador, the election of the whole Municipal Council is performed with a sole votation in closed voting ballots for each party. The party that obtains the greatest number of votes takes possession of all Council seats. Losing parties do not have any representation on the Municipal Council.

In Honduras, the distribution of seats on the Council is proportionally performed according to the percentage of votes obtained by the political party.

In Nicaragua, seats on the Council are distributed as follows: the party voting ballot receiving the greatest number of votes obtains 50 percent of the Council seats and the rest are distributed proportionally to the percentage of votes received by political party. The Council then elects a Mayor from among their members.

Finally, the election of Councilmembers in Costa Rica is performed through a "cifra repartidora" system, which, as in Guatemala, lightly benefits the majorities. Each year, the Municipal Council elects the President of the Council from among its members. His functions are to preside and organize its meetings. At the beginning of a legislative term, the Council also selects the Municipal Executive (who cannot be a Councilmember) to serve for a period of four years.

b. Municipal Organization and Management

(1) The Municipal Council

In Central America, the Municipal Council functions as a legislative body with the responsibility for considering and issuing laws and regulations to control and order the substantive aspects of social and economic life within its jurisdiction. It is in this function that the Council is seen as the interpreter of constituent will. It also exercises a monitoring or fiscal function, carrying out investigations and reviews related to local public services as well as controls of prices, weights and measures.

With the exception of Costa Rica, the Mayor exercises executive administrative functions on behalf of the Council. The Mayor's office normally includes a Municipal Secretary and a Treasurer and administers those other municipal offices determined by the Council, as necessary, to effectively carry out local government functions.

(2) Sub-Levels of Municipal Government

A variety of sub-levels of municipal government are mandated in each country in order to promote and organize the participation and input of citizens in development activities. These include Assistant Mayors, district delegations, patronatos, community associations and Community Boards. (See **Annex II** for a full specification of the particular mechanisms utilized in each country.)

c. Mechanisms for Community Consultation

Four of the countries in the region utilize the open town meeting (cabildo abierto) to consult with citizens and community organizations in the planning and management of local development activities. In El Salvador, Nicaragua and Honduras, periodic "cabildos" are obligatory, particularly related to the planning and execution of annual plans and budgets. In Guatemala, such open town meetings are not obligatory but rather left to the discretion of the Municipal Council.

In Costa Rica, no formal community consultations are required under law. Rather, most local community participation in Costa Rica takes place through community associations organized and managed by the central government. While lack of coordination or open confrontation with municipal governments is sometimes a result of this system, in some instances the association and municipalities coordinate their activities well.

3. CONCLUSIONS

a. Municipal Mandates

The concentration of powers in the central governments of the region is quite strong despite some recent and promising possibilities for decentralization. In addition, the actual level of municipal self-government is quite low given that municipal governments are still tightly controlled by central authorities and do not exercise financial autonomy over municipal income and expenditures. In part, this is due to reduced administrative, financial and technical capacity. Finally, national decentralization policies directed to remedy the above situation are generally limited in scope and coherency, reflecting a variety of distinct and even conflicting concepts. Moreover, the heterogeneity of municipalities make common policies, planning and programs difficult even though legal mandates are the same for all.

b. Local Government Structure

The municipality necessarily plays a key role in democratization and political representation since it is the only level (other than the national one) where political representatives are elected, with the partial exception of Panama where the President still appoints mayors. As a result, both the election process and the subsequent local government structure, including participatory mechanisms, are key to democratization and any decentralization process. The realities, however, are that democratization is severely circumscribed in all these areas. As a result, improvements are needed to make municipal elections universal, direct and representative. In addition, because the internal capability of local government administration and its ability to interact with and effectively respond to and represent the

interests of its populace are limited, improvements are needed in local technical, financial and administrative capacity as well as in establishing meaningful and effective methods for community participation.

B. MUNICIPAL AND COMMUNITY EMPOWERMENT

1. MUNICIPAL SUPPORT STRUCTURES/INSTITUTIONS

a. The Existing Situation: Introduction

In Central America, two different types of municipal assistance organizations exist. One type—municipal associations—play a fundamental role in inter-municipal cooperation and representation. These currently constitute a "second- and third-tier" forms of support for local government, serving as a means for resource coordination, leverage and mobilization as well as for participation at the national and regional level. The second type—development assistance organizations (called institutes)—serve as a source for technical assistance and training in order to expand the capacity and strengthen as well as broaden the capabilities of local government mayors, institutions and staff. While municipal *associations* could provide such technical assistance and training as well, this function in Central America has historically resided in development *institutes*.

(1) Municipal Associations

Municipal associations exist at three levels in Central America and Panama: regional, national and departmental (sub-national).

Regional Level

At the regional level, municipal governments have made several attempts at establishing a region-wide association. The two first attempts were unsuccessful, with the Federación de Municipios de Centroamérica y Panamá (FEMUCAP) in 1978 and the Unión de Municipalidades del Istmo Centroamericano (UMICA) in early 1991. However, a recent attempt in late 1991—with the Federación Municipal del Istmo Centroamericano (FEMICA)—appears to be much more promising, particularly in light the support it and national associations are simultaneously receiving from international donors, such as USAID. The potential of FEMICA was further enhanced during the November 1991 Regional Municipal Seminar held in Tegucigalpa, Honduras. During the Seminar, FEMICA's role and base was consolidated through the clarification of regional and national municipal association functions, a declaration of action (the Declaration of Tegucigalpa) for municipalities and their associations, the formulation of a FEMICA work plan and budget, and the generation of a solid resource base for FEMICA's future work.

The purpose of FEMICA is to support mechanisms that strengthen municipal institutions and the processes of decentralization in the Central American Region and Panama. Specifically, FEMICA's objectives are to:

- Consolidate FEMICA as a permanent representative organization and voice for municipalities throughout the Isthmus;

- Support the exchange of experiences among its members;
- Elevate the theme of "municipalism" and decentralization to the "agenda" of governments throughout the Isthmus;
- Obtain support from international (bilateral and multilateral) donor agents in the achievement of FEMICA's objectives;
- Conduct research and studies that insert the municipal "sector" into the new economic strategies and activities of the central governments.

FEMICA has the potential to successfully achieve such objectives, given the clear work plan that FEMICA has formulated to implement these objectives, initial confidence from mayors and their local governments, support from the international donor community, and its ongoing efforts to mobilize a solid resource base. However, sustained support will be necessary for FEMICA to realistically achieve these objectives. In addition, FEMICA must prove itself to be consistently democratic and participatory in order to ensure its legitimacy and maintain its support from its members—a problem that is common with associations at the national level.

National Level

At the national level, in four countries in the region, municipal associations that possess the potential for developing a strong national presence and leverage do exist. These are: in Costa Rica, the Unión Nacional de Gobiernos Locales (UNGL); in Guatemala, the Asociación Nacional de Municipalidades; in Honduras, the Asociación de Municipalidades de Honduras (AMHON); and, in El Salvador, the Comisión de Municipalidades de la República de El Salvador (COMURES). While a municipal association does exist in Panama (the Asociación Panameño de Cooperación Inter-Municipal [APCI]), it does not possess a strong national presence or role. In addition, it is currently shadowed by a new City Council Association that is in the process of formation. In Nicaragua, a municipal association does not currently exist, although efforts are being made to establish one. Historically, national municipal associations have been weak and ineffective since they tend to lack the clear objectives, resources or support required to sustain themselves over time. They are, as are institutes, perceived by municipalities as not promising the type of support needed by municipalities. This further undermines the much-needed support required to sustain the associations. As such, the ineffectiveness of associations begets the strong dissatisfaction of municipalities, which in turn results in diminished support for associations and a downward spiral of mutually reinforcing ineffectiveness and limited support.

Sub-National Level

At the sub-national level, three countries (El Salvador, Costa Rica and Guatemala) possess "departmental" associations. In El Salvador, they are called the "Departmental Councils of Mayors;" in Costa Rica, they are called "Municipal Leagues" that form part of the National Local Government "Union" (UNGL); and in Guatemala, they are simply called "Departmental Associations." These associations are able to better focus on the unique needs and interests of the departments they represent, although they suffer from the same shortcomings of national associations.

(2) Municipal Development Assistance Organizations/ Institutes

Municipal development assistance organizations in Central America generally provide their "clients" (mayors and local governments) with technical assistance and training. Some also have the added functions of: monitoring municipal-central government relationships; playing the role of representative by serving as a policymaking body and mechanism for lobbying; conducting research that supports TA, training and policy-making; and providing a forum for coordination and information exchange among municipalities. The types of municipal development organizations that have these functions are generally known as "institutes."

The two most successful and powerful municipal development institutes in the region are the Instituto de Fomento y Asesoría Municipal (IFAM) in Costa Rica, and the Instituto de Fomento Municipal (INFOM) in Guatemala. Other equally important—but possibly not as strong— institutes include the Instituto Salvadoreño de Desarrollo Municipal (ISDEM) in El Salvador, and the very young Instituto Nicaragüense de Fomento Municipal (INIFOM) in Nicaragua. It is important to mention that some municipal development organizations also provide economic support through financing mechanisms (in addition to TA and training). While a real development institute does not exist in Honduras, Honduras' 1991 Municipal Code calls for the founding of a such an institute. A Honduran municipal development "bank", Banco Municipal Autónomo (BANMA) does exist, providing financing as well as TA and training, but it is not highly successful due to considerable financial problems and credit arrears by municipalities.

As previously mentioned, municipalities do not perceive municipal support organizations as providing the type of support always needed. While the institutes do provide relatively good TA and training, most do not do so within a clear framework or strategy for municipal development, reducing the potential effectiveness of the institutes.

Since the purpose of these institutes is to strengthen municipalities, municipal representation in the administration of these institutes would be theoretically desirable and advantageous for both democratic and effectiveness reasons. Such representation does indeed exist on the board of directors of Nicaragua's, Guatemala's and El Salvador's institutes; however, it does not exist on that for Costa Rica. The form of representation of these boards differs among countries. For example, Nicaragua and El Salvador both adhere to a majority mayoral representation (34/40 and 5/8 members, respectively). In the case of Guatemala, however, the central government has majority representation. This majority representation should be improved where it is lacking.

**b. The Ideal vs Actual Role of Municipal Support Organizations:
Associations and Institutes**

(1) Municipal Associations

The 1991 Regional Municipal Development Seminar in Honduras clarified, in its "Basic Conclusions," the ideal role and responsibilities of municipal associations to be that they:

- As municipal representatives, support the process of decentralization and incorporation of municipalities in the economic and social development process of the nation.
- Adhere to the principles of voluntary association, fair and equal representation, and independence from central government in order to maintain legitimacy.
- Design and implement policies and strategies for technical assistance and training.
- Support FEMICA as a regional voice for municipalities in the Central American efforts towards regional integration.

In addition to the above, many cite the need for associations to play a key role in credit and resource mobilization. This financing role is not only critical for the very existence and sustainability of associations themselves but also for these associations to achieve greater economic/political leverage with central government institutions and to serve as a source or channel for funding and financing of municipal government activities. Municipal dues constitute one source of revenue that should be utilized. However, since municipalities generally face severe resource constraints themselves, they require greater external financing, either from central government or the international donor community.

Finally, others cite the need for greater municipal participation in, representation by and accountability of municipal associations as an integral part to the overall process of democratization.

Problems

Overlapping Roles of Associations and Institutes

One difficulty with the above ideal is that it may conflict with the key role that development *institutes* already play in technical assistance, training and financing. If *institutes* are to also or in part play this role, collaboration between associations and institutes is required to clarify their respective roles and develop a coordinated development agenda.

Sustainability

Municipal associations, where they do exist, are extremely weak or have had repeated failures throughout the region; they generally have difficulty sustaining themselves over the long term, because of: a) unclear or unfulfilled objectives; b) a lack of resources, and/or c) limited political support (from municipalities, national governments, and external donors alike). For municipal associations (at the sub-national, national, or regional level) to even begin to work towards the above ideal, they will require substantial support and assistance

by their member municipalities, national governments, and donors. This support needs to occur within a democratically formulated and well coordinated strategic plan.

(2) Municipal Institutes

While an "ideal" has been developed for associations, the same has not been done for the development institutes. This is not only a problem because of the now potentially overlapping roles of associations and institutes, but also because the role of institutes is often unclear. As previously mentioned, while municipal development "institutes" provide relatively good support in technical assistance, training and financing, they often provide this support without a clear framework or strategic municipal development plan. The lack of—or at least limited—"guiding force" is very detrimental because the resources available for development planning are already extremely limited. Central governments and municipalities just cannot afford to provide technical assistance and training without a well formulated plan. In addition, municipal development institutes often are controlled and financed by central authorities, limiting municipal self-determination and participation in the assistance provided by these institutes. While in some countries there does exist majority municipal representation on the Executive Boards of the institutes, in others this is not the case. Finally, the institutes are only most effective when combined with the functions that municipal associations need to and can play, insofar as representation and a wide variety of other functions are concerned.

c. Summary

Municipal support organizations are critical to decentralization and democratization in the region, playing the same essential role for their member municipalities as community organizations and NGOs play for their respective member and client communities. This role—of providing the means for one to "meaningfully participate in one's own development"—implies that municipal support organizations play several critical functions for their members. These include organization, representation, resource mobilization, leverage, economies of scale and access to technical assistance and training. These functions are certainly the ideal and constitute some of the critical building blocks of democratization and decentralization. However, the reality in Central America is that all these functions, as previously described, are provided in a very limited fashion through the combined activities of municipal associations, on the one hand, and municipal development institutes, on the other. As a result, reforms are required in mobilization, institution building, technical/financial assistance and training to improve the institutions and processes that support the development of municipalities in the region.

2. COMMUNITY PARTICIPATION AND EMPOWERMENT

PADCO fulfilled the tasks outlined in the scope of work based on its own experience and a careful review of the literature on community participation and community development processes. This experience and the knowledge gained from the literature review is described in the framework included in **Annex IV**. Based on this framework for meaningful participation, PADCO prepared a "menu" of key components (including instruments and techniques), also included in **Annex IV**, that it perceived were important—if

not critical—components for engaging effective community participation. This menu was subsequently utilized by consultants in their surveys of and interviews with individuals regarding experiences with and specific cases (examples) of community participation in the municipal development process in Central America, the detailed findings for which are in **Annex IV**. This menu allowed PADCO to assess the "ideal" versus the existing situation as reflected in these cases and to develop a "menu" for participation that sets forth a basic structure to which are associated various instruments and techniques that can more effectively engage community participation.

Accordingly, as summarized in the remainder of this section, PADCO:

- developed a "menu" of the key instruments, techniques, and structure for engaging effective community empowerment.
- identified and assessed existing examples of community participation in the municipal development process in Central America;
- analyzed the differences between the existing situation and the menu of key community empowerment components; and
- developed recommendations to how increased community participation in the community development process in Central America can be supported.

a. A "Menu" for Effective Community Empowerment: Structure and Instruments

The scope of work first requested that PADCO develop a "structure" along with key instruments and techniques for engaging effective community empowerment. The structure developed by PADCO has three essential parts: municipal government legitimacy and representation; democratic and participatory systems and processes of governance; and citizen organization and leverage. Each part has associated key instruments and techniques for engaging the community, as described below:

(1) Municipal Government Legitimacy and Representation: The Electoral Process

PADCO found that one of three principal pillars of effective community empowerment is municipal government legitimacy and, at the same time, proportional and effective representation of the community within that government. Legitimacy and representation are both based on the well-known instrument of the electoral process. Local electoral processes should ensure and provide for the broadest possible political legitimacy and representation of the municipal government in order to guaranty its credibility and the continued support of the citizenry in the exercise of its mandates. For this reason, to the maximum feasible degree, municipal elections should be: direct and universal, separate from national elections, and based on local platforms and programs proposed by candidates. The electoral process itself should permit the potential participation of civic groups and other organizations not affiliated with political parties. In addition, the political representation of municipal corporation or councils should maintain the principal of proportionality according to results of the popular vote.

(2) **Democratic and Participatory Systems and Processes of Governance**

PADCO found that, in addition to legitimacy and representation, effective community participation requires that the systems and processes of day-to-day governance be both democratic and participatory. Given the proximity of local government to the population it serves, municipal governments offer substantial comparative advantages for democracy by engaging effective community participation in the planning and management of local development activities. In order to maximize this potential, municipal government should have:

- **Authority, Interest and Responsibility (through Laws and Codes)**

Municipal governments must possess the authority, interest and responsibility to encourage that participation. In this respect, the key instruments are the law, education and related systems of accountability. The constitution, laws and municipal codes must not only delegate this authority to municipalities (and delegate it with consistency) but also assign it to them as a responsibility for which they can in some form be held accountable in the event local government interest in promoting or engaging community participation is lacking.

- **Knowledge of and Capability for Participatory Mechanisms (such as "Cabildos" and Other Instruments)**

Municipal governments need to promote and incorporate community participation in all stages of the governance and development process, including the assessment, planning, decision-making and evaluation of development activities. To do this, municipal governments must utilize the instruments associated with day-to-day participation. Such instruments are numerous and include techniques such as direct participation (e.g., of key community representatives in the decisionmaking process), open town meetings (cabildos), referendums, initiatives (petitions), plebiscites, surveys, questionnaires, interviews, nominal group discussions, planning simulations, experiments and testing (through pilot projects). Where municipal governments lack the knowledge or capabilities for effectively engaging that participation, technical assistance and training should be provided.

- **Accountability (through the Power of Recall, Supervisory Entities, Evaluations and Other Instruments)**

Related to and as part of participatory mechanisms in day-to-day governance is government accountability, which helps to ensure the "transparency" of municipal decisions and activities. Municipal governments must be accountable to the community for their actions in the policies, systems and procedures related to all aspects of local development administration and finance. As a regular part of the accountability process, municipal governments should allow, encourage and require periodic evaluations of government performance. Such evaluations can take many forms and can be incorporated as part of other participatory mechanisms such as open town meetings, in which mayors and other officials can present municipal plans and actions for immediate and direct public review and response. Another instrument would be a supervisory entity comprised of community representatives and established for the sole purpose of making municipal representatives more accountable to the public. Finally, a more drastic yet ultimately key instrument is the "power of recall."

These traits do not necessarily guarantee the best support for participation, but would most likely exist in a government that does. Important here is not simply the authority, responsibility, which often do exist. Also important is the institutional capability for engaging that participation, which usually does not exist. In addition, the presence of meaningful participation at more than just the preliminary "information gathering" stage or implementation (execution) stages of development is critical. In other words, it should be incorporated at the usually more meaningful levels, such as planning, decisionmaking and evaluation. Furthermore, participation can only be as meaningful as the systems for accountability are. If the public sector can be held accountable, then community empowerment can be assured and made more effective.

(3) Citizen Organization and Leverage

Finally, PADCO found that the third pillar of engaging effective community participation is strong citizen organization. Such organizations are necessary to help assure that the municipal governments representing them possess the above traits (i.e., do promote and know how to promote participation). Strong community organizations are also critical to provide an effective means for individuals to participate. For community organizations to be able to provide a meaningful channel for participation, they must possess the critical traits that enable them to effectively participate when their participation is in fact sought, encouraged or required. Some of these critical traits are:

- participatory mechanisms (internal and external)
- representation (at a broad, not just local level)
- legal status
- regional leverage
- large-scale benefits
- access to financial resources
- means to improve capacity/capability (through TA and training)
- public-private linkages

Municipal (and central) governments can, even though it is not their primary role, influence meaningful community participation and empowerment by promoting and supporting (directly or indirectly) the development of private, non-governmental and quasi-governmental community organizations such that they can participate more effectively in municipal government activities. Municipal and central government entities can support this process by strengthening local organizations such that they can ultimately possess these traits and thereby provide the community organization necessary for that participation.

These traits constitute some of the critical elements of community organizations that best promote meaningful participation. While they do not constitute the necessary or sufficient conditions for meaningful community empowerment, they do represent a helpful guide to the organizational characteristics that could most likely best promote meaningful participation and empowerment of the community.

b. Assessment of the Existing Situation for Examples of Community Participation

PADCO assessed existing examples of community participation through an analysis of specific case studies and through interviews with a broad range of representatives in the public and private sectors. The country-by-country analysis, along with a summary of case studies, is included in **Annex IV**. The following findings, which are organized according to the three-part structure for community empowerment presented in the previous section, are based on those analyses.

(1) Municipal Government Legitimacy and Representation

PADCO found that community participation in public sector activities in Central America does take place in the electoral process but that it is limited throughout the region. The first form—the electoral process—is an integral part of representation as well as of local government legitimacy and potential for democratic development. However, several factors limit the meaningfulness of that process. First, political parties (rather than communities) have the power to select the pool of candidates from which the electorate chooses. Second, with the exception of Honduras, the electorate in the rest of Central America does not have the opportunity to undergo a "internal" electoral process (or the U.S. equivalent of primaries), but rather are subject to the choices made in a political convention. Third, the public generally votes for a slate of individuals rather than specific positions and associated candidates. Fourth, in most countries (with the exception of El Salvador) the electorate must vote for the local and national candidates on the same date, diminishing the possibility for local political independence at election time. While in many countries, the ballots themselves are separate (Nicaragua, Costa Rica and Guatemala), the fact that voting takes place on the same date diminishes the importance of a separate ballot. In Honduras, both the date and the ballot are still joint. Hence, while the electoral process in Central America is one existing form of community participation, it still carries several limitations.

(2) Democratic and participatory systems and processes of governance

■ **Traditional Forms of Participation**

PADCO found that, aside from the electoral process, three traditional forms of community participation in municipal government affairs occur, albeit with one form not directly involving (but rather bypassing) the municipal government. These forms are *cabildos abiertos*, participation in the execution of local government public works projects (through the contribution of manual labor or money); and participation in direct Ministry-to-community programs (that help develop the municipality but do not always involve the municipal government). PADCO found that the effectiveness of community participation achieved through the first two (i.e., *cabildos* and local government public works projects) was limited. While community participation in Ministry-to-community programs was more effective, such programs bypassed municipal governments, making it difficult for local government to effectively administer or coordinate local development activities. These three forms are described below.

■ **Cabildos Abiertos**

Cabildos abiertos constitute an important form of participation in the region, since that is the one opportunity the community at large has to express their concerns, priorities and requests with local government representatives. Cabildos are often used (to varying degrees of success) as a tool of "co-gestión" (co-development) by the public sector to gather information about community needs and obtain community input in the prioritization of development activities. While it is unclear in most cases how much of that input is used by the government, it is clear that the actual design, decisionmaking and management of those projects take place within local government bodies, with limited involvement by the community.

Cabildos are also used by some mayors as a tool of "co-responsibility" in which they keep the public informed about municipal activities and realities so that the community can fully understand conditions, support the municipality and take some responsibility. However, most municipal governments only hold cabildos when they are required by law, and some mayors would prefer to minimize the extent of community participation in municipal affairs since that participation implies community empowerment and government accountability. These effects of participation are often challenging and even threatening to the Mayor's already limited power and resources. Not surprisingly, the citizenry often consider the cabildos to be a political tool and that mayors generally try to maintain their own power rather than empower the community.

These cabildos will usually occur between the municipality (Mayor) and the community at large or with community/local boards (juntas comunales). These community boards constitute an important form of representation. In addition, where auxiliary Mayors exist (such as in Nicaragua), the possibilities for community participation may be greater since the population involved in the cabildos is smaller and possibly less diverse. However, the importance of that participation is still dependent on the key Mayor's openness to and support for it.

■ **Public Works Projects: Manual Labor and Money**

Another form of participation (i.e., in the execution of public works projects) is often touted by officials in the public sector—both at the national and local level—as a significant form of community participation. However, it merely consists of the "contribution" of the community in the "execution" of a project through their manual labor and sometimes also materials and money. While this form of participation cannot be discounted or overlooked since such in-kind or cash contributions are often a means to leverage access to development funds and materials locally, it cannot necessarily be considered very meaningful if the community at large is not supportive of the project or does not have a substantial role in the design and decisionmaking related to that project. While apparently communities do often support the public work projects of their local governments, they seek more involvement in and more control over those projects.

■ **Ministry-to-Community Projects**

The last common form of participation involves programs and projects funded by central government ministries and/or Congressmen (Diputados) directly to communities. Congressmen often have access to public funds for addressing constituent needs. Aware of such resources, local communities will often bypass local governments and seek funding from their Congressmen. The "Diputados" can fund communities directly or through local or central government (i.e., ministries). Such funding generally serves to generate political support and thus can potentially countermand local governments that are affiliated with political parties different from those with which the Congressmen are affiliated.

While these ministries, which are recipients of funding from various sources (including Congressmen), can and do fund municipal governments directly, they also work outside of local government and collaborate—through their local representatives—with both community organizations and NGOs operating at the local level. Of course, just as with Congressmen's funds, central government funds can also countermand local government activities, depending on the political affiliation. Examples can be found in virtually every country. In Costa Rica, the Ministry of Government and Policy works with approximately 1,400 community associations through DINADECO (the Dirección Nacional de Desarrollo Comunal) and the private Confederation of Community Development Associations. A similar "Directorate" exists in El Salvador, called DIDECO (the Dirección de Desarrollo de la Comunidad), although many speculate that, due to its "replacement" by the AID-funded CONARA program (which mainly funds municipal governments as opposed to communities), DIDECO will soon be closed down. In Nicaragua, the Ministry of Health funds the national network of local health brigades (Brigadistas) through the Sandinista's Movimiento Comunal in basic health and nutrition programs. In Guatemala, the Ministry of Urban and Rural Development works with approximately 300 community groups through its CAFEDESCO program and seeks to increase involvement in community organizations by 1,200 in 1992.

The most fascinating—and perhaps most unusual—of these Ministry-community relationships is that one in Costa Rica between DINADECO (of the Ministry of Government and Public Policy) and the Confederation of Community Associations. The participation of the 1400 community development associations registered to date in the Confederation and their local, regional and national counterparts in DINADECO throughout the 81 municipalities of Costa Rica constitutes an impressive case of community participation in the public sector. Most striking is the recent change within DINADECO and the Confederation to improve this participation by now allowing the associations themselves to design and approve their own National Community Development Plan through a National Congress held by the Confederation itself. While the DINADECO-Confederation structure appears to duplicate the traditional governmental structures and creates jealousy among some municipal governments (given the separate funding channelled directly to these community groups), it does constitute a well-organized structure for community participation in the public sector—almost to the point of constituting a quasi-governmental structure. Moreover, in several instances (such as in Turialba), these community associations successfully coordinate their funding and activities with their respective local governments.

■ **Non-Traditional Forms of Participation: FIS and JCOP**

Besides these better known forms of community participation in the public sector, there are some non-traditional arrangements for that participation as well. The most prominent of these are the relatively new SIF (Social Investment Fund) programs, which are designed to mitigate the negative effects of structural adjustment through "social compensation" programs primarily focussed on temporary job creation but also encompassing other areas such as health and education. Key to these programs is community development and participation. While the funding from these programs is channelled to a wide variety of public and private institutions (including municipal governments and corporations, private firms, NGOs and community groups), coordination with local governments is always required.

For example, in El Salvador, any community entering into a contract with the FIS (Fondo de Inversión Social) must effectively enter into a tripartite contract with the FIS and the local government, given that any project requires the Mayor's approval. While such arrangements potentially increase the degree of coordination with the public sector, it can diminish community empowerment, particularly where the Mayor is of a different political party and does not wish to see the project come to fruition. Despite the contractual requirement, however, municipal governments feel the FIS is in actuality working totally outside of the municipal system, making it difficult for local governments to coordinate their activities with those of the FIS. In addition, the FIS, in El Salvador, is seen as very bureaucratic and insufficiently participatory.

In contrast, in Honduras the FHIS (Fondo Hondureño de Inversión Social) is attempting to "break the chain of control exercised by the Mayors" (particularly important since the FHIS originally channelled all their funds through local governments). However, undoubtedly the FHIS will continue to require coordination with and approval of the Mayors, as in El Salvador. The Honduran FHIS receives points from all sectors in its efficient review of proposals and disbursement of funds, but is considered to be too controlling.

A FISE (Fondo de Inversión Social de Emergencia) exists in Nicaragua but is apparently encountering many funding problems. Meanwhile, the FIS in Guatemala has not yet gotten off the ground and thus provides no means for comparison. Finally, in Costa Rica, a FIS does not even exist. However, international donors and central governments are increasingly utilizing this type of program to support community development, "social compensation," and participation.

Another unusual form presently exists in Managua, Nicaragua: a new government supported grassroots organization or community board program, known as the "JCOP" (Juntas Comunales de Obras y Progreso). Managua's Mayor has established the JCOP in an effort to ultimately replicate the Sandinista grassroots structure and network throughout the nation, however, with a non-partisan, broad-based form of community participation in local government. The intended purpose of the JCOP is to support the participation of individuals from all sectors and all parties. In reality, however, given the severe political divisions (especially within Managua) between Sandinista and UNO supporters, participation in the JCOP has come mainly from non-Sandinista groups. Even some non-Sandinista groups are

disinclined to participate because they fear animosity from Sandinista groups. The JCOP may have more success outside of Managua, given that political divisions between these two opposing groups are less severe there, according to both UNO and Sandinista supporters. However, many political divisions exist among UNO supporters given that many oppose Chamorro. Moreover, the JCOP is a public sector creation and tool, which may limit its success and support among the citizenry.

■ **Caveats to Participation: Civil/Political Strife**

An important caveat to any of these forms of participation is they are limited in countries where there is severe civil/political strife and where political divisions make collaboration difficult if not impossible. The most severe examples are Nicaragua, El Salvador and Guatemala, even though the other Central American countries are certainly not exempt from political divisions. In El Salvador, a peace agreement was just reached on January 17th, 1992, but both sides are still guarded about the possibilities for that peace and for collaboration between opposing parties. Of course, this collaboration is not even an issue in the FMLN controlled areas, given that the Salvadorean Government conceded total self-rule to the FMLN in these areas. While the political situation varies from area to area in Nicaragua, the divisions are frequently clearly marked, with little mutual collaboration among, on the one hand, the UNO party (in control of the government), and on the other, the former Sandinista government officials (which have now spun out into approximately 400 NGOs) and the grassroots-based Movimiento Comunal. In addition, and as previously mentioned, there are also divisions among UNO supporters. Interestingly enough, however, the Movimiento Comunal is working extensively, as previously mentioned, with the Ministry of Health on projects, given that the Minister is a Sandinista supporter and given the Movimiento's experience and organization in health service and organization. Finally, in Guatemala, unlike in El Salvador, a formal "peace" agreement has not yet been reached, and the general consensus is that there exists much "fear" at the community level concerning organized activities and participation in government even though an extensive network of indigenous community organization exists throughout the country. These political divisions do and will continue to limit the extent and meaningfulness of community participation in the region.

(3) Citizen Organizations: Key for Greater Participation, Municipal Coordination, Resource Mobilization

What is much more common than community participation in the public sector, however, is community participation in its own self-help development activities, which ultimately affects or contributes to overall municipal development efforts. This participation, in contrast to that previously mentioned, generally takes place in all phases of development, from the assessment and planning stages to the decisionmaking, implementation and evaluation stages. As previously mentioned, some of these activities are financed by central government ministries. A significant percentage of these projects are financed, however, by the international donors directly to community groups (or through domestic NGOs), as in the case of Guatemala where 31.4 percent of community groups receive external donor funding. This financing makes more such self-help efforts not only possible but significant with regard to the scope and number of these efforts. In effect, the international donor community, along with central government ministries, are playing a large

role in the participation, development and empowerment of community groups in development activities that affect but generally are not coordinated with the municipality. The potential for greater coordination with municipal government activities, however, exists particularly if local governments were to promote greater participation of the community in municipal affairs. In addition to greater coordination, community funding and organizational structures offer a virtually untapped resource for local governments. A description of these resources and structures follow.

■ **Role of International Donors**

International donors, and the projects they fund, cover the development spectrum, from emergency aid, basic health/nutrition, and housing, to agriculture, the environment, urban services, infrastructure and micro-enterprise development. These donors include foreign governments (USAID, the GTZ of Germany, CIDA of Canada, etc.), international NGOs (CARE, UNICEF, Save the Children, PACT, NOVIB, etc.), foundations (e.g., Ford), and Church organizations (e.g., Christian Children's Fund). Also active in such self-help community efforts since 1969 is an independent U.S. Government agency, the Inter-American Foundation.

These international donors work directly with first-tier community organizations, their second or third-tier associations or federations, domestic NGOs, informal networks, and/or the donors' own in-country offices. As such, the funding, scope and scale of activities, as well as the extent of participation encouraged, vary widely from donor to donor. This variety makes any attempt to understand or support the community development, participation and empowerment process in Central America relatively complex. This complexity is exacerbated by the fact that many of these donors are unaware of the activities of other donors outside of their "sector" (e.g., health or the environment) or beyond the borders of the specific communities within which they work. The exception are donors (such as the IAF or Ford) that seek to have a broader understanding of the overall community development process in countries where they are actively engaged. Despite the complexity of international donor funding and activities, within the boundaries of any given community or municipality, a local government could become knowledgeable of international donor activities and attempt to tap or coordinate those resources with municipal activities. Such coordination could also make the activities of donor and community organizations more effective.

■ **Community Organizations: First, Second and Third Tier**

A common requirement among these donors is the use of existing (or establishment of new) community organizations to assess community needs as well as design, implement and evaluate projects to be funded. For example, Save the Children requires the establishment or use of existing structures for "Community Development Committees" to manage projects in El Salvador. Most areas in Central America have some form of community organization that was either existing (such as in the case of Guatemala where many community organizations have indigenous roots) or was developed as a result of the need or (external) requirement for such community organization. It is these and other community structures that could promote participation and coordination with local governments.

Typical community organizations include voluntary and primary groups (that usually are not legally recognized), development organizations, think tanks (research organizations), associations, cooperatives, unions (sindicatos), professional/trade associations (gremios) and businesses, societies, federations, and foundations. Also common but more within the quasi-governmental spectrum are local and community boards (juntas locales or juntas comunales), development associations, patronatos and committees. This variety of community organizations at the local level further complicates attempts to understand the forms and processes of community participation since that participation varies among organizational types. However, it also implies the breadth of resources potentially available to local governments.

Not only are these local community organizations common in Central America, but also, as previously mentioned, their respective second and third tier organizations. Any one of the aforementioned local organizations can and do work at the broader regional or national level in the form of associations or federations. In addition, domestic NGOs (and their associations) often act as representatives or advocates of community organizations at the broader regional and national level. Clearly, numerous relationships are possible between any one of these organizations (at any level) and the public sector. However, these higher level organizations are often aware of the activities of their members and can help focus donors and the government in understanding the public-private linkages that occur and the needs of their members and/or beneficiaries. In effect, these higher local organizations can help to make local organizations (and the municipal governments who work with them) more effective.

Some donors have recognized the value of coordinating the efforts of several community groups and/or NGOs through their respective second and third tier organizations. While in some countries (such as El Salvador) such higher level organizations are highly politicized (making activities difficult, depending on the donor's political or non-political preferences), in most countries such organizations often facilitate the development process. Specifically, these umbrella or network organizations facilitate the coordination, mobilization of resources, technical assistance and training, political leverage, and economies of scale needed for projects with a long-term, deep and broad impact. The country case studies provide additional support for this premise, as summarized in Annex IV. It is through such competitive advantages that higher level organizations can make local and municipal resource use and development more effective.

■ **The Role (and Definition) of Domestic NGOs**

Domestic NGOs, as previously mentioned, play an important role in channelling funds, coordinating activities, and providing TA and training to community groups. Their role and even their definition, however, differs from country to country. NGOs exist (and are called as such) in every country, except for Honduras, where they are known as PVOs (OPDs). The broad meaning of NGOs in the U.S. contrasts with the more narrow meaning in Central America. In the region, the term "NGO" is generally limited to voluntary and primary groups, development organizations, research organizations and, of course, international NGOs. Generally *excluded* from the definition are associations, societies, federations, foundations, cooperatives, professional/trade associations and unions.

Exceptions do exist, however, as in the case of Guatemala where foundations are included in the term NGO. This differentiation is critical for any external donor or local/central governments seeking to fund or coordinate with "NGOs," particularly because there are numerous organizations that play an important role in community development and participation but that do not fall under the rubric of "NGO." External donors and local/central governments must therefore carefully utilize the term "NGO."

Careful use of the term "NGO" is also important because in some countries (such as Costa Rica and Nicaragua) the term carries a particular (and sometimes negative) connotation. For example, in Costa Rica, many of the Community Development Associations have experienced NGOs only as financial intermediaries that charge above market prices for credit or other services. Even though NGOs are diverse in Costa Rica, as in other countries, and even though some actually provide competitive credit rates and other services that are entirely free, the Costa Rican Associations have a poor view of NGOs from their particular experience with them. In addition, Costa Rican NGOs themselves will readily point out that Associations play the role in Costa Rica that many NGOs play in other countries, diminishing the need for or role of NGOs in the country, even though NGOs do number approximately 150 and are slowly gaining in importance.

Another example of a particular connotation of "NGO" is in Nicaragua, where not one NGO existed prior to the current Chamorro government but where now approximately 400 exist. The reason is the ex-functionaries of the former Sandinista government spun out of the public sector into NGOs. The direct association between Nicaraguan NGOs and the previous Sandinista government implies that these NGOs are not necessarily broad in representation but rather most likely represent the views of the previous government. While collaboration is reportedly occurring between these NGOs and the current government, it is limited, particularly when compared to NGO-Government collaboration in other Central American countries.

In summary, NGOs are very important for municipal development because of their role in supporting and encouraging the community participation and empowerment process in the region as well as providing a vehicle for resource mobilization, but they must be viewed as possessing a different personality and role (as well as potentially a different definition) in different Central American countries. Furthermore, there are many key community organizations outside of the NGO community that play an equally and sometimes more significant role (such as in the case of Costa Rica). For this reason, while "NGOs" are important for municipal development, so are other community organizations. The potential of each for promoting participation, coordination and resource mobilization with municipal government differs and should be carefully considered.

CONCLUSION ON THE EXISTING SITUATION

Key to the community participation and empowerment process in Central America are public as well as private actors at the local, regional and national levels. However, the electoral process and traditional forms of community participation in the public sector are substantially more limited than participation in self-help community activities. The

traditional forms of participation include the open town meetings (cabildos abiertos), citizen in-kind (labor) and cash contributions to public works projects, and Ministry-community projects. Some unusual forms also exist, such as the Social Investment Fund programs (in El Salvador and Honduras) and the JCOP in Managua, Nicaragua. These forms of participation need to be improved and expanded as well as complemented by other existing forms.

Alternatively, participation in self-help community activities is extensive and more "meaningful." Particularly important in this process are, not just local community organizations, but also their second and third tier representatives as well as representative/supporting domestic NGOs and their respective associations, federations and networks. These broader scale supporting organizations, along with the myriad of international donors (public and private) funding them, are an integral component to the community participation and empowerment process, both for self-help activities as well as towards ultimately enhancing that participation in the public sector. They also offer an important resource for municipal development activities. As such, community organizations offer a vehicle for effective participation and greater resource mobilization.

c. Analysis of the Existing Situation Vs. the Ideal "Menu"

The existing situation in the region suggests that community participation and empowerment must be supported in both the public and private sectors. In the public sector, more democratization, education, openness, community involvement, and accountability are required to better allow and support community empowerment, representation and participation in those decisions and actions that directly impact the community. The ultimate legitimization of local governments will require them to define and utilize participatory systems as well as to mobilize their communities and resources in those communities. They will have to increase their own participatory capacity, disseminate more information on municipal concerns and activities, obtain more information on needs, and involve the community more in an overall development process of "co-gestión" and "co-responsibilidad".

In the private sector, increased support for and building upon community organizations (first, second and third tier ones) as well as NGOs and NGO federations is necessary to improve community leverage, organization, access to resources, participation and, ultimately, empowerment. That support should be accompanied by programs and projects with economic ends given that leverage appears to be linked with or enhanced by economic gains. Municipal governments themselves can support the development of such community organizations and find ways to better coordinate with them and help to make more effective use of municipal and community resources.

The earlier analysis of the key components or conditions for supporting meaningful community participation confirms much of what the existing situation suggests. More specifically, the earlier analysis suggests that the existing situation could be substantially improved by supporting processes and institutions in the public and private sector.

(1) **Municipal Government Legitimacy and Representation: The Electoral Process**

Municipal government legitimacy and representation exists—and to a far greater extent than ever before—with almost virtual universal municipal elections and mechanisms in some countries for proportional representation. The limitations, however, are the lack of municipal elections in Panama, limited or lack of proportional representation in some countries, and the separation of local from national elections. With regard to the latter, party "slates" of candidates severely limit popular choice and the extent to which groups outside the traditional political party system can participate and be represented by the public sector. Hence, while advances are being made with regard to legitimacy and representation, several substantial improvements are required to improve community empowerment and participation in the municipal government.

(2) **Democratic and Participatory Systems and Processes of Governance**

■ **Authority, Interest and Responsibility**

In Central America, authority (both *de jure* and *de facto*) exists for supporting and allowing community participation; in fact, it is often obligatory, such as in the case of elections and *cabildos abiertos*. There also appears to be scattered genuine interest in the public sector to support the process, such as in the case of Ministries that work directly with communities, governmental structures that have been established for that purpose (such as DINADECO in Costa Rica or the JCOP in Nicaragua), and externally funded SIF (Social Investment Fund) programs that are channelled through government and whose key goal is to support community development and participation.

However, much of the public sector (both central and local) is not only disinterested in community participation but is often resistant to it (even those that express interest in it), since participation implies giving up power and control, for local governments which heretofore have been already severely limited by highly centralized national governments. The central government's resistance to participate is evident in the SIF programs, which are viewed from the private sector as highly vertical and not very participatory. For their part, Mayors view SIF programs and Ministry-to-community programs as threatening since they lose control over local activities. The fear of losing power is also implied in community participation. This is a significant challenge, particularly in light of the increasing authority and resources that will be channelled to Municipal governments and their Mayors in the process of decentralization and increased local autonomy. To a certain extent, therefore, more education on and requirements for participation (i.e., more democratization) may be necessary in order for public officials to share their power.

■ **Knowledge of and Capability for Participatory Mechanisms**

In addition to the fact that authority for, obligation to and interest in participation have had limited success in Central America, the public sector also has limited capability for supporting that participation. Local, regional and national government officials and staff have limited knowledge about the systems, processes and mechanisms that exist to support and encourage community participation (outside of elections, *cabildos* and manual labor).

In some countries, successes have been made with organic participatory structures and systems, such as in the case of DINADECO and the Confederation in Costa Rica. However, such a system cannot be arbitrarily or automatically established in another country, even though it could serve as a useful model, a means for cross-fertilization. In addition, the Costa Rican model is but one example among a variety of possible participatory structures.

There apparently also exist few examples of participation beyond the traditional mechanisms of "information gathering," community prioritization and execution (through manual labor). In other words, participation in Central America generally occurs only at the assessment and implementation stages, but not in true planning, design and decisionmaking stages. The reasons are clear: these stages are the ones that involve more power and control over the development process. Hence, more meaningful participation (i.e., in all stages) implies community empowerment. However, it also implies "co-development" and "co-responsibility" and a means for local government to receive support, resources and guidance from the community at large.

■ **Accountability**

Finally, the community is virtually never involved in the evaluation stage of a project, where the funding is run by or channelled through the public sector. The FHIS program in Honduras is a good example: there are no evaluations, much less ones that involve the community. This stage is critical because it is linked to the accountability and "transparency" of the public sector. While an evaluation is not as useful if it is not connected to accountable systems, an evaluation of a public works project that yields poor results could still result in community pressure for change in the public sector. Hence, this component, while virtually non-existent in Central America, could increase the meaningfulness of participation. Finally, the power of recall, while a more drastic measure, is an important tool for accountability. The power, which is essentially a way to "ensure" that a government will be accountable, is not but should be a universal power.

All of the above deals with the existence and quality of the interface between local governments and their communities. If a municipality does not have that interface, that interface is limited in scope, quality or quantity, the municipality cannot effectively engage the community. Finally, the impact of that interface also determines its effectiveness.

(3) Citizen Organization and Leverage

Many structures, processes and mechanisms are at play in the private sector in Central America that are supporting community participation and empowerment and that offer a vehicle for participation and resource mobilization in the public sector. Even the numerous individual small-scale grassroots projects that are being supported can eventually have a significant "snow-ball" effect in supporting that process. This is especially true when, within a given small community or neighborhood, actors from different organizations coordinate with and support each other, as has been the experience, for example, of Save the Children in El Salvador.

However, the most sustainable and successful structures appear to be those that provide some form of broader or larger scale coordination, internal participatory mechanisms, access to resources/TA/training, representation (legal and otherwise) and political/economic leverage. Such structures include, as previously mentioned, second and third-tier "membership" or "advocacy" organizations of communities and community groups (such as the Confederation of Community Development Associations in Costa Rica). They also include NGOs and their second and third-tier organizations (such as ASINDES in Guatemala and FOPRIDEH in Honduras). Sometimes, such coordinating structures are simply informal "networks" among existing NGOs and community organizations, such as is the experience of UNICEF in El Salvador. These types of structures are common in every country and represent an important resource base, coordinating point and leveraging mechanism for numerous grassroots organizations. While working through such broader scale organizations is not always necessary, supporting organizations that are members of, or represented by, such organizations is important for all the reasons cited above.

Some of these organizations support participatory structures but are not always internally participatory. This lack of internal participatory structures is more common among NGOs since they are not membership organizations; rather, many work on behalf of the poor. Still other NGOs operate as private firms or companies, financing themselves from the projects in which they engage. While NGOs do not necessarily need to become more participatory themselves, it is important to recognize that some do not possess this trait even though they support it in the communities or organizations they represent.

The economic and political leverage achieved by such organizations tends to be enhanced by legal status and the extent to which they engage in productive activities. The former is often a requirement of international donors before an organization receives funding; it is often a requirement of government before it considers a group to be officially recognized or formally represented in the political arena.

An example of the latter (i.e., the importance of productive activities for economic leverage) are cooperatives and federations of cooperatives (such as in the case of CARPROMACOL in Honduras). Since cooperatives usually focus on productive activities, they tend to achieve economic leverage through the attainment of economies of scale, diversification, etc. This contrasts to federations or associations that are focused more on social rather than productive ends. While cooperatives do not always exhibit internal participatory mechanisms and are often less concerned with the overall development of the community than with their own levels of income and production, they do have the advantage of possessing productive goals that often translate into economic leverage and sustainability. NGOs, associations, patronatos, etc., that are not involved in productive activities can, as a result, learn (and have learned) from the experience of cooperatives (and other productive organizations) in achieving this leverage and sustainability. For this very reason, many organizations interested in supporting community participation link their support with productive activities. This is increasingly the approach of the Associations of Costa Rica, the FH'S of Honduras, and the Inter-American Foundation throughout the region.

CONCLUSIONS

To effectively engage community participation and assure its empowerment in the municipal development process, actors involved in the process can only achieve such goals through: 1) municipal government legitimacy and representation; 2) democratic and participatory systems and processes of governance; and 3) citizen organization and leverage. PADCO found these to be the three pillars of community empowerment.

The existing reality in Central America is that community empowerment through these three "pillars" or key components is, as a whole, severely limited. The exception is citizen organization and leverage, which through second- and third-tier support organizations is advanced in the region. The limitations exist largely along with the appropriate mechanisms for accountability in the municipal electoral, planning, decisionmaking, implementation and evaluation process. In these areas, community participation and empowerment is limited, thereby reducing participation in municipal government legitimacy and representation, on the one hand, and democratic and participatory systems and processes of governance, on the other.

The limitations on participation can be improved through several means. First, improvements can be made through the education and training of both municipalities and community organization in "co-gestión" and "co-responsabilidad," which includes a better understanding of respective realities and needs as well as appropriate participatory mechanisms. Second, such mechanisms need to be institutionalized, along with the appropriate mechanisms for accountability. Third, such participation needs to be supported by programs that effectively and efficiently mobilize, coordinate and utilize scarce municipal and community resources. Only through such a coherent and coordinated approach can effective community participation and empowerment be possible.

IV. MUNICIPAL RESOURCE MOBILIZATION AND UTILIZATION

A. FISCAL BASE AND FINANCIAL MANAGEMENT

1. OVERVIEW

Common factors powerfully influence municipal finance in the countries of Central America. This overview seeks to assess these factors and how they affect the region's municipalities. It is also important, however, to recognize the significant differences that exist both within and among the five countries studied⁵ and more than one thousand municipal governments in the region, ranging from major metropolitan cities to geographically isolated rural communities. Efforts to identify and assess these differences are made in Annex V of the report. But this section reviews the factors most common to the region's local governments, including those difficult problems to which a common response appears most appropriate.

a. Basic Urban Service Deficits

Throughout the region—with exceptions only in high-income urban areas—there are patent shortcomings in the public services for which local governments are commonly responsible: streets, sanitation, water supply and pollution control, among others. Infrastructure and public works are often inadequate, obsolete or entirely absent. Small, hard-pressed municipal staffs are poorly supplied, equipped, and supported. The result is that cynicism and despair are common citizen attitudes toward municipal government. Furthermore, central government officials, too often ill-disposed toward even the idea of decentralization, cite the widespread failures of local government to justify holding tight to an array of controls that limit municipal improvement.

In each of the five countries of the region, the national constitution proclaims the "autonomy" of each municipal government and its right to provide a full range of public services to its residents. But the realities of constrained local resources and the intervention of central government agencies and institutions to provide basic local services too often make a mockery of high-sounding constitutional provisions.

b. Municipal Revenue Levels

Low levels of Revenues are the principal reason behind most municipal shortcomings. Local government revenues in all five countries are extremely limited—whether measured in terms of the municipal share of total government revenue or the ability to pay of local residents, industry, or agriculture:

⁵Panama was not included in this part of the assessment.

- Municipal revenues in Central America currently range from less than 3 percent of total public sector revenues (in Nicaragua) to a high of about 10 percent (in Guatemala). This contrasts sharply with the situation in the United States, where local governments—states, counties, and cities—account for 50 percent of total public sector revenues.
- Municipal revenues in Central America account for only 0.7 percent of GNP per capita, only one-sixth as much as the 3.9 percent of GNP per capita received by local governments in Spain—which is itself at the low end of the spectrum in municipal revenue shares in Europe, according to Cooperación Español.
- In Central America, annual per capita levels of municipal revenue range from less than \$2 in rural areas to \$5 in secondary cities and highs of about \$25 in the capital cities. Even with the low salaries of most municipal employees in Central America, these minimal revenue levels leave local government in a tight fiscal bind.

2. KEY FINDINGS AND CONCLUSIONS

a. Municipal Revenues

Extreme scarcity of revenue available to support the recurrent budget is common throughout the region while capital revenue conditions vary widely. Everywhere in Central America, municipal governments have access to few revenues to support their recurrent budgets—which pay the wages and fringe benefits of municipal employees and for the supplies and equipment needed to support their service delivery functions. The revenue constraints on recurrent spending result in few employees, sparse services, and little or no maintenance or repair of the public capital plant.

Capital revenue availability varies widely. In Guatemala, local governments benefit from 8 percent of total national government revenues for infrastructure and public roads construction. Honduras will soon begin a similar program. At the opposite extreme, most of the capital funds available to Salvadoran localities come from a USAID-financed public works program, initially designed as a counter-insurgency effort, and in Nicaragua there are virtually no funds at all for capital construction by municipalities.

b. Municipal Resource Mobilization

The principal cause of the municipal revenue shortages in Central America is failure in resource mobilization. Although a wide range of taxes is available to municipalities in many of the countries of the region, the costs associated with the administration of many of these taxes are often higher than the revenues which they generate. This problem frequently results from the low tax base and fixed rates set by national governments. Municipal government efforts to change or adjust these are often subject to delay or denial by national governments.

Real estate taxes are one of the principal sources of local finance in Costa Rica and Honduras. However, the utilization of such taxes to finance local development is generally weak

or non-existent in the other countries. In all cases, the use of real estate taxes to finance local development can be expanded and improved.

Making the situation worse, most municipalities are unable or unwilling to collect even those limited taxes and service charges they are allowed to levy; rates of nonpayment between 20 and 50 percent are common.

c. Inter-Governmental Transfers

Inter-governmental transfers vary widely among the five countries. At one extreme are Guatemala and Honduras, where substantial fractions of all national revenues (respectively, 8 percent and—starting in 1994—5 percent) are earmarked for local government. But there are now virtually no inter-governmental aid programs in Nicaragua and—except for externally-supplied grants—little such aid in El Salvador. Costa Rica is in an intermediate position; if its sharing of the real estate tax with local governments is viewed as intergovernmental aid, then such transfers account for the lion's share of revenues available to local government.

Intergovernmental transfer programs show little evidence of having been designed in line with a strategy—such as upgrading selected urban centers for economic development, citizen empowerment, or upgrading municipal management capacity. Given the stringent economic conditions under which central governments in the region now operate, this apparent absence of a municipal strategy means that they are foregoing an opportunity to get maximum benefit from scarce national resources.

d. National/Municipal Public Service Responsibilities

Because of inadequate revenues, municipal expenditure levels are low and, largely as a result, finance only a restricted range of public services. For the most part, local governments provide only refuse collection, street repair and lighting, plus some revenue-producing functions, such as markets, slaughter-houses, and bus terminals (which could as easily be provided by the private sector). The major exception is in Guatemala, where water supply and sewerage are municipal functions. Also, there are specific exceptions in other countries, particularly in the capital cities, most of which are responsible for a much broader range of services.

What are commonly local public services elsewhere are generally national responsibilities in Central America (health, education, social services, police and fire, etc.) Municipalities exert virtually no influence over these vital systems. As a result, there is widespread concern about the non-responsiveness of these key services to local concerns. The failure to obtain citizen input is viewed by some observers as a major obstacle to strengthening democracy in Central America.

The decisions on how—or whether—to respond to the fiscal bind of local governments in Central America must ultimately be made by the people of the region through their local and national governments. On the basis of the findings and conclusions presented above, however, the resulting needs are three-fold. First, local resource mobilization must be

improved through, for example, upgrading of the tax collection and cost recovery systems, expanding local tax authority and credit availability, and fostering information exchanges among municipalities and countries on different financing mechanisms. Second, the fiscal base for decentralization must be improved by, for example, making revenue-raising authority permanent, altering and/or limiting the role of national fiscal "monitors," and upgrading municipal financial management capabilities. Finally, intergovernmental transfers need to be expanded and improved. This can be achieved by introducing national revenue-sharing where it does not now exist or improving it where it does exist (through revised distribution formulas and levels), conforming revenue-sharing to strategic economic objectives that are proportional to municipal size and growth potential, and removing unnecessary and inefficient rules for revenue-sharing.

B. HUMAN RESOURCES DEVELOPMENT: Municipal Training and Technical Assistance Needs

The scope of work and the level of effort specified for this assessment did not permit a detailed assessment and prioritization of municipal training and technical assistance needs. However, PADCO's interviews with national and municipal government officials related to the basic areas of analysis clearly indicate that the local government sector needs strengthening in almost every respect. In order to meet the needs, policy and institutional targets will need to be set selectively and a long-term approach taken, given that practical decentralization constitutes the work of an entire decade. Sustained efforts to increase the effective participation of the local community and beneficiary target groups in local development activities must be an essential part of that process. Training and technical assistance support for the implementation of required changes must be carefully staged and targeted. **Table II** summarizes the priority areas identified for municipal training and technical assistance by the municipalities consulted in a recent INCAE investigation⁶ in Honduras. It provides an indicative categorization of the types of requirements found throughout the region.

In general, the municipalities consulted in each country during this assessment identified financial administration and management as the highest priority including budgeting, revenue and tax plans, and related improvements in cadaster systems in support of revenue generation and development planning.

⁶INCAE, "Investigación Participativa de Necesidades de Capacitación y Asistencia Técnica de las Municipalidades en Honduras," July 1989.

TABLE II	
PRIORITY AREAS FOR MUNICIPAL TRAINING AND TECHNICAL ASSISTANCE	
Principal Area/Basic Actions	Basic Requirements for Success
A. FINANCIAL ADMINISTRATION	
1. Municipal Budgeting	<ul style="list-style-type: none"> ■ Plan/Schedule for taxes and fees ■ Investment plan coordinated with development plan ■ Financial analysis and forward planning
2. Tax Collection	<ul style="list-style-type: none"> ■ Specialized personnel ■ Community promotion ■ Improve services ■ Billing system ■ Collection plan
3. Approval of Plans	<ul style="list-style-type: none"> ■ Updating of cadaster ■ Institutional Assessment
B. PLANNING OF MUNICIPAL DEVELOPMENT	
1. Development Policies and Strategies	<ul style="list-style-type: none"> ■ Upgrade organizational structure ■ Assess resources ■ Develop short and medium-term strategy ■ Promote participation of community leaders
Principal Area/Basic Actions	Basic Requirements for Success
2. Urban Development Plan	<ul style="list-style-type: none"> ■ Urban assessment and strategy development ■ Urban development regulations ■ Update/modernize cadaster ■ Promotion/consensus of community leaders ■ Inter-governmental coordination
3. Economic Development Plan	<ul style="list-style-type: none"> ■ Social-economic assessment ■ Specialized personnel ■ Budget/Equipment ■ Participation of community leaders (formal/informal)
C. PROVISION OF BASIC SERVICES	
1. Preparation of Plans/Strategies	<ul style="list-style-type: none"> ■ Identification of needs ■ Socio-economic studies ■ Plan formulation/preparation ■ Promotion of financial resources
2. Execution of Public Works	<ul style="list-style-type: none"> ■ Executing units ■ Implementation plans ■ Monitoring and control of works

TABLE II	
PRIORITY AREAS FOR MUNICIPAL TRAINING AND TECHNICAL ASSISTANCE	
3. Tariff Rates Setting and Collection	<ul style="list-style-type: none"> ■ Affordability studies ■ Economic consultancy ■ Promotion plan ■ Billing systems ■ Collection and cost recovery
D. LEGISLATION, REGULATIONS AND CONTROL	
1. Plan/Schedule for Taxes and Fees (Plan de Arbitrios)	<ul style="list-style-type: none"> ■ Affordability assessments ■ Legal and economic advice ■ Plan for dissemination and promotion
2. Passage of Ordinances to Guide and Control	<ul style="list-style-type: none"> ■ Urban development plan ■ Plan/Schedule for taxes and fees ■ Technical and legal advice
Principal Area/Basic Actions	Basic Requirements for Success
3. Creation of Decentralized Enterprises and Units	<ul style="list-style-type: none"> ■ Feasibility studies ■ Legislation ■ Financial analysis ■ Assessment of human and material resources
E. COMMUNITY ORGANIZATION	
1. Promotion of Patronatos and Special Purpose Organizations	<ul style="list-style-type: none"> ■ Community dialogue and promotion ■ Leadership training ■ Organizational strengthening and role definition/development (patronatos, committees, etc.)
2. Approval and implementation of Plans and Strategies	<ul style="list-style-type: none"> ■ Identification of needs ■ Assessment of existing plans ■ Formulation of budgets ■ Identification of financial resources ■ Plan/Strategy approval and execution
3. Coordination	<ul style="list-style-type: none"> ■ Supervision and control ■ Evaluation and adjustment
4. Promotion of Intra-Municipal Associations and Support Systems	

TABLE II	
PRIORITY AREAS FOR MUNICIPAL TRAINING AND TECHNICAL ASSISTANCE	
F. CONSERVATION OF NATURAL RESOURCES	
1. Forest Control/Watershed Management	<ul style="list-style-type: none"> ■ Control of cutting and burning ■ Formulation and application of sanctions and fines
2. Control of Concessions to Export Resources	
3. Disaster Prevention	<ul style="list-style-type: none"> ■ Preventive works ■ Crop adjustments
SOURCE: Investigación Participativa de Necesidades de Capacitación y Asistencia Técnica de las Municipalidades en Honduras, INCAE (1989)	

The scale of technical assistance and training required is enormous, yet most of the countries do not have the institutional capacity in place to provide systematic, timely and relevant technical assistance and training to municipalities.

Central government ministries and autonomous institutions provide some informal, non-planned, direct technical assistance to municipal governments. Formal technical assistance is provided by the technical staff of national municipal institutes. However, for the most part, this assistance is paid for indirectly by the municipalities through commissions for credit lines or loans. Municipal institutes sometimes contract for technical assistance with national consulting firms—mostly for feasibility studies. Larger municipalities have the technical and financial capacity to contract their own technical assistance and do so, sometimes, with international financing.

There are reasonable levels of municipal training in Guatemala, Honduras, Costa Rica and El Salvador; lower levels in Nicaragua; and very low levels in Panama. Most municipal development training is supported by international donor agencies. Some of this training focuses on local development policies and planning, but most is targeted to improve internal efficiency (i.e., public administration, accounting and budgeting, etc.) with less emphasis on external efficiency. Two regional institutions, ICAP and INCAE, have been providing training to municipalities in recent years.

In summary, the absence of national institutional technical assistance and training capacity as well as the lack of systematic policies and strategies to guide the effective and systematic utilization of limited resources are major constraints to the decentralization and municipal development process.

PART THREE CONCLUSIONS AND RECOMMENDATIONS

V. RECOMMENDATIONS: BASIS FOR A REGIONAL STRATEGY AND PROGRAM

The previous findings on Central American municipal development realities and conditions underscore the need for a series of coherent reforms. The region must undergo these reforms if it is to effectively engage in a process of decentralization, democratization and economic development. The following recommendations, which form the basis of the strategy and program set out in **Volume II**, specifically identify and describe these required reforms.

A. MUNICIPAL MANDATES

The concentration of powers in the central governments of the region is quite strong despite some recent and promising possibilities for decentralization. Although the constitution and municipal codes in five of the countries mandate municipal autonomy and self-government, a series of specific laws and decrees contradict and reduce municipal government powers.

The actual level of municipal self-government is quite low. Municipal governments are still tightly controlled by central authorities and do not exercise financial autonomy over municipal income and expenditures. Real municipal control over, and responsibility for, the planning and management of local development and the provision of basic services within their jurisdictions is extremely limited. In part, this is due to reduced administrative, financial and technical capacity.

National decentralization policies directed to remedy the above situation are generally limited in scope and coherency, reflecting a variety of distinct and even conflicting concepts. The heterogeneity of municipalities (i.e., the size, population and urban-rural differences) make common policies, planning and programs difficult even though legal mandates are the same for all.

As a result, national decentralization policies must:

1. Coincide with and be supported by reforms in central government laws, policies and regulations that impede decentralization.
2. Clearly specify the authority, responsibilities and resources to be transferred from the national to the local level.
3. Clarify responsibilities that are to be strictly municipal, strictly national and shared.
4. Target and effectively utilize scarce financial, technical and human resources.
5. Take into account municipal size, capacity and potential as well as the technical assistance and training that will be required to facilitate and support the process.

B. LOCAL GOVERNMENT STRUCTURE

The municipality necessarily plays a key role in democratization and political representation since it is the only level (other than the national one) where political representatives are elected, with the partial exception of Panama where the President still appoints mayors. As a result, both the election process and the subsequent local government structure, including participatory mechanisms, are key to democratization and any decentralization process. The realities, however, are that democratization is severely circumscribed in all these areas.

In the electoral process, the fact that candidates can only be submitted by political parties limits the extent of community choice and voice in the key initial stages of the election process. In addition, the tradition of party "slates" of candidates as well as of simultaneously held national and local elections reduce the extent of local autonomy. Moreover, while minorities are, in some countries, granted representation through the proportional and "cifra repartidora" systems, improvements could be made on this front as well.

In order to improve democratization and local representation, reforms must be made in electoral practices to overcome restrictions on voter choice and ultimately political representation through reforms that:

1. Authorize independent candidate submissions;
2. Abolish party "slates;"
3. Separate local and national elections;
4. Make universal and improve the proportionality of vote system; and
5. Achieve *universal* local elections of mayors (i.e., including in Panama, where they still do not occur).

In the organization and management of government, the broad form of government (e.g., Strong Mayor-Weak Council) is not so critical (given that all forms have their advantages and disadvantages) but rather the knowledge and capabilities existing at the local level to support that government as well as the interface that exists between the public and private sectors. In other words, if either of these are lacking, then the purpose of government (i.e., in representation, governance and service provision) is severely limited, and democracy is diminished. In reality, both the internal capability and support of local government administration is limited as well as its ability to interact with and effectively respond to and represent the interests of its populace.

To this end, additional reforms are needed to:

6. Improve local technical, financial and administrative capacity;
7. Establish meaningful and effective methods for community participation in the public planning, decisionmaking, implementation and evaluation processes;
8. Ensure government accountability (as fully addressed under the section on community empowerment and representation).

C. COMMUNITY PARTICIPATION AND EMPOWERMENT

Effective community participation and empowerment in the municipal development process can be achieved only through: 1) municipal government legitimacy and democratic representation; 2) democratic and participatory systems and processes of governance; and 3) citizen organization and leverage. The existing reality in Central America is that community empowerment through these three "pillars" or key components of participation is, as a whole, severely limited. The exception is citizen organization and leverage, which—through second- and third-tier support organization—is highly advanced in the region. The limitations exist largely in community participation in the municipal electoral, planning, decisionmaking, implementation and evaluation process. These limitations reduce municipal government legitimacy and representation, on the one hand, and democratic and participatory systems and processes of governance, on the other. As a result, reforms are needed that:

1. Result in more in-depth studies and assessments to confirm and expand on the above findings (i.e., support on-going research and evaluation). It is important given the limited amount of successful cases, research and knowledge on community empowerment and participation in the Central American municipal development process.
2. Support the goals of "co-gestión" and "co-responsibilidad." In other words, it is necessary to improve participation such that it, in turn, *empowers* and *makes responsible* both municipalities and their citizens, thereby promoting a joint process of democratization and development. Such a process should also effectively mobilize and utilize scarce resources at the local level.
3. More accurately and systematically assess the impact of different programs at the local and national levels and of their participatory mechanisms. This is true for all government-run and funded programs, but particularly for those that channel large amounts of national and/or international funding to the local level (either through or around municipal governments) but that at the same time lack systems to evaluate the impact (and costs and benefits) of such programs, as is the case with the Social Investment Funds (SIF). However, equal attention should be paid to locally-run and funded government programs and activities in order to assess where and how community participation can be improved.
4. Provide TA and training in the importance, components, systems and instruments for effective participation to:
 - a. municipal associations and development institutes (at the regional and national levels) that can, in turn, provide TA and training to municipalities;
 - b. national government institutions (e.g., the Ministries, inter-agency groups and entities operating community and/or SIF programs); and
 - c. municipal governments (directly).
5. Provide TA and training on participation in the municipal process to community organizations and NGOs. Such TA and training should focus on not simply the mechanisms for participation but also the laws, responsibilities, and constraints of the public sector such that the citizenry can increase their awareness of the municipal government conditions and needs so that the community can, in turn, play a larger role in "co-gestión" and "co-responsibilidad."

6. Institutionalize and improve the requirements and accountability mechanisms for participation in national and local government-run programs, given that government interest and incentive for engaging and assuring such participation are often lacking. Such requirements and accountability mechanisms should be accompanied by the above mentioned education and training to enlighten government officials and staff to the advantages of that participation, insofar as credibility, support, assistance and resource mobilization are concerned.
7. Support improvements in the electoral process that include making municipal elections universal, granting greater local political autonomy by separating national from local elections in both date and platforms, expanding the election process to allow groups not represented by a political party to enter candidates, increasing voter choice by eliminating party candidate slates, and improving the system of representation such that it is based on the proportionality of vote principal.
8. Support greater community participation in not just the "information gathering" stage of the development process but also in the prioritization, planning, decisionmaking and project implementation stages. In addition, participation in the "implementation" of projects should go beyond citizens "contributing" their time and labor for public works projects to include them in the management and supervision of such projects. This implies making better use of existing instruments such as "cabildos abiertos" but also utilizing new ones. Finally, it would be helpful to support pilot or experimental public sector programs that involve active community participation and that would result in "demonstration projects" for other municipalities.
9. Support public sector collaboration with broad-based and large-scale second and third-tier community organizations as well as of NGOs (and their federations) to improve the community empowerment and participation process in municipal activities. The natural level of affiliation for such community organizations would be with sub-national, national and regional municipal development associations and institutes as well as with government Ministries.
10. Arrange opportunities for *product-oriented* "encuentros" between groups in and out of power to facilitate the participatory process. Such product-oriented "encuentros" would help to focus groups from highly-divergent political affiliations on action-oriented programs that transcend politics and in which agreement can be found (such as in public services, housing and health). This activity, which was recommended by representatives in both the public and private sector from different political affiliations, is particularly important where political divisions make participation difficult and where certain groups are otherwise excluded from the development process.
11. Establish systems for community participation in the evaluation of public sector projects as well as systems for accountability of the public sector. These would include evaluations (formal and informal), published public surveys, and the institutionalizing of the "power of recall."

D. MUNICIPAL SUPPORT ORGANIZATIONS

Municipal support organizations are critical to decentralization and democratization in the region, playing the same essential role for their member municipalities as community organizations and NGOs play for their respective member and client communities. This role—of providing the means for one to "meaningfully participate in one's own development"—implies that municipal support organizations play several critical functions for their members. These include organization, representation, resource mobilization, leverage, economies of scale and access to technical assistance and training. These functions are certainly the ideal and constitute some of the critical building blocks of democratization and decentralization. However, the reality in Central America is that all these functions, as previously described, are provided in a very limited fashion through the combined activities of municipal associations, on the one hand, and municipal development institutes, on the other. As a result, reforms are required to improve the institutions and processes that support the development of municipalities in the region. Specifically, reforms are required to:

1. Educate and train all those actors involved in the municipal development process (be they municipalities, departmental representatives, national governments or international donors). This education and training are necessary so that coherent strategies for supporting democratization and decentralization can even begin to be supported. Most critical, however, is that the municipalities themselves become knowledgeable of the importance of their supporting institutions.
2. Clearly define and coordinate the respective roles of associations and institutes, particularly where training, technical assistance and financing mechanisms are concerned.
3. Organize and mobilize municipalities such that their respective municipal associations and development institutes are representative and sustainable. This mobilization needs to come largely from the municipalities themselves, since it is a question of "ownership," participation and self-determination, albeit with support from the national, regional and international community.
4. Target, obtain and effectively utilize technical and financial assistance from actors at the national, regional and international levels. This assistance will very well need to come through the same support organizations (associations and institutes) that require institution building. In other words, municipalities not only need to know what road to follow in order to reach their goal—and the resources to do it—but must also know how to make improvements to the vehicle that will ultimately get them there.
5. Combine that institution building with coherent and well-formulated strategic plans. In fact, by carefully designing policies and the programs to implement them, municipalities and their support organizations can maximize the limited resources available to them. Only with such a strategy can municipalities effectively develop and participate in an overall process of democratization and decentralization.

E. MUNICIPAL FINANCE AND FISCAL AUTONOMY

The decisions on how—or whether—to respond to the fiscal bind of local governments in Central America must ultimately be made by the people of the region through their local and national governments. On the basis of the findings and conclusions presented previously; however, the following recommendations appear appropriate. They are presented in order of perceived priority.

1. Improve Resource Mobilization

- a. Upgrade Tax Collection.** The present widespread evasion and late payment of local taxes is a serious problem for municipalities throughout the region. It results in revenue shortfalls and saps the credibility of local officials. While much should be done to improve the structure of local tax systems so as to improve collection capability, there is also ample scope for mayors and councils to mount immediate efforts to improve revenue collection under existing authority. Postponing efforts to strengthen tax collection until municipal service quality improves—the excuse offered by some local officials—is an unwise and unrealistic approach.
- b. Upgrade Cost Recovery.** The same serious shortfalls in revenue collection characterize many service delivery systems for which full cost recovery should be achieved. This is especially important for services such as water, drainage, and lighting where the failure to collect legitimate charges seriously hampers efforts to deliver adequate services. Such failure has also been found to be of little or no benefit to low-income residents to whom services are often not extended because of revenue shortfalls.
- c. Expand Local Tax Authority.** Local governments need the authority to levy efficient, effective and equitable taxes if they are to support the cost of essential services. There are three principal choices of tax most appropriate for local reliance:
 - The real property tax is the single resource relied on most commonly by local governments throughout the world. But to be an effective local resource, a real property tax needs three critical features: it requires an adequate cadastral base of maps and property records; there must be an effective system for assessing property values; and the local government must have discretionary authority to vary the tax rate—at least sufficiently to keep pace with inflation. Significant efforts are required to strengthen property tax systems where they exist in the countries of Central America.
 - The vehicle tax, levied on the value or just on the ownership of a motor vehicle, is a potentially productive and efficient tax for local government. It is generally progressive because vehicle owners are generally wealthier than other citizens and—especially if linked to national systems of vehicle registration—is inexpensive and easy to collect. This is a tax that would be most productive for the region's major cities where motor vehicle use generates the greatest demands on streets and services.

- The sales tax, either in its direct form or as a value-added levy, is another appropriate and effective local tax, especially in situations where it can be linked as a local surcharge on the rate of a nationally-collected sales tax.
- d. **Expand Credit Availability.** Expanding the ability of municipal governments to borrow so as to finance long-term capital infrastructure investments would be of major benefit, especially for the region's larger cities. Efforts to expand credit availability must, however, be based on realistic interest rates sufficient to repay the loans after inflation and on sound lending policies that assure repayment of principal through insistence on collateral and other standard practices. For the near future, credit for municipal governments is likely to come only through public or parastatal institutions, but a long-range goal should be strengthening municipal management to the point where the private sector is willing to provide credit as well.
- e. **Exchange Information and Ideas.** There already exists in Central America an enormous body of knowledge and experience in municipal government. Both at the national and local levels (especially in the larger cities), there are people who have information that ought to be shared with their peers in other localities and countries. Expanding the opportunities for such interchange offers a cost-effective approach to upgrading governmental capacity and competence.

2. Strengthen the Fiscal Basis of Decentralization

- a. **Make Revenue Authority Permanent.** At present, municipalities throughout the region are subject to the requirement of annual approval of their revenue-raising authority by national legislatures or central administrators. Usually, this takes the form of requiring approval of a detailed schedule of local taxes and service charges (often called the "plan de arbitrios"). An important step toward effective home rule would be adoption of a Municipal Code or other legislation making permanent the revenue-raising authority of local governments in a form that at least allows them reasonable flexibility to increase (or decrease) rates. Without this, municipal authorities are subject to continual second-guessing by national authorities and much of the potential for decentralization is destroyed.
- b. **Alter the Role of National Monitors.** Another significant obstacle to increased decentralization of authority and responsibility to local government is the oversight role played by central government monitors. This is true even though in many cases the central role is justified by the fear—unfortunately, on occasion well-founded—that local authorities will behave irresponsibly without close supervision by the Ministry of Government, or by an autonomous body set up to exercise oversight of local governments or by the national Comptroller's Office. The goal should be for these national bodies to limit their interventions to such actions as: providing training and technical assistance, including written guides on effective local administration; establishing standards for accounting and other financial controls; and carrying out

post-review of the financial actions taken by local governments. Pre-audit, pre-approval of local budgets, such as is now done in several countries, is a serious handicap to effective decentralization.

- c. **Upgrade Financial Management.** The key financial management systems—especially budgeting and accounting—of local governments need to be improved. The serious flaws that now exist in many localities offer too ready an excuse for central officials already skeptical of the potential benefits of decentralization. In addition, it is essential to increase the number and improve the quality of financial management personnel in local government.

3. Expand and Improve Intergovernmental Transfers

- a. **Introduce National Revenue-Sharing.** National revenue-sharing should be introduced where it does not now exist (for example, in Nicaragua and El Salvador). Even with improvements in local revenue-raising capacity, such as those recommended above, there will still be a critical need for national governments to share their more ample resources with municipalities. This is especially the case for the many poor rural and quasi-rural localities in the region.
- b. **Review and Revise Distribution Formulas.** The experience of Guatemala with its revenue-sharing system is one from which all countries in the region can learn. One important feature to consider is whether a percentage share of all central revenue is the most appropriate basis for such a system and, if so, what percentage level is likely to prove affordable for central governments over the long run.
- c. **Conform Revenue-Sharing to Economic Objectives.** Economic development is a vital goal for all countries in the region. If substantial national resources are to be committed to revenue-sharing with local governments, it would be appropriate to use such programs to direct resources where they will have the greatest impact on productivity and economic development. Distribution formulas that give equal weight to all municipalities—whatever their population or growth potential—are not consistent with this standard.
- d. **Remove Unnecessary and Inefficient Rules.** Another feature of intergovernmental revenue-sharing that needs careful review is whether there are constraints or limits that are unnecessary or inefficient. In Guatemala's program, for example, the prohibitions on using aid funds for the engineering and legal staffs essential to sound contracting, or for even minimal use to maintain or operate newly-built capital facilities, could well be eased. The new program in Honduras, or the modest program that now exists in El Salvador, both of which allow use of a modest portion of the funds for recurrent budget functions, appear sound in this regard.

ANNEXES

ANNEX I

NATIONAL/REGIONAL URBAN STRUCTURES IN CENTRAL AMERICA

INTRODUCTION

Central America's rapid urbanization during the 1950s through 1970s produced an ever increasing concentration of wealth and population in the large capital cities, and a lack of secondary cities in the 20,000 to 100,000 population range. However, the 1980s witnessed a remarkable growth in the number of secondary cities, despite continued growth of the primate cities. As Central America looks towards the year 2000 with a reinforced commitment to export-oriented development, these new secondary cities could play two vital roles: to foster non-traditional exports that do not have to be located near the principal internal market, and to absorb some of the migration that is feeding the explosive growth of the marginal *barrios* in the primate cities.

This annex documents recent changes in the urban hierarchies in the countries of Central America, pointing out which secondary cities show the most growth potential. The study draws on the most recent published census data and other published sources, complemented by interviews with government officials and other individuals who monitor urban growth in the region. Besides documenting urban population trends, the annex analyzes the functional division of labor among the principal cities in each country, their economic base, and their areas of influence. The annex concludes with summary recommendations for building a common urban development strategy for the region.

A. GUATEMALA

GUATEMALA CITY: Primate City for the Region and Nation

Guatemala boasts the largest primate city in Central America with 20% of the region's population, Guatemala City. In addition, as of 1980, 20% of the nation's population lived in the Guatemala metropolitan area, which was already 20 times the size of Quetzaltenango and 27 times larger than Escuintla, the two largest secondary cities (Echegaray 1990, p.12). By 1985, Guatemala City had nearly 1.25 million inhabitants and more than 60% of the nation's enrollment in middle schools (Anuario Estadístico). The growth of the metropolitan area is due in part to its being the primary destination for migrants within the country (including many refugees from conflict zones).

At the hub of the nation's transportation network, Guatemala City is located in the country's most productive agricultural region, the central highlands, which produces 85% of the country's coffee, along with sugar cane and cattle. The metropolitan area is also the main beneficiary from the growth of non-traditional exports, as the production of cardamon and ornamental plants and other such exports are concentrated in the central highlands.

Industrial growth during the 1950s through the 1970s has reinforced the capital's commercial primacy over other cities in Guatemala and even extended its sphere of influence to neighboring countries.

This industrial growth has continued into the 1980s and 1990s. Now, as an important part of the growth, apparel maquiladoras and assembly plants are increasingly locating primarily in the metropolitan area, although there is a free zone for maquiladoras in the port of Santo Tomas de Castilla on the Atlantic coast. (EIU)

Guatemala City's metropolitan area has grown to incorporate surrounding municipalities. Antigua Guatemala has entered the immediate zone of influence of the capital city, but is also experiencing growth in its own right due to the rise of non-traditional exports, particularly flowers, in its agricultural hinterland. El Progreso (now called Guastatoya), which is located in a semi-arid zone with little agriculture, has become a dormitory satellite of the capital city, lacking any strong economic base of its own. Chimaltenango, also in the capital's area of influence, is sharing much of the apparel maquila industry with Guatemala City.

Guatemala City is connected to the Atlantic Coast at Puerto Barrios, on the one hand, and to Mexico through Quetzaltenango, on the other, by one of the country's major roads. The Pan American Highway branches off from Guatemala City, connecting it to El Salvador. Another route connects Guatemala City to the Pacific coast at San Jose, passing through Escuintla. Rail lines connect both coasts to the capital, and there are branch lines from the capital to both borders. Commercial air service arrives at only one city outside the capital: Flores in the Peten region. One major road does not pass through Guatemala City: the Pacific Coastal Highway that roughly parallels the highland route through Guatemala City and passes through some important secondary cities: Escuintla, Mazatenango, and Coatepeque, skirting by Realhuleu.

City Size Category	1973	1981	1985
> 100,000	1	1	1
50-100,000	1	1	2
20- 50,000	4	6	10
10- 20,000	14	15	9
TOTAL	20	23	22

SOURCE: Census, 1973, 1981; PNUD/SEGPLAN, 1989.

While relatively stable through the 1970s, Guatemala's urban hierarchy underwent some significant changes in the 1980s: the blossoming of a new large secondary city, Escuintla, and the addition of several new smaller secondary cities in the 20,000 to 50,000 population range, as **Table Annex 1.1 and 1.2** illustrate. The number of towns in the 10,000 to 20,000 range actually declined between 1981 and 1985, however, as those that grew into the next size category were not replaced by new entrants.

Current estimates show that Escuintla has already overtaken Quetzaltenango as the second largest city. Four cities are expected to enter the 50,000 to 100,000 range during the 1990s: Santa Lucia Cotzumalguapa, followed by Coatepeque, Retalhuleu, and Mazatenango, all in the productive sugar cane region in the western Pacific coastal plains.

Through 1981, Quetzaltenango was the only secondary city between 50,000 and 100,000 inhabitants, serving smaller towns and rural areas in a large agricultural hinterland extending from the highland coffee zone to the Pacific coastal plains. As Guatemala City's primacy increased during the 1950s through 1970s, Quetzaltenango began to lose its importance for smaller towns in its hinterland, such as Retalhuleu and Mazatenango.

Escuintla, now the second largest city, is the major destination for migrants after Guatemala City. It is the most important urban service center for the wealthy Pacific region and the coastal plains that are home to large scale cotton production, along with sugar cane and bananas. The region's urban growth began in the 1960s and continued through the 1980s despite the consistent decline in cotton production during this decade (EIU, p.17). Escuintla is located strategically at the crossroads between the coast highway and the highway that connects Tegucigalpa to the major port for the region, Puerto San Jose. Also growing at above average rates, Puerto San Jose has large, modern port facilities and a diversifying array of urban services.

TABLE ANNEX I.2 GUATEMALA: POPULATION OF CITIES, 1973-1985				
URBAN CENTER	POPULATION (000)			RATIO
	1973	1981	1985	1985/1981
PRIMATE CITY				
Guatemala City	979.4	754.2	1,237.7	1.64
SECONDARY CITY				
Quetzaltenango	46.0	62.7	82.3	1.31
Escuintla	37.2	36.9	54.9	1.49
Retalhuleu	20.2	22.0	34.7	1.58
Puerto Barrios	19.7	24.2	30.2	1.25
Mazatenango	24.2	20.9	28.0	1.34
Coatepeque	15.9	19.3	26.9	1.39
Chiquimula	16.2	18.7	23.7	1.27
San Marcos-San Pedro	16.7	18.4	23.2	1.26
Jalapa	13.8	16.9	22.0	1.30
Sta. Lucia Cotzumalguapa	13.9	14.6	21.0	1.44
Antigua Guatemala	17.7	15.8	20.1	1.27
Chimaltenango	13.1	15.0	20.0	1.33
Santiago Atitlan	11.5	14.2	17.9	1.26
Coban	11.9	14.2	17.5	1.23
Huehuetenango	11.8	12.4	16.5	1.33
Tiquisate	10.8	12.1	16.2	1.34
Zacapa	12.7	12.5	15.6	1.25
Pto. de San Jose/Quetzal	<10.0	<10.0	14.5	---
Jutiapa	10.1	10.6	13.5	1.27
Patzun	<10.0	<10.0	12.4	---
Sta. Cruz del Quiche	<10.0	<10.0	11.6	---
NATIONAL TOTALS	5,211.9	6,054.2	n.a	---
SOURCE: Census, 1973, 1981; PNUD/SEGEPLAN, 1989.				
NOTE: Figures for the urbanized areas; cities are ranked by 1985 population of urbanized area.				
KEY: Shaded areas represent cities in the 20,000 to 50,000 range.				

Further up the coastal plains towards Mexico is the country's other major growth area outside of Guatemala City. This productive sugar cane zone contains several small secondary cities that are growing very rapidly: Santa Lucia Cotzumalguapa, Retalhuleu, Mazatenango, and Coatepeque. These are all urban trade and service centers for their surrounding agricultural hinterland. In addition, Coatepeque is growing from increasing trade with Mexico. Santa Lucia Cotzumalguapa is expected to become the fourth largest city in the country, mushrooming from just 20,000 inhabitants in 1985 to a projected 60,000 by the year 2000.

The Peten region in the far north is the least developed region of the country. Nevertheless, in recent years its large tropical forest reserves have attracted increasing colonization. The small departmental capital of Flores has grown significantly as a result. Accordingly, the domestic airline makes its only stop outside of Guatemala City in Flores on its way to the United States.

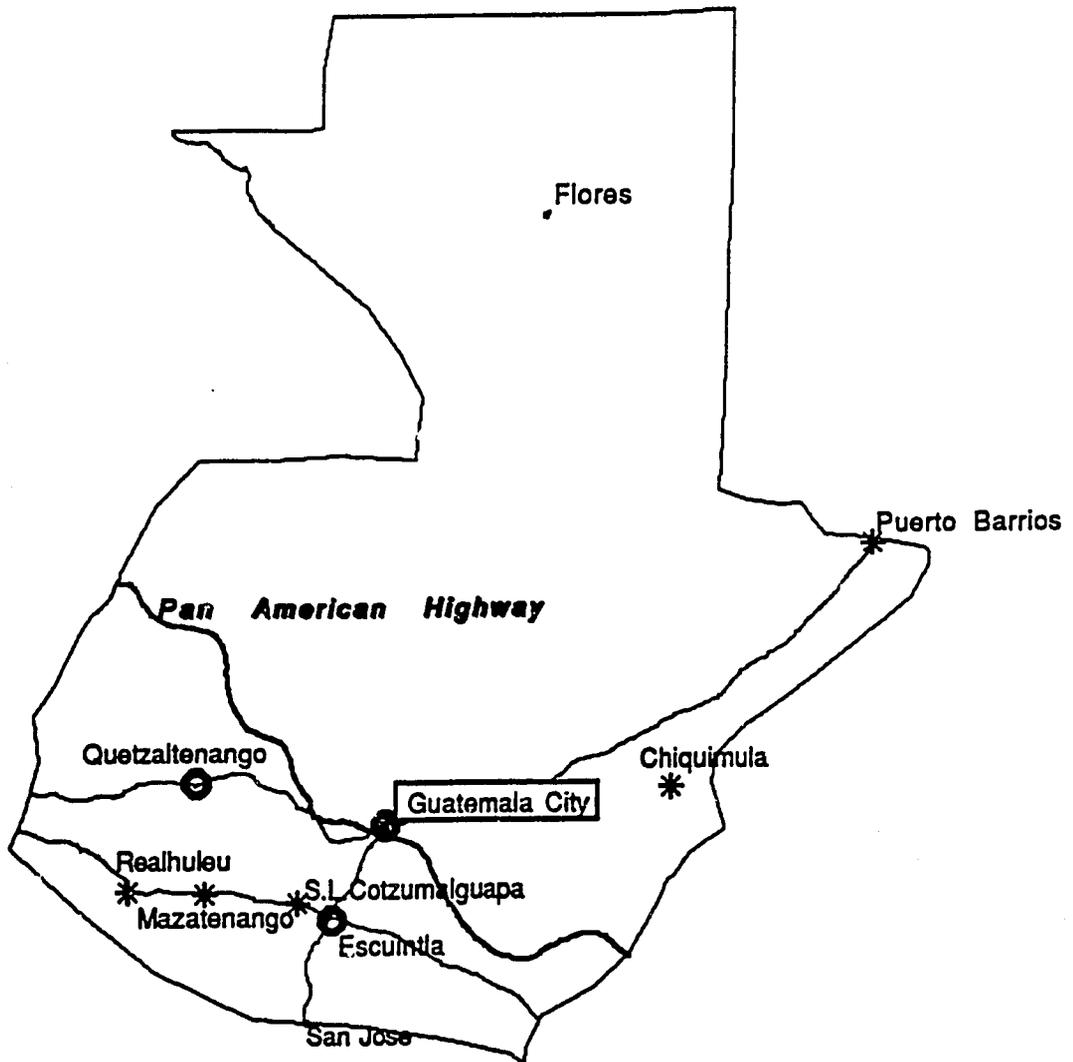
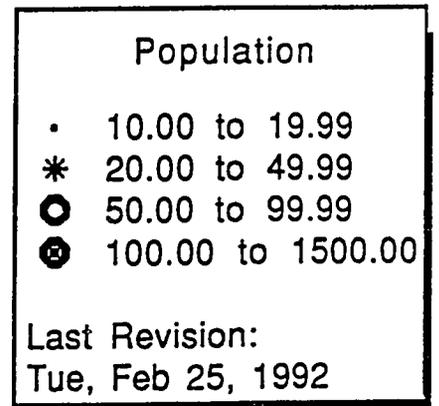
The Atlantic port city of Puerto Barrios is not growing rapidly, and the road connecting it to Guatemala City has deteriorated. However, with a new free trade zone, privatized port management, and growing banana exports from the region, as well as some non-traditional agricultural exports, it may be revitalized.

The northern highland region extending from the department of Quiche on the Mexican border to the departments of Zacapa and Izabal on the Honduran border is a poor rural region with a large indigenous population dedicated primarily to subsistence agriculture. The region is experiencing net outmigration. The major town is Coban, which lies on the route to Peten and is well connected to the highway to Guatemala City at El Progreso. Coban is growing, although slowly, based on tourism and increasing cultivation of cardamon and coffee in the surrounding hinterland. Zacapa and Chiquimula are also growing as rival market towns for increasing output in vegetables (especially tomatoes) and cattle. Oil development near Rubelsanto, however, has not promoted urban growth in the region. As a result, the little growth in the region is attributable largely to agriculture.

Guatemala

Population in Key Cities, 1985 (thousands)

Annex-I, 6



Derived from: PNUD/SEGEPLAN, 1989

B. EL SALVADOR

San Salvador, the capital, is the major pole of attraction for migrants from the guerilla zones and subsistence areas, which are largely the same. With about one million inhabitants (946,000 according to EIU Country Profile 1991-92), San Salvador has nearly one-third of the country's labor force. The metropolitan area is growing as the nation's commercial and administrative center. The tertiary sector, fed by migration and expatriate remittances,¹ is the most rapidly growing sector in San Salvador. It includes construction, finance, commerce and services. While El Salvador's government pursued an import substitution policy through the mid 1980s, industry never gained a big share of San Salvador's economy. Recent evidence, however, does show an increase in textiles, clothing, food processing, and assembly for reexport (EIU p.38, citing data from Banco Central de Reserva). San Salvador also serves the surrounding agricultural region, which is the major producer of corn, beans and rice for domestic consumption.

Two highways link San Salvador to the major secondary cities. The Pan American Highway goes through Santa Ana in the west and San Miguel in the east; the coastal highway, which runs parallel to the Pan American, links San Salvador with Sonsonate, Zacatecoluca and Usulután. A railway links Ahuachapán and the port of Acajutla in the west with San Salvador and crosses eastward to La Unión.

El Salvador's urban hierarchy changed markedly with the growth of intermediate-sized secondary cities during the 1970s but, unlike other Central American countries, showed little change during the 1980s. During the 1970s the number of large secondary cities with more than 50,000 inhabitants (Santa Ana and San Miguel) stayed the same. However, the number of intermediate-sized secondary cities (between 20,000 and 50,000 population) more than doubled, from three to seven as Table Annex 1.3 illustrates. Even the number of small secondary cities with between 10,000 and 20,000 population increased by fifty percent, from six to nine. During the 1980s, in contrast, there was very little change in El Salvador's urban hierarchy, other than the addition of several more small secondary cities between 10,000 and 20,000 population. These intermediate and small secondary cities are well distributed around the country, and are connected by a fairly well integrated transportation network that belies San Salvador's primacy.

¹There are at least 500,000 Salvadorans outside the country. The export of Salvadorans due to war, politics, and economics is a major source of income for the country due to expatriate remittances. In fact, when the war ends and the political climate becomes more tolerant, the cities of El Salvador will have a very difficult time absorbing the returning population, not only due to the increased demand for housing, infrastructure, and employment, but also due to the loss of the remittances.

Population Size Category	1961	1971	1981	1987
>250,000	1	1	1	1
100-250,000	0	0	1	1
50- 100,000	1	2	1	2
20- 50,000	3	3	7	7
10- 20,000	7	8	9	14
TOTAL	12	13	19	25

SOURCE: Census, 1961, *Anuario Estadístico*, 1971, 1981; official estimations for 1987 by Dirección General de Estadística y Censos, Ministerio de Economía, reported in Echegaray (1990).

One of the two major growth poles outside of San Salvador is Santa Ana, located on the Pan American Highway north west of San Salvador. As the major city in the country's most important coffee region—a region unhindered by guerrilla activity—Santa Ana is growing not only because of expanding coffee production in its agricultural hinterland, but also because of its role as a commercial center for overland trade with Guatemala, an important source of industrialized inputs. Trade with Guatemala is growing once again after a steady decline during the most of the 1980s since the collapse of the Central American Common Market.

Two smaller towns in Santa Ana's area of influence are also growing rapidly: Chalchuapa, a service center for the coffee growers, and Ahuachapan, which not only is an agricultural service center for coffee production, but also a commercial center for trade with Guatemala. Chalchuapa and Ahuachapan are located on the Pan American Highway between Santa Ana and the Guatemalan border.

San Miguel, the other major growth center outside of San Salvador is located in a region of guerrilla activity. As a result, despite it being the major city in the region, it has experienced much rural outmigration due to the people fleeing the violence. Its immediate hinterland is also a productive cotton and coffee-growing area. South of San Miguel on the Pan American Highway (close to Nicaragua) is La Unión, a small city which grew rapidly during the 1980s because of military assistance from Nicaragua for the Salvadoran guerrillas. (Echegaray interview).

Sonsonate, El Salvador's fourth largest city, is expanding as a commercial center because of its proximity to the port of Acajutla and good access to San Salvador. The port itself, however, has been in steady decline since the mid 1980s (EIU, p.45). Sonsonate is also a service center for the surrounding cattle raising area.

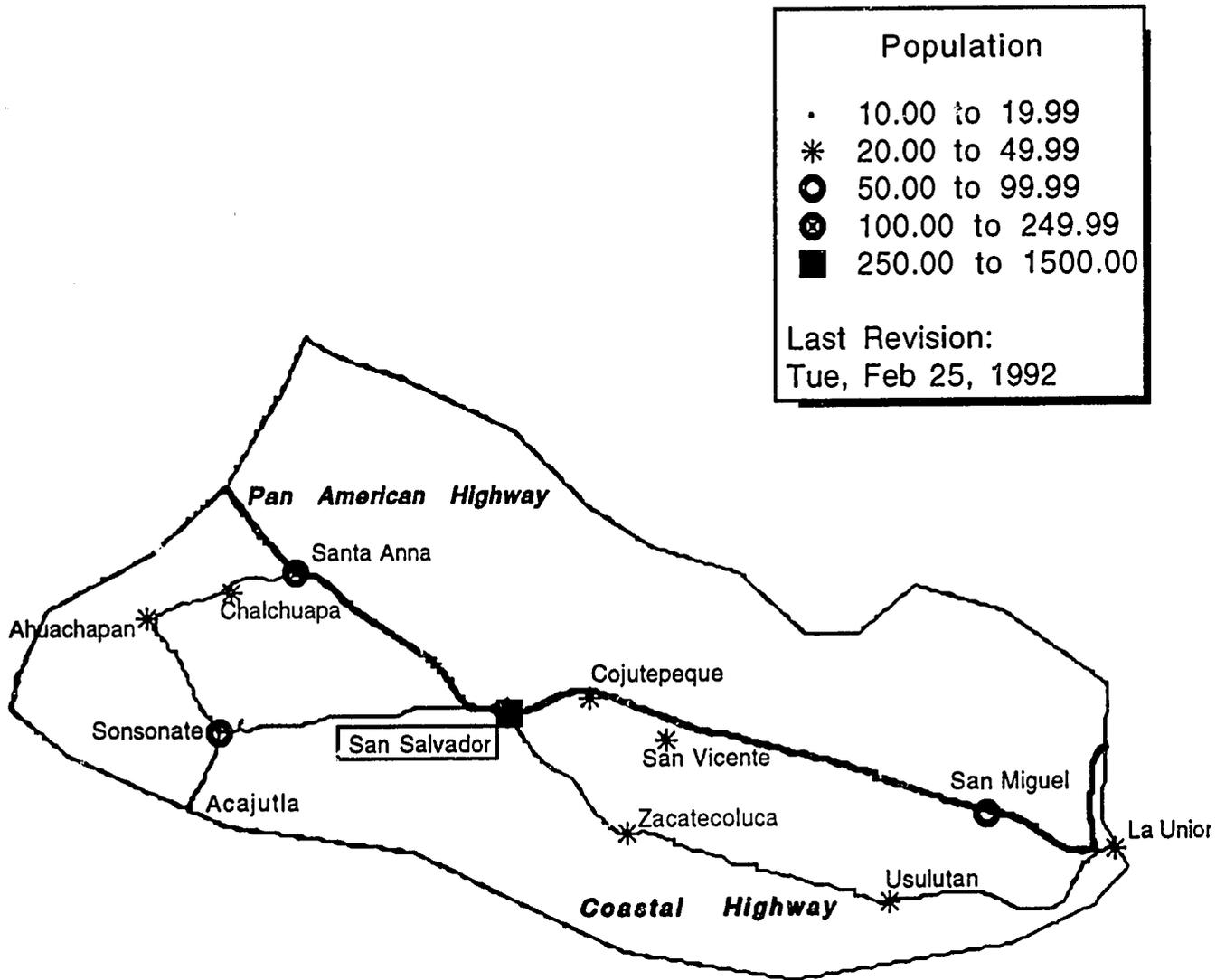
TABLE ANNEX I.4 EL SALVADOR: POPULATION OF CITIES, 1971-1987				
Urban Center	Population (000)			Ratio
	1971	1981	1987	1987-1981
PRIMARY CITY				
San Salvador	498.6	750.2	873.9	1.16
SECONDARY CITIES				
Santa Ana	107.0	123.3	144.8	1.17
San Miguel	53.7	81.2	92.9	1.14
Sonsonate	34.8	44.7	50.5	1.13
Usulután	19.0	29.1	34.2	1.18
Cojutepeque	17.3	28.2	33.8	1.20
La Unión	17.7	24.8	29.5	1.19
Chalchuapa	20.5	24.2	27.4	1.13
San Vicente	20.8	23.9	29.0	1.21
Zacatecoluca	17.0	22.8	29.1	1.28
Ahuchapan	16.7	19.4	21.0	1.08
Quetzaltepeque	12.3	17.1	19.9	1.16
Acajutla	<10.0	14.3	16.6	1.16
Armenia	<10.0	11.9	13.7	1.15
Izalco	<10.0	11.7	13.3	1.14
La Libertad	<10.0	11.2	13.5	1.21
Santiago de María	<10.0	11.1	12.5	1.13
Metapán	<10.0	10.9	12.6	1.16
Chalanténango	<10.0	10.4	12.6	1.21
NATIONAL TOTAL	3,549.3	4,748.2	5,580.3	1.18
<small>SOURCE: Census, 1961, <i>Anuario Estadístico</i>, 1971, 1981; official estimations for 1987 by Dirección General de Estadística y Censos, Ministerio de Economía, reported in Echegaray (1990).</small>				
<small>NOTE: Figures are for urban population of municipality. Figures for San Salvador are for metropolitan area, which is composed of 13 municipalities.</small>				

Other growing but small urban centers include Zacatecoluca and San Vicente to the southwest of San Salvador. Both are in an area of strong growth in cotton production and engage in some simple industrial processing (cotton ginning). They are both departmental capitals as well. Closer to San Salvador, less than an hour away by the Pan American Highway, is Cojutepeque, which is growing rapidly as a service center for the surrounding coffee and cotton growing area. Finally, Usulután is growing, principally as an administrative center and departmental capital. (Echegaray interview)

El Salvador

Annex-I, 10

Estimated Population in Key Cities, 1987



Derived from: Direccion General de Estadistica y Censos, 1990

.81

C. NICARAGUA

The major cities, ports, industries and agro-export farms of Nicaragua are concentrated in the western portion of the country, from the central mountains to the Pacific coastal plains. Managua, the country's administrative and political hub as well as primate city, has about one million inhabitants (Norsworthy, 1990, p.4). The capital region contains about a fourth of the country's population yet produces more than 40% of its value USA, the primary destination for migrants from all regions of the country (Conroy, p.65, citing data from 1985). The service sector absorbs 75% of Managua's labor force, contrasting with manufacturing, which is at about 15 percent. The country's newly reopened free trade zone is in Managua which could over time alter the high service manufacturing sector's ratio. (Conroy, p.65)

Managua is connected to the important secondary cities of Leon and Chinandega on the Pacific coastal plains by the country's major highway. Another road, the old Pan American, connects Managua to the northern highland cities of Esteli and Matagalpa. A good road, serving much commuter traffic, connects Masaya and Granada to Managua.

While Managua continues to grow rapidly, the country has four large secondary cities: Leon, Chinandega, Granada, and Masaya. As Table Annex 1.5 illustrates, the last three entered the 50,000 to 100,000 size category during the 1980s. The number of smaller secondary cities (20,000 to 50,000 range) doubled during the 1970s from four to eight, but remained constant during the 1980s.

POPULATION SIZE CATEGORY	1971	1980	1990
> 100,000	1	1	1
50- 100,000	1	1	4
20- 50,000	4	8	8
10- 20,000	7	n.a.	n.a.
TOTAL	13	10	13

SOURCE: Fox and Huguet (1977), pp.168-169, based on Census, 1971, and projections for 1980 and 1990.
NOTE: Figures are for urbanized areas.

Only 25 miles apart, Leon and Chinandega make up the largest and fastest growing urban area outside of Managua. They are the principal cities for the northwest Pacific coastal region, one of the richest agricultural areas of Nicaragua, with much of the country's large scale, technified, export-oriented agriculture. The largest sugar cane processing plant in Central America is located near Leon. It employs more than 3000 permanent workers and about 2500 seasonal workers, producing about half of Nicaragua's sugar production, primarily for export. The parent company, Nicaragua Sugar Estates, has large urban interests in banking, finance, and automobile importing and retailing (Whiteford and Hoops, p.186). Corinto is the sizeable port city serving the region.

TABLE ANNEX I.6 NICARAGUA: POPULATION OF CITIES, 1971-1990				
Urban Center	Population (000)			Average Annual Growth Rate
	1971	1980	1990	1980-1990
PRIMATE CITY Managua	384.9	661.9	1,075.2	1.62
SECONDARY CITIES				
Leon	54.8	75.3	98.0	1.30
Chanandega	29.9	46.3	68.8	1.49
Granada	35.4	48.2	62.5	1.30
Masaya	30.8	42.5	55.8	1.31
Matagalpa	20.7	28.8	37.8	1.31
Corinto	13.4	22.0	34.6	1.57
Estelí	19.8	33.4	32.7	0.98
Chichigalpa*	14.6	21.7	31.1	1.43
Bluefields	14.4	20.3	27.8	1.37
Jinotega	10.2	16.3	25.0	1.53
Jinotepe	12.5	17.2	22.6	1.31
Rivas	10.0	14.8	21.0	1.42
TOTAL				
SOURCE: Fox and Huguet (1977), pp.168-169, based on Census, 1971, and projections for 1980 and 1990.				
NOTE: Figures are for urbanized areas. * near Chinandega				

Masaya and Granada are the major cities of the south central region, a relatively densely populated area, much of which is within commuting distance of Managua. Nearly 20% of the region's labor force is in manufacturing, mainly small scale agro-processing and handicrafts (Conroy, p.63). The two cities also serve as commercial centers for the surrounding productive agricultural hinterland.

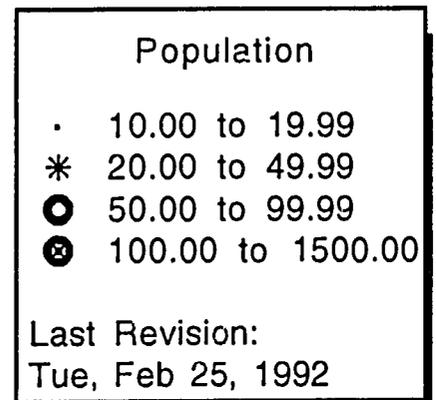
Matagalpa and Esteli are the major market towns and service centers for the northern highlands, a poor agricultural region of largely small subsistence plots. The level of under-employment in the region is one of the highest in the nation. (Source: INETER/SPP, cited in Conroy, p.64). Peasant farmers have been pushed further and further into the highlands to grow corn and beans as more profitable coffee and beef production has taken over the more accessible land. This region was the one most affected by the civil war in the early and mid-1980s.

The Atlantic Coast region covers half of Nicaragua, but contains less than six percent of the population and produces only one percent of the national value-added (Conroy, p.65). It is populated primarily by indigenous Indian groups, such as the Miskito. Rama is one of the few towns in this isolated region that is connected by road to the Spanish-speaking western region of the country. Also linked by navigable river to the Atlantic, the town shows some potential for growth in non-traditional exports. The port town of Bluefields, on the coast, serves only a small local hinterland and is linked to the west only by river (to the town of Rama).

Nicaragua

Annex-I, 14

Estimated Population for Key Cities



Derived from: Fox and Huguet, 1977

45

D. HONDURAS

Honduras is divided economically into two large regions: the southern region, whose primate city is the capital, Tegucigalpa, the political and administrative center for the country; and the northern region, whose primate city is San Pedro Sula. The northern region is the economically dominant region of the country and is expected to expand its dominance even further with the rise of non-traditional exports, both agricultural and industrial.² Over a quarter of the work force in San Pedro Sula is in manufacturing, which represents one-third of the nation's industrial work force. One of the country's richest agricultural areas, the Sula Valley, surrounds the city. The country's rail network is concentrated in the north coast region and does not reach Tegucigalpa. While San Pedro Sula has continued to have around 50% the size of Tegucigalpa (1974 and 1988), the San Pedro Sula metropolitan area was approximately 70% the size of Tegucigalpa in 1988. This is indicative of a much faster growth rate for the San Pedro Sula metro area than for Tegucigalpa and is due to the fact that, unlike Tegucigalpa, San Pedro Sula's growth has radiated out to nearby secondary cities that have been incorporated into the metropolitan area.

While Tegucigalpa and San Pedro Sula have both shared increased primacy, Honduras has witnessed a marked growth of secondary cities between 1974 and 1988. As Table Annex 1.7 illustrates, in 1974, Honduras had only two cities (Tegucigalpa and San Pedro Sula) with more than 100,000 inhabitants, no cities with a population between 50,000 and 100,000, only four between 20,000 and 50,000, and six between 10,000 and 20,000. By 1988, there were still only two cities with over 100,000; only three cities in the 50,000 to 100,000 category; eight cities in the 20,000 to 50,000 size category; and five in the 10,000 to 20,000 range. This indicates a doubling of cities in the 20-50,000 range and three entirely new cities (where there were none) in the 50-100,000 range.

Most of this urban growth has been concentrated in the Sula Valley and the San Pedro Sula-Tegucigalpa axis (Urban Institute, 1989). Fast growing secondary cities in the Sula Valley are Choloma, La Lima, Villanueva, and El Progreso. These market towns that provide services to the surrounding banana growing hinterlands have become part of the San Pedro Sula metropolitan area. Many have received industrial as well as residential spillover from San Pedro Sula. Comayagua and Siguatepeque on the Tegucigalpa-San Pedro Sula road are growing as agro-processing and service centers for the surrounding agricultural hinterland.

²Maquila industry is concentrating in the Sula Valley. Since 1987, the government has authorized six private free trade zones, most of which are in the Sula Valley. Most of the maquila activity is in apparel; however, US import quotas on apparel, which Honduras has not yet reached, may limit this growth. The government hopes to expand into electronics, metal manufacturing, and furniture. The government allows duty free temporary imports anywhere in Honduras, so while it is likely that maquila activity will concentrate in the Sula Valley, it does not have to.

TABLE ANNEX I.7 HONDURAS: NUMBER OF CITIES BY SIZE CATEGORY, 1970-1988		
Population Size Category	1974	1988
> 100,000	2	2
50- 100,000	0	3
20- 50,000	4	8
10- 20,000	6	5
TOTAL	12	18
Derived from: SECPLAN, National Census Data, 1974, 1988.		

Not all the growth is concentrated in the Sula Valley and San Pedro Sula-Tegucigalpa axis, however. The fastest growing city in the country is located in the Aguan Valley: Tocoa, which grew from less than 10,000 inhabitants in the early 1970s to well over 13,800 in the late 1980s. According to Ministry of Planning studies, the fastest growing region for the nineties will be the Aguan Valley, based on both traditional and non-traditional agricultural exports. Banana production is expanding as a result of Chiquita, Standard Fruit, and, more recently, a British firm opening up new lands and financing new production by cooperatives. Independent producers are also increasing their production. (EIU Country Profile 1991-2, Honduras, p.60). There is a substantial food processing industry in the region as well, spearheaded by the foreign banana companies. Coffee production continues to grow in the region, despite a dip in international prices in 1990. Non-traditional exports, such as melon and pineapple, are also flourishing.

None of the north coast port cities have felt the impact of the region's growth, as yet. However, as exports increase it is expected that they will. The port cities of La Ceiba and Trujillo, which are near the Aguan Valley, have experienced only average growth. La Ceiba, site of one of the completely filled government-owned free zones, has not yet become strongly linked with the Aguan Valley, but new roads have been built to meet the expected growth in demand for shipping. Standard Fruit Company, however, has cut back its processing in the area and is moving its central operations to Puerto Castillo, where the Venezuelan government is exploring the possibility of building a new refinery for processing Venezuelan crude for the Central American market. The port of Trujillo also has unrealized growth potential because of its proximity to Tocoa, the fastest growing city in the Aguan Valley.

Puerto Cortes, which is the country's largest port and handles over half the country's export trade, is not growing fast, despite its crucial role as the major outlet for the San Pedro Sula Valley.³ Direct container service to Miami and New Orleans is available twice a week.

³Some attribute this stagnation to the physical constraints of being located on a peninsula and to poor drainage that has created an unhealthy, mosquito-infested environment.

There is a government-owned free zone at Puerto Cortes, established in 1976, that is now full. Texaco operates an oil refinery at the port.

Other cities with strong growth potential for the '90s are Juticalpa and Catacamas, the principal cities of the eastern region. These centers are expected to grow because of their location on a new road connecting Tegucigalpa to the Aguan Valley and the Atlantic coast. There is also some agricultural colonization taking place in the region.

The other urban growth center outside of the Sula Valley and the San Pedro Sula-Tegucigalpa corridor is Choluteca, a regional service center for the surrounding farming and ranching in the Pacific coastal plains located on the Pan American Highway.⁴ The main impetus to the city's growth is the shrimp industry, one of Honduras's most dynamic exports. Lobster exports are also growing. The surrounding hinterland, however, is not sharing in Choluteca's boom. A region of net outmigration, it is largely poor and densely populated with subsistence farming and production for the domestic market. Nevertheless, the region shows potential for growth because traditional crops are being replaced by more lucrative non-traditional exports such as melons and cashew nuts, and investment in irrigation infrastructure is taking place.

As in the South, most of the inhabitants of the western region are involved in subsistence farming, despite some tobacco cultivation and mining in the area. The West has generated many small market towns, including some of the oldest settlements in Honduras. Santa Rosa de Copan is the largest and most important of the market towns in the West, offering some industrialized processing such as beverage production. While the large El Mochito mine is stepping up its activity in the region, it remains an enclave that does not stimulate much additional growth in the region (Aguirre interview).

Near the Nicaraguan border, Danli grew rapidly in the 1980s because of the flow of refugees from its war-torn neighbor. Currently, Danli is growing somewhat because of large-scale corn production, some of which is now being exported (Aguirre interview).

⁴Choluteca averaged a 5.3 percent annual rate of growth during the 1974-1988 period, well above the national average.

98

TABLE ANNEX I.8			
HONDURAS: POPULATION OF CITIES, 1974-1988			
Urban Center	Population (000)		Average Annual Growth Rate (%)
	1974	1988	1974-1988
PRIMATE CITIES			
Tegucigalpa	273.9	551.6	5.1
San Pedro Sula ¹	151.0	279.6	4.5
SECONDARY CITIES			
La Ceiba	38.8	68.3	4.1
El Progreso	28.1	55.5	5.0
Choluteca	26.2	53.8	5.3
Choloma	<10.0	38.3	10.8
Comayagua	15.9	36.4	6.1
Puerto Cortes	25.8	31.4	1.4
Danli	10.8	28.1	7.0
La Lima ²	n.a.	27.7	n.a.
Tela	19.1	23.3	1.5
Juticalpa	10.1	20.0	5.0
Sta. Rosa de Copan	12.4	19.2	3.2
San Marcos de Colon	<10.0	18.1	—
Catacamas	<10.0	17.4	4.7
San Lorenzo	<10.0	15.3	3.5
Tocoa	<10.0	13.8	12.1
Olanchito	<10.0	13.6	4.4
El Paraiso	<10.0	13.0	4.8
Villanueva	<10.0	12.0	4.6
La Paz	<10.0	11.0	3.5
NATIONAL TOTAL	428.2	1,347.4	

SOURCE: SECLAN Population Data, 1988.

¹Excludes La Lima in 1988; growth including La Lima is 5.2%.

²Made independent from San Pedro Sula in 1981.

E. COSTA RICA⁵

Costa Rica's urban hierarchy continues to be dominated by the rapidly expanding capital city, San Jose. The San Jose metropolitan area is still by far the primary destination of migrants in Costa Rica. The metropolitan area now includes the major secondary cities of Alajuela, Cartago, and Heredia. These cities, which developed as service centers for their surrounding rich export-oriented agricultural hinterlands of coffee and sugar cane, are now important residential, commercial, and service centers for the urban population. All three are within a twenty mile radius of the capital along the major highway connecting the two coasts to San Jose. The San Jose metropolitan area is the commercial, cultural, industrial, government and service center for the entire country. Construction and transportation are also major employment generators in the metropolitan area. The bulk of non-traditional manufacturing (maquila assembling of apparel and electronics, primarily for Asia) is locating in the metropolitan area, especially near the airport for easy access to foreign inputs and markets.

Despite San Jose's dominance, there have been some important changes in the urban structure outside the metropolitan area, especially the rapid climb of a number of cities up the urban size hierarchy. As Table Annex I.9 illustrates, in 1973, there were no cities outside the metropolitan area in the over 50,000 category, only two in the 20,000 to 50,00 range, and also only two in the 10,000 to 20,000 range. By 1984, there was one secondary city outside the metropolitan area in the over 50,000 category, six (triple the number) in the 20,000 to 50,000 range, and eleven (about six times the number) in the 10,000 to 20,000 range. Also, by 1984 the three secondary cities within the San Jose metropolitan area had entered the over 50,000 category.

Outside of the rapidly growing metropolitan area, much of the country's urban growth is spread out along the inter-coastal axis in a low density lineal fashion, although several urban nodes have recently passed the 10,000 mark in population. Some of this growth is due to residential expansion by commuters to the larger cities and some of it is due to expanding agriculture, especially bananas in the Atlantic coastal plain and sugar cane in the Pacific coastal region.

⁵It is very difficult to study city sizes in Costa Rica because the urbanization pattern is often lineal, with urban growth spreading out along the roads between towns, rather than concentrating in urban nodes. Thus, the distinction between urban and rural becomes almost meaningless. Moreover, data in the 1984 census was gathered by territorial units (province, canton and district) rather than by city or urbanized area.

City Size Category	1973	1984
> 100,000	1	2
50-100,000	0	3
20- 50,000	5	6
10- 20,000	2	11
TOTAL	8	22
SOURCE: Census, 1973, 1984.		

Some of the country's major secondary cities of the 1970s (outside the metropolitan area) of the 1970s lost their dynamism in the 1980s. The country's two major port cities that lie at either end of the inter-coastal route have not been growing much in recent years despite an increase in exports. Puerto Limon, on the Atlantic coast, is the most important administrative and trading center in the Atlantic region, although there are a number of smaller towns that serve the region's agricultural needs more directly. Producing bananas, cocoa, basic grains for internal consumption and cattle, the region has been until recently a major area of agricultural colonization. Basic grain production in the region has lagged since the government removed the subsidies for domestic production in its effort to promote exports. Similarly, Puntarenas on the Pacific coast has not experienced rapid urban growth recently despite growing agricultural exports from the region (e.g. sugar cane).

Turrialba, the other large city on the inter-coastal axis outside the metropolitan area, grew as the major service center for the surrounding agricultural region, as export agriculture spread from the central valley to the coastal plains. While the city offers some manufacturing and processing related to local agriculture and urban needs and provides a healthy array of urban services for its local population, it has lost some of its commercial importance as a major stop along the intercoastal axis since the highway was rerouted during improvements to bypass the city.

The largest secondary city of the 1970s outside of the intercoastal axis was Liberia, located on the Pan American Highway in the northwest (Chorotega). The labor force is migrating out of this region due to increasing mechanization of the region's agriculture.⁶ While one of the largest cities in 1973, Liberia has lost some of its relative importance and is not growing rapidly now.

New urban growth centers emerged in the 1980s. The major growth pole outside the intercoastal axis is Ciudad Quesada (also called San Carlos). This provincial capital has boomed as the service center for expanding agriculture and cattle raising in the north. New lands in the region have been opened up for producing non-traditional crops, such as pineapples and flowers, and for raising cattle destined for the US market. New railroad

⁶The 1984 census shows net outmigration from Chorotega between 1979 and 1984.

tracks are being built in the banana area of Rio Frio and the rivers themselves serve as transportation routes in the colonizing areas. Airfields also serve the colonizing areas. In addition to these signs of growth, the 1984 census shows net immigration to the region.

Another major growth center is in the southwest: San Isidro de El General (also called Perez Zeledon) is growing as a service center for expanding production in coffee, sugar cane, tobacco, and cattle, as well as non-traditional export crops such as pineapples and mangos. Like Ciudad Quesada to the north, San Isidro serves as the major urban center for the growing colonization to the south. The Pan American highway gave the initial impetus to this isolated region.⁷

The third major growth center is the result of tourism growth on the northwest coast. Nicoya, which had fewer than 10,000 inhabitants in 1973, grew to over 20,000 by 1984. It has surpassed Liberia as the largest city in the region. Nicoya is directly linked to San Jose by frequent commercial air service aimed at the tourist trade. The nearby town of Santa Cruz is also growing rapidly, with a population of more than 10,000 in 1984.

⁷Part of the southwest is not growing, however. Golfito, the major town in the once isolated banana-producing region in the far southwest, suffered dramatically when United Fruit closed its banana operations in 1985 because of labor conflicts (OIT, p.45). The government established a free port there to help sustain it (although its initial success is waning since the government is reducing duties across the board without regard to location) and banana production is beginning to revive.

TABLE ANNEX I.9 COSTA RICA: POPULATION OF CITIES, 1973-1984			
Urban Center	Population (000)		Ratio
	1973	1984	1984-1973
SAN JOSE METROPOLITAN AREA	496.0	925.9	1.9
San Jose	401.0	656.5	1.6
Alajuela	34.3	127.4*	3.7
Cartago	34.6	87.1*	2.5
Heredia	26.1	54.9*	2.1
SECONDARY CITIES	1,950.7	2,616.3	1.3
Puerto Limon	29.6	52.6**	1.8
Puntarenas	26.3	29.2**	1.1
San Isidro (Perez Z.)	<10.0	28.3**	--
Turrialba	12.2	23.7**	1.9
Liberia	10.8	22.5**	2.1
Quesada (San Carlos)	<10.0	21.7**	--
Nicoya	<10.0	21.5**	--
NATIONAL TOTAL	1,871.8	2,416.8	1.3

SOURCE: 1973 Census adjusted by Fox and Huguet (1977); 1984 Census.

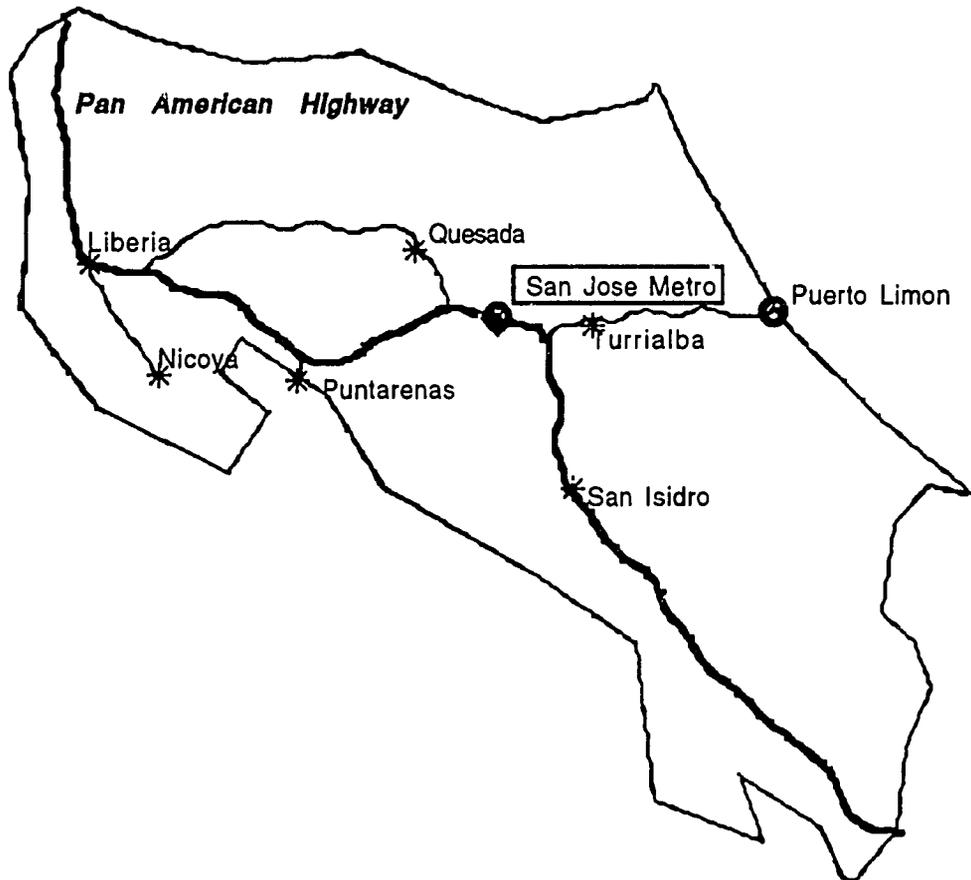
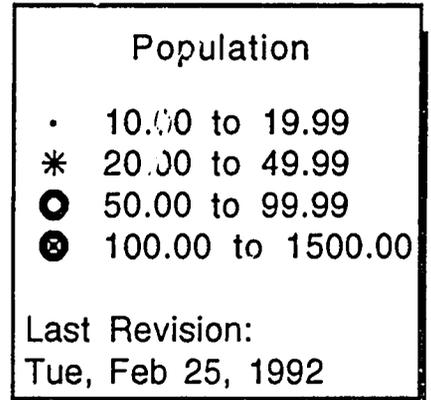
NOTE: Population for urbanized area is shown, except when canton or district population is used, as indicated. Cities ranked by 1984 population size of urbanized area, down to 20,000.

* canton
**district

Costa Rica

Annex-I, 24

Estimated Population in Key Cities, 1984



Derived from: 1973 Census Adjusted by Fox and Huguet, 1977

95

F. PANAMA

The greater metropolitan region of Panama has become a financial, commercial, and transportation center for an international market. The metropolitan area's economic well-being depends more on the growth of overseas demand than on the growth of Panama's secondary cities and rural hinterlands. With the growth of Miami as a competing financial and commercial center and the drastic decline in the South American demand for such services, the government of Panama has begun to promote non-traditional manufacturing for reexport, with some signs of success (EIU, 1991).

The metropolitan region is also characterized by a dramatic growth in the urban informal sector, evidenced by the spread of marginal neighborhoods, precarious housing, overcrowding, and informal employment. The metropolitan region has added over a quarter of a million people in the last ten years, many of whom fill the marginal neighborhoods and work in the informal sector. New entrants to the labor force in the metropolitan area—primarily youth, migrants, and women—are estimated to suffer an unemployment rate of over 40 percent (Urban Institute/Nathan, p.II-3).

The metropolitan region is not the only growing urban area, however, as Table Annex I.9 illustrates. Five new intermediate-sized secondary cities developed during the 1970s, bringing the total to six cities in the 30,000 to 50,000 population range by 1980. During the 1980s, most of those cities continued to move up the urban hierarchy, as the number of large secondary cities above 50,000 inhabitants expanded from two to seven.⁸

Population Size Category	1973	1981	1985
>500,000	1	1	1
100-500,000		1	2
50- 100,000	0	1	5
20- 50,000	4	6	4
10- 20,000	14	n.a.	n.a.
TOTAL			

SOURCE: Census, 1970, 1980, 1990.

The network of secondary cities in Panama was consolidated during the 1950s and 1960s with the expansion of David, Chitre, Santiago, and Aguadulce, which are all linked by the Pan American highway. The economic base of these cities was agriculture, trade, and services. Government investment in infrastructure and state-owned agro-industries during

⁸Note that the census figures for 1980 and 1990 are for urban municipalities, not the urbanized area within those municipalities. Thus, the figures may overstate actual urban center populations.

the 1970s and first half of the 1980s helped the secondary cities along. (Nuhn and MacKay, p.64)

David, the largest secondary city, grew rapidly during the 1980s. It's hinterland, roughly contiguous with the northern province of Chiriqui, is the major farming and ranching region of the country. It produces most of the country's rice, beans, fruit and meat, as well as export crops such as bananas, coffee, oranges and tobacco. David is the region's primary cultural, administrative, commercial, service, and industrial center for the province. David's prosperity and growth depend on the well-being of its hinterland and vice versa.

David presides over a well-developed urban network serving the hinterland. The most important cities in the area outside of David are La Concepcion and Puerto Armuelles. These two cities are among the ten largest of the country. Like David, they have high schools, a hospital, a major post office and telephone exchange, bank branches, and an array of commercial services.. The smaller towns have very little urban infrastructure and provide basic services to the surrounding agricultural lands.

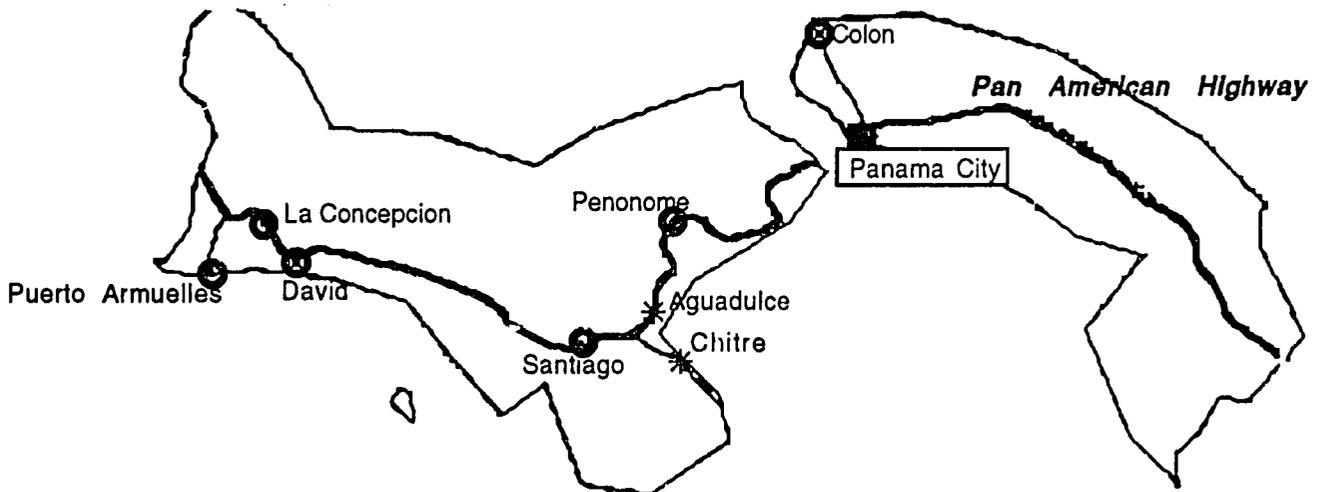
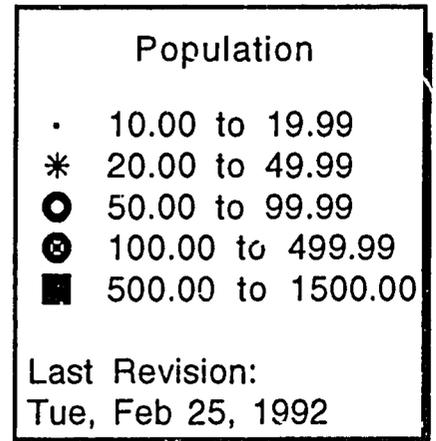
The other major growth area outside the metropolitan region is in the central portion of the country. The area's well developed urban network is headed by Santiago, Chitre-Los Santos, and Penonome, the most important service centers for the agricultural hinterlands. All three are growing rapidly. Before the 1990 census results were known, Chitre-Los Santos was considered the major regional growth center (Mizrachi, p.170); but the 1990 census shows that Santiago and Penonome have outpaced Chitre-Los Santos. Santiago, for example, has seen recent investment in new hotels and restaurants, new shopping centers and housing developments. The downtown has expanded and the area of the city has doubled its original size. It has its own airport and a new bus terminal. The construction industry grew rapidly during the 1980s due to the demand for housing and land and housing prices are increasing rapidly. New marginal neighborhoods have sprung up. Most of the labor force works in the service sector. Through the mid 1980s, the government assisted Santiago's development with a new potable water system, its first wastewater system, large silos for grain storage, construction of new roads to open up new agricultural lands and extend the city's hinterland, and paving of some of the important interurban routes. (Mizrachi, p.175)

TABLE ANNEX I.10 PANAMA: POPULATION OF CITIES, 1970-1990				
Urban Center	Population (000)			Ratio
	1970	1980	1990	1990/1980
METROPOLITAN AREA	619.6	877.1	1,112.5	1.27
Panama City	519.6	759.8	971.8	1.28
Colon	103.0	117.3	140.7	1.20
SECONDARY CITIES				
David	40.8	80.1	120.5	1.50
Penomene	<10.0	48.3	60.6	1.25
Santiago	14.6	49.1	60.3	1.23
Puerto Armuelles/Baru	12.0	46.6	59.8	1.28
La Concepcion/Bugada	<10.0	45.2	57.0	1.26
Changuinola/Almirante	n.a.	31.9	56.0	1.76
Anton	<10.0	30.6	37.0	1.21
Chitre	19.0	<30.0	34.6	--
Tole	<10.0	<30.0	33.2	--
Aguadulce	11.4	<30.0	32.3	--
TOTAL				
SOURCE: Census, 1970, 1980, 1990.				
NOTE: Cities ordered by 1990 municipal population, down to 30,000. 1970 data for urbanized areas; 1980 and 1990 data for urban municipalities. Panama City figures include San Miguelito and Chorrera-Araijan.				

Panama

Annex-I, 28

Population of Key Cities, 1990



Derived from: Census, 1990

CONCLUSIONS AND RECOMMENDATIONS

The inadequate database is a major obstacle for analyzing urban growth patterns in Central America. Often the best figures available are official projections based on a census taken decades ago. Another problem plaguing urban analysis is the definition of urban center. Many of the most recent census reports have stopped using the more useful urbanized area definition and instead use only municipal level data. Municipal governments themselves would benefit from having data clearly distinguishing their urbanized area from the rest of the municipality.

Despite the data problems, three trends clearly stand out in Central America's urbanization pattern: (1) continued primate city growth, (2) rapid expansion of secondary cities during the 1980s, and (3) polarization within the cities due to the expansion of the urban informal sector and urban marginal population.

The number of large secondary cities grew markedly during the 1980s. Working their way up the urban hierarchy during the 1970s. Many of these cities are unprepared to handle the growth. They lack the capacity to meet the basic infrastructure needs of the expanding population and the capacity to meet the needs for productive employment, particularly in the informal sector. The ability of Central America's cities to handle growth is one of the key issues for consolidating democracy in Central America in the 1990s. There is a strong case that municipal development assistance should be concentrated in the primate cities to take advantage of the best urban infrastructure and address the needs of the large urban marginal population (see Urban Institute/Nathan report). Nevertheless, successful secondary city growth management could help these cities relieve migration pressure on the primate cities and benefit smaller towns in their hinterlands, as well as attend the needs of their own inhabitants.

Not all secondary cities show high potential for continued growth. An effort to promote secondary city municipal development should take into account the growth potential of the urban center. The analysis pinpoints twenty-one secondary cities as showing the most potential for continued growth. The growth potential is most often based on expanding agricultural exports, whether traditional or non-traditional, from the city's hinterland.

Another issue is the relationship between secondary city growth and social equity. The export-oriented growth centers may not be the most effective ones for spreading rather than polarizing the benefits of growth. More policy-oriented research is needed on this issue.

Secondary cities in Central America face a number of common issues: how to develop a secure economic base in the new global economy; how to promote non-traditional exports; how to meet the infrastructure needs of their growing populations; how to facilitate informal sector economic development; how to build beneficial linkages with their rural hinterlands; how to work cooperatively with other cities nearby; how to respond to opportunities created by regional economic integration. Secondary city municipal governments across Central America should share with each other their experiences in facing these issues and build a common agenda for development.

ANNEX II

MUNICIPAL MANDATES AND STRUCTURES

I. GUATEMALA

A. MANDATES

1. CONSTITUTIONAL LAW

Guatemala's 1985 Constitution restored municipal autonomy which had previously been interrupted by the military government in 1982. This new Constitution mandates the election of local officials and empowers municipalities to: (1) obtain and dispose of their funds; and, (2) attend to local public services, the territorial arrangement of their jurisdiction and the implementation of their objectives. In addition, Article 257 binds the national government to transfer 8% of the national revenues on an annual basis to the municipalities for investment in basic infrastructure.

2. STATUTORY LAW

Based on these Constitutional provisions concerning local government, the Guatemalan Congress issued the Municipal Code of 1988 (Decree No. 58-88), which states that:

- a. Municipalities are autonomous public institutions, comprised of the following basic elements: territory, population, authority, community organization, and economic capacity;
- b. The principal purpose of the municipality is to render and administer nonprofit public services for the population under their governance; and,
- c. Municipalities have four main responsibilities as follows:

(1) Promotion and rendering of services, such as the:

- Establishment, regulation and provision of local public services;
- Control of prices, weights, measures and quality as well as the imposition of penalties and sanctions for the cases of speculation or adulteration;
- Administration of the birth and voter registrations according to law; and
- Authorization and inspection of public and private works.

(2) Matters having an effect on development, such as the:

- Formulation, approval, and execution of urban and rural development plans;
- Formulation, approval, and execution of urban regulations and ordinances; and
- Execution of activities complementary to those of other institutions related to education, culture, sports, recreation, sciences and arts, environmental sanitation, as well as the prevention of and fight against diseases.

(3) Environmental conservation, such as the:

- Defense of the rights of the inhabitants and communities as well as of their cultural identity, according to their values, languages, traditions and customs; and
- Defense and maintenance of springs and sources of water.

(4) Satisfaction of people's needs, such as the:

- Creation, administration and regulation of local retail and wholesale markets, as well as services facilitating the marketing and supply of basic food products;
- Provision of street cleaning, sweeping, collection and disposal of garbage, and solid waste treatment services;
- Provision of cemetery services, authorization and control of private cemeteries, and private funeral services;
- Promotion and organization of popular fairs and festivities; and
- Regulation of passenger and cargo transportation in local terminals.

3. REAL SITUATION

In practice, municipalities, the central government and the private sector provide local public services and social infrastructure, as follows:

a. Infrastructure/Services Provided Exclusively by Municipalities

Roads, police and public markets.

b. Infrastructure/Services Shared with the Central Government

Water, waste water, health care, and urban planning and control.

c. Infrastructure/Services Shared with the Private Sector

Garbage disposable, street cleaning, slaughterhouses and cemeteries.

d. Infrastructure/Services Provided by the Central Government Exclusively

Energy, education, culture and sports.

B. LOCAL GOVERNMENT STRUCTURE

1. THE ELECTORAL SYSTEM

According to the Electoral Law and the Political Parties Law, the relative majority system is applied to the municipal elections of mayors and the "Sindico"¹ which means that the slate of candidates having the greatest number of valid votes wins the election of all of those candidates.

In the case of the City Council election, the system used is proportional representation of minorities. According to this system, the total valid votes obtained by each slate of candidates is divided successively by two, three, four and so on, depending on the number of positions to be assigned. The resulting quotients are placed in decreasing order until the number of them is equal to the total positions and the one in last place constitutes the distribution figure. Each slate receives the resulting number of elected candidates from the division of the votes obtained by the distribution figure.

The assignments correlate to the order of the slates beginning with the one who draws them up, and following with the one who succeeds in strict order. This election system allows the representation of minorities, which in principle fulfills the constitutional mandate.

2. GOVERNMENT SYSTEM

Guatemalan local government is exercised by a mayor, a city council, and the "Sindico" within the so-called system of "Strong Mayor—Weak Council". Under such a system, the mayor possesses most of the power (depending on the extent of his executive powers), is the chief administrator and, at the same time, presides over the City Council.

The various branches of municipal government are organized as follows: As previously noted, the Mayor is the chief executive of municipal government and administration. In addition, he presides over the City Council, which is the legislative body at the local level. The local administration (Alcaldia) includes a secretary, a treasurer and the police. In short, the Mayor legally represents the municipal government, has the authority to carry out regulations passed by the Council, and issues orders and instructions to conduct municipal affairs that have not been ascribed to any other authority. At the same time, the municipal secretary presides over the City Council, representing the Mayor who appoints him. The City Council, which is the legislative body, is comprised of the municipal secretary who presides over the Council and represents the Mayor, as well as the Councilmembers and the "Sindicos". In Guatemala, the majority of city council members have been elected from the slates presented by the different political parties. However, there are some cases where civic committees that have attained electoral victories are represented. Finally, the Sindicos are the judicial representatives. They are the "inspecting agents" of municipal finance who carry out the duties of the Ministry of Government at the local level.

¹The Sindico is the second most important official, who generally has fiscal and legal responsibilities, generally requiring a law degree.

3. RELATIONSHIP BETWEEN MUNICIPALITIES AND TOWNS

According to the Municipal Code, city councils may appoint auxiliary mayors to reach villages, hamlets, cantons, quarters and other settlements. As such, auxiliary mayors exercise a delegation of municipal government and represent it within its territory.

4. RELATIONSHIP BETWEEN LOCAL AND CENTRAL GOVERNMENT

The Guatemalan Constitution establishes a decentralized administrative system and, for such a purpose, a "System of Urban and Rural Development". In spite of the Constitution and the promulgation of the Development Councils Law, little has been achieved in the implementation of such a system or councils. Rather, decentralization has been comprised of the transfer of functions from a central body located in Guatemala City to another central body located at the regional level.

5. COMMUNITY PARTICIPATION IN THE PLANNING PROCESS

There is a lack of adequate systems to promote community participation. The Urban and Rural Development Systems Law tried to promote popular participation in the development process; however, it was declared unconstitutional on the basis that it undermined or contradicted municipal autonomy. Nevertheless, there is some community participation in Guatemala, as follows:

- Mechanisms exist for the community to participate in the definition of their needs and in the selection of options for the satisfaction of such needs; and
- Direct participation in the execution of such options, mainly through the manual labor and personal and collective contributions.

An important mechanism of participation—Development Councils—was frustrated by the fact that the Municipal Code considers such councils to be not an obligation but as only a possibility. The Municipal Corporation votes on the execution of the Codes with a majority (two-thirds) rule.

II. EL SALVADOR

A. MANDATES

1. CONSTITUTIONAL LAW

The Salvadorean Constitution of 1983 dedicates an entire Chapter (IV) to local government. In this section, it points out that municipalities "will be autonomous in economic, technical, and administrative respects". Meanwhile, Article 204 establishes that:

- municipal autonomy consists of the power to create, modify, and eliminate public taxes and contributions; and
- municipalities legally possess the powers to: (a) enact its own revenues and budget expenditures; freely manage matters related to municipal competence; (b) designate and remove its officials and employees; (c) enact local ordinances and regulations; and, (d) establish tax rates and propose them as a law to the Legislature.

2. STATUTORY LAW

The Constitution determines that local government regulations are the responsibility of Congress. In addition, the Salvadorean Municipal Code of 1986 reinforces the role of City Councils, defining them as the primary political and administrative units of the State organization and reiterating the Constitutional Mandate regarding municipal autonomy. In this respect, the Municipal Code sets up a number of municipal functions that may be classified in four groups, as follows:

a. Management and rendering of services, such as the:

- Development and control of the nomenclature and public ornaments;
- Planning, execution and maintenance of all kinds of public work, necessary for the municipality;
- Regulation and/or supervision of prices, weight, and qualities;
- Regulation and/or supervision of the activities carried out by commercial, industrial and service and other similar establishments, as well as the operation of restaurants, bars and nightclubs; and
- Creation of the birth and voter registrations, in accordance with law.

b. Matters having an effect on development, such as the:

- Usage of streets, sidewalks, parks, and other public municipal and local places;
- Preparation, approval, and execution of urban and rural development plans for the locality; and
- Activities which complement those of other responsible institutions related to education, culture, sports, recreation, sciences, arts, health, environmental sanitation, and the prevention of and fight against diseases.

Annex II, 6

c. Environmental conservation, such as the:

- Increase and protection of renewable and non-renewable resources; and
- Tenancy of domestic and wild animals.

d. Satisfaction of people's needs, such as:

- Cleaning services, street sweeping, collection and disposal of garbage;
- Creation, regulation, and provision of services facilitating the marketing and supply of basic consumer products, such as markets and slaughterhouses;
- Authorization and inspection of private works;
- Cemeteries and funeral services (including privately-owned ones);
- Control of local transportation and the operation of cargo and passenger transportation terminals;
- Promotion and organization of industrial, commercial, agricultural, handicraft and service development, as well as that of popular fairs and festivities; and
- Promotion of national and foreign tourism as well as the regulation and use of tourist and sport areas, lakes, islands, bays, beaches, and other municipal areas.

3. REAL SITUATION

In general terms, the provision of services is rendered by both the central and local governments according to the following distribution:

- Services provided exclusively by the Central Administration: water, sewers and energy;
- Services shared with the Central Administration: Urban development planning and control, roads, education, environmental protection and health care; and
- Services provided exclusively by the Municipalities: garbage disposable, street cleaning, public markets and police.

B. LOCAL GOVERNMENT STRUCTURE

1. GOVERNMENT SYSTEM

Unlike the Guatemalan local government system, Salvadorean law has resulted in a "Strong and Weak Mayor" system. In this case, the principal authority is the City Council which has a deliberative and normative character. It is integrated by the Mayor, the "Sindico", and the Councilmen. Here, the municipal secretary, who presides the City Council, and the treasurer are appointed by the Council and not by the Mayor. However, it is important to note that the electoral process in El Salvador provides for the absolute control by the party obtaining the most votes (i.e. the Mayor and all Councilmen are members of the same party).

The Mayor represents the municipality both legally and administratively, being the chief of government and the administration. This office is a paid post depending on the economic

possibilities of the municipality. The Mayor is also responsible for the organization and direction of the Municipal Police.

The "Sindico" has obligations and duties not only as a Councilmember, but he is also responsible for the judicial and extra-judicial representation, defense of municipal interests, the examination and supervision of municipal accounts, and for other functions.

The Councilmen's duty is to attend the Council meetings—having voice and vote—and to integrate the commissions and fulfill those assignments for which they were elected.

2. THE ELECTORAL PROCESS

The election of the entire Municipal Council is carried out through a single vote in closed voting ballots for each party or electoral group. The voting ballot with the greatest number of votes occupies every office in the Council. As a consequence, minorities are left without representation. There are two elected Councilmen (apart from the Mayor and the Sindico) for cities with less than 10,000 inhabitants; four for those having between 10,000 and 20,000 inhabitants; six for those between 20,000 and 50,000 inhabitants; eight for those between 50,000 and 100,000 inhabitants; and ten for those with more than 100,000 inhabitants.

3. COMMUNITY PARTICIPATION IN THE DEVELOPMENT PROCESS

The Municipal Code establishes two tools to promote the participation of the community in the development process: a) Open Councils; and b) Community Associations.

a. Open Councils

Open councils must be held at least every three months in order to inform the public about municipal management, address issues raised by residents and considered pertinent by the Council.

Every resident in the municipality can attend the Municipal Councils and take part of the discussion as well as formulate suggestions and questions on the matters registered in the daily agenda. The Council can summon residents whenever it considers it necessary or wants to know the people's will with respect to a certain project or policy to be developed. In such cases, the Council cannot act against the opinion of the majority expressed in the consultation. As a result, the Open Council mechanism is a forum where communities express their needs and also approve or disapprove municipal management.

b. Community Associations

As for the case of Community Associations, they are the organized representatives of the community. They are responsible for the study and analysis of the social conditions, problems and needs of the community as well as for the elaboration and promotion of solutions and projects to benefit the community. Municipal Associations also have a legal role designated by the City Councils and are constituted by no less than 25 members of the community.

Annex II, 8

An important aspect of the legal mandate is that it states that municipalities must encourage the organization of citizens into Community Associations and promote participation through them. The Council also has the obligation to meet periodically with the associations in order to analyze and solve problems as well as to elaborate and execute works of any nature for the benefit of the community. Thus, in El Salvador, the base organization and its respective population are convened by law and in theory to actively participate in the management of municipalities, which in turn is a key element of municipal autonomy. Community Associations appear to be the basic cells for a new model of participation, and the Open Councils appear to offer free forum for discussion, approval or disapproval of municipal management.

III. NICARAGUA

A. MANDATES

1. CONSTITUTIONAL LAW

The 1987 Constitution of Nicaragua specifies that, for administrative purposes, the national territory is divided into regions, departments and municipalities. The Municipality is defined as "the base unit of political and administrative division of the country". At the same time, the Constitution establishes that "municipal government and administration correspond to the municipal authorities without detriment to the central government authority".

The Constitution establishes three concepts that can be confused: municipality, city council, and municipal government. First, the Municipality is the basic unit for the political and administrative division of the country. Second, the City Council is the governing body of such a territorial unit and establishes a judicial representative in public law that emanates from the people's will. Finally, the Municipal Government is a body composed of municipal authorities and exercises governmental, normative, administrative and inspection duties.

2. STATUTORY LAW

The Municipal Law of 1988 establishes the nature, purpose, authority and duties, organization and resources of local governments as well as the participation and administrative relationships between municipalities and the central government.

In terms of municipal autonomy, the Nicaraguan Municipal Law mandates: 1) the direct elections of high public officials; 2) the right to structure and operate the municipal government according to the situation of each municipality; 3) the possession of patrimony, which can be used freely according to law; 4) the capacity to manage and dispose of resources; and 5) the exercise of authorities for the satisfaction of people's needs.

The Municipal authority and functions stated by the law may be classified as follows:

a. In management and rendering of services, such as:

- Public ornaments;
- Construction and maintenance of streets, sidewalks, paths, parks, bridges, neighborhood roads;
- Establishment of the accuracy of weights and measures;
- Drainage of rain water;
- Authorization and registration of iron goods, permits for local movement and livestock;
- Public lighting; and
- Birth and voter registration.

b. In matters having an effect on development, such as:

- Urban development and land use controls; and
- Complementary activities to those of other institutions related to education, health, housing, water, lighting, culture and sports.

c. Environmental conservation, such as:

- Hygiene of the population and environmental conservation; and
- Reforestation of the municipality (i.e., the creation and maintenance of tree nurseries).

d. For the satisfaction of the needs of the inhabitants, such as:

- Construction of recreation areas, town squares, markets, slaughterhouses, public lavatories and cemeteries;
- Collection, disposal and treatment of solid waste; and
- Libraries, museums, municipal bands and zoological gardens.

3. REAL SITUATION

Services and basic infrastructure are provided by both municipalities and the central government. However, the majority and most important are provided by the central government, including water, waste water, energy and police. Nevertheless, at this time, services related to water, education, health care, culture and sports are in the process of being transferred to the municipalities on a pilot basis.

B. LOCAL GOVERNMENT STRUCTURE

1. THE GOVERNMENT SYSTEM

Like the Salvadorean System and unlike the Guatemalan, the local government is composed of a Council, a Mayor and a Sindico under the "Strong Council and Weak Mayor" system where the Mayor is appointed and removed by the City Council.

The Municipal Council is elected by the population for a mandate period of six years and its members elect the Mayor among them through a majority vote. Councils are comprised of five, ten or twenty Councilors, depending on the number of inhabitants.

2. COMMUNITY PARTICIPATION

With regard to popular participation in the management of local matters, the laws and supplementary rules of Nicaragua address participation in several instances.

a. Municipal Councils

The Municipal Councils are assemblies comprised of inhabitants from each municipality that participate in a free and voluntary manner in order to know about, contribute to, and constructively criticize municipal management. They must assemble two times per year in order to stay informed about the budget and its creation. But it is possible

to convene other meetings—in fact, as many as the Mayor considers convenient—to deal with themes proposed by the inhabitants or with the problems and needs of the community.

b. Popular Municipal Councils

The Popular Municipal Councils' function provides a mechanism for mobilizing the participation of citizens, institutions and organizations interested in specific areas of municipal activity. They have consultative duties and can formulate proposals and contribute to municipal management.

c. Complementary Organizations of the Municipality

Complementary Organizations of the Municipality function to strengthen popular participation, improve the rendering of services to the population and improve efficacy of municipal management. These complementary organizations can be the Delegate Councilors, the Mayor's Assistants, the District's Delegations and the Institutional Councils.

d. Citizens Associations

Finally, the municipal government is obliged to support the creation of Citizen Associations to support the development of the municipality as well to facilitate the participation of sectoral, cultural, trade, athletic, professional organizations, and associations in the municipal management process. With regard to the case of the participation of inhabitants of the autonomous Atlantic Coast region in community and municipal management, the law determines that traditions and customs of the inhabitants will be respected and taken into account.

IV. HONDURAS

A. MANDATES

The 1981 Honduran Constitution makes several references to municipalities. In addition, the new 1991 Municipal Code which replaces the 1927 Municipal Code, holds important implications for decentralization in the country. Together, these laws form the mandates for municipal government in Honduras.

The new Code has some significant and important implications. For example, it:

- Passes to municipalities the rights conferred under the Constitution;
- Opens new doors for democracy;
- Increases citizen participation at local level; and
- Transfers some services to municipal government.

This Code defines 18 attributes of municipalities, such as the:

1. Elaboration and implementation of municipal development plans;
2. Control of urban development, lands and city boundaries;
3. Hygiene and cleanliness of the city;
4. Construction, maintenance and administration of water and sewage systems;
5. Construction and maintenance of public avenues;
6. Construction and maintenance of cemeteries, markets, and slaughterhouses;
7. Environmental protection and reforestation;
8. Maintenance of parks, beaches, public places and transportation terminals;
9. Development and regulation of commercial activity, industry and services;
10. Control of public events;
11. Promotion of tourism, culture, recreation, education, and sports;
12. Creation and maintenance of a fire fighters department;
13. Establishment and operation of a local civil service;
14. Municipal services contracting;
15. Health services contracting;
16. Construction of utility (electricity) systems at the municipal level in collaboration with the Empresa Nacional de Energia Electrica (ENEE); and
17. Coordination of municipal development plans with national development plans.

These new attributes represent more of an ideal, and many Honduran public sector observers, like SECPLAN, doubt that municipalities are qualified to implement these attributes.

The Municipal Code takes a gradualist approach, targeting 1995 as the goal for implementation of the Code. This gradualism will increase the autonomy of municipalities in such areas as forestry, water rights, and financial independence. Nevertheless, there will be some

conflicts with central government as municipalities take over some central government functions.

Over a four-year period, municipalities will receive gradually increasing percentage of the national budget. This is to be 2% in 1992, 4% in 1993, and 5% in 1994. Municipalities will receive an established amount of Lempiras, based on number of inhabitants in each municipality and according to the SECPLAN 1988 census.

There was general optimism and enthusiasm for the new municipal law among those interviewed. With only a few exceptions, there were no indications that central government is giving autonomy to municipalities with one hand and then taking it away with other regulations and decrees. There is some skepticism by some government officials, however, that municipalities, especially the smaller ones, are capable of implementing the attributes as defined. In addition, some suggested that the Instituto Nacional Agraria (INA) stands to lose power as municipalities get more involved with agrarian reform. Finally, many observers expect major turf battles on land reform, land entitlements and services.

No one interviewed believed that the new municipal laws would create new regional development poles, increase privatization, or really turn over to municipalities power for re-industrialization.

Municipal Actions and Activities

The following is an examination of municipal actions and activities in Honduras.

Urban Services

Urban street construction	SECOPT operates at the national level, but municipalities provide assistance in the larger cities
Water systems	SANAA provides national services, and municipalities provide SANAA with manual labor
Sewage/Drainage Systems	SANAA provides national services, and municipalities provide SANAA with manual labor
Garbage collection/disposal	Municipalities provide this service. Smaller municipalities do not provide the service at all
Street Cleaning	Municipalities provide this service. Smaller ones do not
City Lighting	Empresa Nacional de Electrificación (ENEE) provides
Urban Planning/Land Use Zoning	Dirección General Urbano (DGU) of SECOPT and selected municipalities

Public Services

Parks and Recreation

Municipality responsibility

Cemeteries

Municipality responsibility

Slaughterhouses

Municipalities responsible with some private initiative and control

Public Markets

Municipality responsibility

Licenses and Activities

Municipality runs municipal markets and provides licenses for stores, bars, restaurants, as well as collects municipal taxes for them

Transportation Terminals

Municipality responsibility; licenses at municipal level but payments are small

Social Services

School Construction

Municipalities provide land and labor to build schools in connection with the Ministry of Education. Some are under pressure to provide teachers, but there are also municipal schools

Sports and Culture

Municipalities have some responsibilities in both sports and culture. Central government also offers sports and cultural programs nationwide

Health

Ministry of Health is responsible nationwide. Municipalities can provide land for health clinics and labor for construction but there are no municipal health clinics

Public Security

Police Department

Local municipal police for traffic and minor offenses

Fire Department

Municipal responsibility, although coverage is minimal in smaller municipalities

San Pedro Sula is considered the most progressive municipality in the country with regard to taking over services from central government. Examples are its water system through DIMA and its own firemen.

According to most observers in Honduras, municipalities are a function of size. Many observers are skeptical about municipal services at present. They state that over 90% of the municipalities do not even have budgets or full time Mayors. A major constraint is revenue collection, limiting or making impossible operating budgets to conduct programs or services. More specifically, only 15 municipalities are large enough to have moderate programs and services, and 90 are medium-sized with limited programs and services. The majority (185) are small, with minimal funds (70% of which have no budgets), drastically limiting services.

While progressive municipal officials will pressure government for roads, schools, and other such services, they still have to request these of the central government, which contradicts the new municipal law. Municipalities must still petition the central government for services, keeping municipalities at the bottom of the totem pole, in a vertical relationship with central government.

The conclusion is that municipalities generally provide only basic services with limited financial and human resources. Municipal development rhetoric and laws are considered to be at least ten years ahead of real possibilities. Many central government officials, according to several sources, are waiting for municipalities to fail so that they can return to the powers they had before the new municipal law. Some of these people interviewed thought that government officials were cynical and unwilling to cooperate with municipal officers contributing to what could then become a self-fulfilling prophecy.

A few people interviewed thought that the municipal development initiative could fail before the 1993 elections, and could become an election issue. In response, some municipalities state that President Callejas' expressed commitment to decentralization is not reflected in concrete actions taken to implement it. Two people stated that in mid-October 1991, Callejas was already losing steam for reforms and was proposing no new ideas or directions. Opposition candidates could call for a new and different relationship between municipalities and central government.

The "Plan de Gobierno 1990-1994" provides a succinct assessment of how Honduran municipalities could function in the future. The document states that government will "return to the municipalities the capacity to take control of their own development, with full civic conscience and a capacity for decisionmaking and implementation." The municipal policy lines are:

1. Provide maximum participation of the municipalities in their own development.
2. Allow, encourage and increase the participation of communities and their organizations in solving their problems.
3. Decentralize services, transferring to the municipalities part of the responsibilities now performed by the central government.
4. Strengthen the democratic process given to municipalities with autonomy in the election process.
5. Create technical, judicial, administrative, and financial conditions favorable to communities empowerment in the development process.

6. Support local governments in improving their organizational structure so that they can improve the public services they offer.
7. Transfer economic resources from the national budget to the municipal level for implementing community works and providing services.
8. Develop training programs in planning and municipal administration for the municipal staff.

B. LOCAL GOVERNMENT STRUCTURE

Honduras has 18 departments, 289 municipalities, 3,072 aldeas, and 19,756 caserios. The entire country is divided into municipalities. There are roughly nine aldeas (townships) and 60 caserios (neighborhoods) per municipality. The 1988 census showed 104 (36%) to be urban municipalities and 185 (64%) to be rural municipalities.

Representational Forms at Local Level

The new Municipal Law in Honduras does not affect the operation of "departments". Department governors—a semi-decorative position and a liaison role between municipalities and the central government—are still appointed by the President. Each municipality continues to be part of a department.

The municipal government is headed by a Municipal Corporation that serves as the deliberative organ of the municipality and is elected by the people. The principal duties of the Corporation are to: create, reform and abolish municipal judicial instruments, approve annual budgets, conduct town meetings, approve municipal contracts, and carry out urban development planning. The Municipal Corporation is made up of the mayor and a number of "regidores" determined by the number of inhabitants of the municipality. It is important to note that, the municipal law provides for proportional representation of regidores according to the popular vote. Regidores (representatives) are elected on the same ballot and with the same party as the mayor.

The new Municipal Code calls for a Municipal Development Council with advisory functions. The Council is presided by the Mayor, members are selected by the Corporation equal to the number of municipal "regidores". This means that, if there are five elected regidores, then there would be five Council members.

Electoral Processes and Mayoral Periods

The November 1989 elections used electoral law existing at time. There were 289 mayors, Sindicos and regidores listed on same ballot with President and Congressmen by party. This was a free election and with a secret ballot.

Elections are organized by the Tribunal Nacional de Elecciones. Election places are available at the aldea level with a ballot box for every 300 registered voters. Inhabitants at the caserio level must go to an aldea to vote.

The new Municipal Law states that Mayors are to be elected at same time as the President and Congress. There is some debate in Honduras how these elections will take place in 1993 (i.e., if mayors will be elected in party slates, as in the past, or will be independent from Presidential and Congressional elections). The term of office of municipal officials—January 25, 1990 to January 24, 1994—is the same as President.

Regidores are elected, proportional to the popular vote, but based on party slates.

Relationship of Candidates with Parties

In the 1989 election, mayors, regidores, and sindicos had to be members of one of the four Honduran parties. The National Party won 80% of the mayoral positions (a total of 200) on the party slates. There were no independent candidates.

Relationships between Municipal Government and Lower Levels of Representation

Municipalities are responsible for entire municipal regions, urban and rural. Honduras is still roughly 50% urban and 50% rural. Municipality, thus, is the lowest denominator for political division. The relationship among municipality, aldea, and caserio varies from place to place. Assistant Mayors are selected by the Municipal Council from a slate of candidates presented by the communities. Their relationship to patronatos is completely informal.

Administrative Forms at Local Levels

Municipal administration is stated in new Municipal Law. Only a few municipalities networking with community organizations, patronatos, aldeas and caserios.

Participatory Planning Process

There are provisions in the Municipal Law for plebiscites at the local level. Municipalities can have a public vote on issues. In this sense, the new law opens up the participatory process.

V. COSTA RICA

A. MANDATES

The Costa Rican Constitution refers to the establishment and maintenance of municipalities. Article 169 states that the administration of services in each canton/municipality is the responsibility of the municipal government, which is led by elected councilmembers and run by the city managers (who are, in turn, selected by the councilmembers). Article 170 states that municipal governments are autonomous. Article 173 states that municipal laws can be revoked. Article 174 states that the National Assembly can prevent municipalities from signing agreements. Article 175 states that municipalities have their own budget but it must be approved by the Controller General of the Republic, an arm of the Congress. In general, the Constitution is somewhat "reserved" in its granting municipal autonomy. While in one article municipalities are granted full autonomy, in others severe restrictions are placed on municipal operations. For example, the Constitution states that municipalities have "independent" budgets, but in reality the municipal budgets must be approved by the Controller. Local autonomy is circumscribed. This has been the general environment for municipal development in Costa Rican history. In addition, municipalities do not automatically receive central government transfers. Article 170 of the Constitution allocates a certain percentage of the budget for municipal decentralization programs; however, this legislation has never passed Congress.

The Municipal Code of 1970 provided for the selection of the municipal executive (City Manager) by the Municipal Council. Before that date, the City Manager was appointed by the President.

Municipal Actions and Activities

The 1970 Municipal Code calls for municipal activities and actions to be coordinated with central authorities and closely supervised by the Controller. Consequently, there is a large number of central government programs throughout Costa Rica.

The Municipal Code states that municipalities are to get involved with local activities but always in coordination with the appropriate central authority. For example, water projects need to be coordinated with "Agua y Alcantarillado" (AyA) electrical systems with the Instituto Costarricense de Electrificación (ICE), road projects with the Ministerio de Obras Publicas y Transporte (MOPT), and municipal development plans are made in coordination with the Ministerio de Planificación (MIDEPLAN), the national planning ministry.

National Congressmen, of which there are 57, have access to Specific Project Funds ("partidas específicas") for their respective provinces (i.e., to use in addressing constituent needs). Within the provinces, there are Community Associations in each province whose activities are coordinated with the National Community Development Organization (DINADECO). In practice, these associations receive funding through DINADECO and also appeal directly to their congressmen for community development funds. Essentially, community organizations do not have to go through municipalities for these funds but do in fact coordinate with their respective local governments in the process.

Development program plans are generally initiated and implemented by central government public sector entities, for which municipalities play subordinate and supportive roles. In education, for example, the central government controls schools, but does allow municipalities to support programs through school construction and special education projects within the national program. Several congressmen have attempted to introduce new legislation to promote education reform programs but with little success.

As a Research Triangle study for USAID/Costa Rica states:

"At present, centralized control of the provision of local goods and services is pervasive and overwhelming in Costa Rica. Central control is exercised through laws, the control of revenue and funding sources, and through fiscal controls and auditing powers. Municipal authorities have little voice in these matters. As a consequence, citizens find no reason to look to municipal governments in the hope of improving services. It is not surprising, consequently, to find that municipal governments enjoy little prestige or authority. Many argue that there is a corresponding lack of municipal competence to supervise the provision of local goods and services in any event. The self-justifying logic is ineluctable: Municipalities do not have resources or the ability to provide goods and services so centralized institutions provide them; therefore, there is no municipal capability to provide them and centralized agencies must continue to provide local goods and services."

The following are the services provided by municipalities and central government in Costa Rica.

Urban Services

Urban Street Construction

Provided by Ministry of Public Works and Transportation; however, municipalities do have a few street projects on their own. IFAM, which provides financing to municipalities, reported only 13 credits for city streets over six-year period.

Water Systems

Supervised by the Instituto Costarricense de Acueducto y Alcantarillado (AyA) at the central level. An RTI study reports that 46 of 81 municipalities are responsible for providing their own water and sewage services (with financing from IFAM) but must always coordinate with AyA.

Sewage/Drainage Systems

Provided by AyA as above.

Garbage Collection/Disposal

Provided by municipalities. RTI reports that 76 of the 81 municipalities provide trash collection and waste treatment systems. Most of them (64) do it directly and 12 municipalities contract out.

Annex II, 20

Street Cleaning	Provided by municipalities. (This is one area delegated to local governments.)
City Lighting	Provided by central government through the Instituto Costarricense de Electricidad (ICE). There are no municipal lighting systems; however, in rural areas, municipalities do provide generators through ICE.
Urban Planning/Land Use Zoning	Provided mainly by central government; however, municipalities do receive income from property taxation.
Public Services	
Parks and Recreation	Provided by municipalities.
Cemeteries	Provided by municipalities.
Slaughterhouses	Provided by municipalities.
Public Markets	Provided by municipalities (i.e., IFAM provides credit for construction); however, central government collects taxes for stalls at public markets.
Licenses and Activities	Municipalities and central authority share this responsibility.
Transportation Terminals	The National transportation systems is nationally controlled. Terminals may be run by municipalities, but central government controls the overall system.
Social Services	
School Construction	Ministry of Education exercises responsibility even though municipalities can assist in school construction.
Sports and Culture	Municipalities exercise considerable influence in this area.
Health	Under the authority of the Central Ministry of Health.
Public Security	
Police Department	Under the authority of the central government. "Ministerio de Seguridad Publica".
Fire Department	Under central government authority.

Municipal Attributes

The Municipal Code (Article 4), identifies ten central attributes that belong to municipalities and are their responsibility, which are to:

1. Promote culture, sciences and the arts.
2. Promote general and vocational education in coordination with central administration and private sector organizations.
3. Supervise the physical and mental health of people in their respective municipalities.
4. Establish integral urban development plans as well as the policies and services necessary to carry them out.
5. Formulate rural development policies and services for rural communities.
6. Protect and promote agricultural, industrial and commercial development within municipalities.
7. Protect natural resources.
8. Promote tourism.
9. Protect citizens in coordination with national authorities.
10. Promote civic conscienceness of citizens.

These attributes, which are already very general, have been restricted, as well as contradicted in the process of their implementation with the central government. As a result, municipalities possess in actuality only a small percent of the attributes listed above or of the mandates otherwise specified in the Constitution or Municipal Code.

B. LOCAL GOVERNMENT STRUCTURE

Costa Rica is organized into seven provinces; 81 cantons or municipalities; 405 districts; and about 1,600 development associations.

Representational Forms at Local Level

Representation at the local levels is as follows:

Provinces	Districts	Canton/Municipalities
San Jose	111	20
Alajuela	107	15
Cartago	47	8
Heredia	43	10
Guanacaste	47	11
Punta Arenas	43	11
Limon	23	6
TOTALS	421	81
SOURCE: 1988 Census		

Annex II, 22

There are 13 municipal leagues in Costa Rica that are groups of cantons in a geographical region organized as more political, economic and social pressure groups. All are regionally based (i.e., provincial) except for Municipal League of Banana Producers, which is sectoral rather than regional. These are as follow:

League	No. Cantons/Municipalities
Cartago Province League	10
Santos and Carraigres League	5
Pacific Sur League	6
San Jose League	3
Guanacaste and Upala League	11
Banana Production League	9
Zona Norte League	4
Heredia League	10
Limon League	6
Pacifico Central League	9
Zona Alta de Guanacaste League	3
Alajuela Occidental League	8
Sur Oeste San Jose League	3

Electoral Processes and Mayor Periods

The Municipal Council is formed every four years at the same time that elections are held for President and the Congressmen on the first Sunday in February. The Municipal Council elects the President of the Municipal Council for a one-year period and selects its Municipal Executive (City Manager) who serves for four-year period.

There is a pyramid system for selecting Councilmembers. The process starts with district assemblies held by the political parties and continues at the canton level. These canton assemblies then select the "regidor" (Councilmember) candidates that will appear on the ballot for each political party. Each party selects its "regidor" candidates in accordance to the number of "slots" for each canton. Political parties rank their candidates in order of preference since the "regidores" will be elected based on the proportional number of votes received by each political party in each canton. As a result, political parties select candidate "slates" for each of 81 municipalities. On election day, citizens vote at the municipal level for Councilmembers. The total number of Councilmembers elected for each municipality is based on the following formula:

Population Municipality	No. Regidores
25,000 or less	5
25,001 to 50,000	7
50,001 to 100,000	9
200,001 to 200,000	11
200,001 and above	13

In 1989, 505 regidores were elected nationwide in the 81 municipalities.

According to percentage of votes won by party, the party receives a proportional number of regidores. Also elected is a Sindico at the district level. There is a total of 405 Sindicos and alternates elected. Municipal elections are held on the same day as the elections for President and Congressmen.

After the election, Councilmembers then select the City Manager. Different from other countries, in Costa Rica, there are no Mayors, only City Managers.

Relationships between Municipal Government and Lower Levels of Representation

The Costa Rican municipal structure conforms to the principals established during the Figueres Administration (in the 1970s) at which time a strong central government was formed. Municipal administration, in Costa Rica, unlike most of Latin America, follows a City Manager approach to administration which is directly supervised by the Controller's Office. In this respect, municipalities are closer to the concept of "deconcentration" (rather than decentralization) of goods and services emanating from central authorities. The 1970 Municipal Law, in conjunction with 1983 reforms, have improved the situation dramatically since the era when central authorities hand-picked canton officials. However, at the same time, open-ended Municipal Code articles are refuted, contradicted and controlled by other articles or central government decrees.

In contrast to the limitations imposed on municipalities, Costa Rica has fostered well over 1,600 local development associations (roughly 20 per canton/municipality or four per district). In fact, since the associations often work at the district level, they duplicate and sometimes even replace some district functions.

The relationship between associations and municipalities is uneven. Sometimes collaboration and coordination is good, and sometimes substantial tension exists. The reasons are:

1. Local development associations become rivals with municipalities for limited funds. Leadership battles can emerge among the association and municipal leaders.
2. Congressmen with their "partidas especificas" (ear-marked funds for congressmen) go directly to associations in order to gain favor for elections. If the municipality is controlled by an opposition party, then congressmen may wish to provide funds directly to "friendly" community development organizations.
3. Municipal governments have the tendency to work with larger districts within the municipality/canton because the Councilmembers are elected from the larger districts.

As also illustrated in Annex IV (Community Participation and Empowerment), and as the RTI study points out, the community development structure parallels that of the municipal government, as illustrated below.

LEVELS	MUNICIPALITIES	COMMUNITY DEVELOPMENT
DISTRICT	District Council	Community Development Associations
CANTON	Municipal Government	Union Cantonal
NATIONAL	Union Nacional de Gobiernos Locales	Confederacion Nacional
NATIONAL SUPPORT	IFAM	DINADECO

The provision of bilateral and multi-lateral assistance can be difficult due to the duplication of functions and since good coordination and support among these groups may not exist.

In general, and as the RTI study points out, "most municipal governments do not now provide for systematic participation by the community in local decision-making and implementation, and have little capacity to mobilize the population to support development activities."

Municipal Code (Article 64) discusses how District Councils are to function. The District Councils are to serve as: 1) links between municipal governments and local communities; 2) serve as organizations with which municipal governments can collaborate; and 3) monitor municipal operations that are carried out within the district and to report to the City Manager on how they could be better performed. These Councils (in all 421) are not functioning well, exacerbated by the gap between the community organizations and municipalities.

Administrative Forms at Local Levels

The municipal executive functions as a City Manager and is appointed by the canton council for a four-year period. The City Manager can be removed from office, although normally this does not occur.

Decentralization Policies

Article 170 of the Constitution would be the likely place to reform the Constitution with respect to decentralization in Costa Rica. However, there is genuine debate regarding even the desirability of decentralization. Municipalities are even skeptical about decentralization, given the success of central government management. Conceptually, the RTI study emphasizes strongly that the possibilities for decentralization in Costa Rica are weak. The principal interest, instead, is in "deconcentration," in which central government sets up branch offices in the seven provinces. This may be a more likely outcome for Costa Rica.

Two proposals have been published by IFAM regarding decentralization: "Decentralización Territorial y Fortalecimiento Municipal en Costa Rica: una experiencia" (Octubre 1989); and "Plan de Decentralización Territorial y Fortalecimiento Municipal" (January 1990). Both documents cover the same basic areas of discussion, such as: 1) The need to make municipalities stronger; 2) A call for a gradualist approach to decentralization, in which

certain functions such as garbage collection, water and sewage become the responsibility of the municipalities; 3) Calls for reform of Article 170 of the Constitution; 4) The need to document how the Municipal Code is contradictory, to the centralized control of federal authorities. Apparently, after discussing these documents with Congress and the President, IFAM perceives that these proposals have minimal central government support and minimal chances of being implemented. Most of the people interviewed stated that municipal reforms and decentralization will occur in a backhanded fashion through administrative reforms proposed under COREC II.

The Research Triangle study stated that "small-scale programs designed for limited impact are likely to generate more positive and durable results than large-scale, sweeping organizational reforms. Programs should, therefore, be planned initially on a small scale and expanded incrementally." This is precisely what IFAM is attempting to do with 15 to 18 municipalities in a demonstration or pilot project. The project is intended to promote decentralization within those municipalities.

The principal debate in Costa Rica revolves around the desire and convenience of having decentralization or not. Central authorities are interested in maintaining a strong and competent government, with minimal decentralization to or empowerment of municipalities, not only because central government programs are so successful but also because Costa Rica is such a small country. Even the municipal support organizations (IFAM and the Unión) are not radical proponents of decentralization. Rather, they couch programs within the context of municipal development and competence.

Participatory Planning Process

The local development associations provide an excellent backdrop for participatory planning processes. This organizational structure is complemented by 3.0 million very political inhabitants who get organized for anything and feel this is real democracy. This informal pressure combined with the formal mechanism for channeling this political pressure (through Associations) provide a viable means for participatory planning. The Municipal Code (Article 21, i) refers to the celebration of plebiscites, referendum and open council meetings as a means of promoting participation. However, the use of such mechanisms is not common and community participation in municipal affairs could be improved.

VI. PANAMA

A. MANDATES

Municipal legal mandates in Panama emanate from the Constitution and other laws that govern provincial administration, municipalities, and community and local boards. The Constitution addresses the "Municipal Regime," in Titles XIII and IX (Articles 207-252). All these articles relate to the local government structure, provincial administration, municipal council, and municipalities. Law No.106, dated October 8, 1973, is the most comprehensive Municipal Code. The law establishes that:

- Article 1: Municipalities shall be autonomous.
- Article 2: Local governments shall be independent specifying that municipalities shall provide certain services.
- Article 3: The Mayor shall exercise control at the local level.
- Article 4: A Municipal Council shall exist, describing their functions.
- Article 5: Municipalities can protest against any national law that goes against the province level.
- Article 6: Local government shall be involved in addressing local epidemics.
- Article 7: Citizens have the right to participate in referendums at the provincial level when the central government violates municipal authority and autonomy.
- Article 8: Municipalities can create enterprises or public-private enterprises to generate income for municipalities or provinces.

Law No. 52, passed December 12, 1984, made some revisions to Municipal Code, as follows:

1. Mayors are not to be elected by people but rather appointed by the President.
2. Mayors and local Councilmembers are to be paid with local funds.
3. Municipalities shall collect taxes and those funds go directly to National Treasury and are subsequently returned to municipalities.

Other relevant laws are as follows:

- Law No. 2 (June 2, 1987) which establishes the functions of the Provincial Governors.
- Law No. 51 (December 12, 1984) which states the functions of Provincial Councils.
- Law No. 105 (October 8, 1973) which establishes regulations regarding Community and Local Boards.
- Article 52, which confers Municipal Councils a wide array of legal responsibilities programming, budgeting and local administration.

- Article 4 (reforming Article 17 of Law 106), which states that Municipal Councils can create mixed or public companies for any type of activity, provide directly or under contract a wide range of public services currently provided by the central government, and authorize the construction of slaughterhouses and markets, along with a wide range of other activities and functions.

Most observers who read these laws and regulations find serious contradictions, barriers, and restrictions that impede municipal development. Many municipal regulations are simply not followed under present circumstances. Many informants interviewed call for either radical or at least critical revisions of the present laws affecting municipalities.

Municipalities have a small role in the provision of infrastructure and public services. While municipal mandates provide them with adequate authority, these simply are not fully used. The potential of local government in responding to local needs is not yet realized because of their poor organization and unprepared staff. In addition, the information base (knowledge) for decision-making is simply lacking, further limiting local potential. Finally,

most municipalities have incomplete taxpayer rosters as well as outdated and incomplete cadastral systems, limiting the possibilities for local revenue generation.

Municipal Actions and Activities

There are 65 municipalities and 510 corregimientos (districts) in Panama. These fall into four broad levels of municipalities, ranging from simply organized ones (with few employees) to larger and more complex municipalities like Panama City. The following chart outlines the number of municipal employees by province in 1987 from MIPPE data:

PROVINCE	NUMBER OF EMPLOYEES
Panama	3,373*
Chiriqui	577
Colon	432
Veraguas	292
Cocle	203
Herrera	183
Los Santos	183
Bocas del Toro	104
TOTAL	5,385
*Panama City has 3,069 and San Miguelito 304.	

There is an average of 47 municipal employees in urban municipalities and ten in rural municipalities with considerable turnover: 55% of municipal employees changed jobs in the last year. This helps explain why 75% of municipal employees require training in planning and municipal development.

Province	No. Projects	Percentage	Amount US\$ 000s
Cocle	79	14	898
Colon	44	8	461
Darien	35	6	594
Panama	115	20	4,376
Los Santos	27	6	555
Veraguas	79	14	1,144
San Blas	7	1	67
Herrera	47	8	645
Bocas del Toro	54	6	591
National Level	6	1	1,482
TOTAL	582	100.0	14,082
SOURCE: Fondo de Emergencia Social, 1991.			

The central government provides almost all basic municipal services in Panama, although Law 52 states that municipal councils have a wide variety of legal authority. However, municipal governments do not have the skills to take on large scale projects nor the resources to do so. Local governments normally provide supplementary services.

The following are the services provided by municipalities and central government in Panama.

Urban Services

Urban Street Construction

Ministry of Public Works (MOP) has the major responsibility while municipalities provide manual labor. In addition, some street maintenance committees exist at the Community Board level.

Potable Water Systems

Instituto de Agua y Alcantarilado Nacional (IDAAN) provides central control of water systems. Apparently municipalities get involved in the design and location of water systems, and then the Community Boards appeal directly to IDAAN for services. IDAAN provides water supply systems to all communities with a population of more than 500. The Ministry of Health plans and builds rural systems, which typically are operated by local communities. IDAAN cooperates with the Ministry of Housing (Ministerio de Vivienda-MIVI) in planning low-cost development so that water and sewage infrastructure can be made available where it is most needed.

Sewage/Drainage Systems

IDAAN provides this service (as described for water system).

Garbage Collection/Disposal	Provided by municipalities. However, municipality of Panama is considered to be very delinquent in collecting garbage, and it has been reported that in smaller municipalities garbage collection does not take place at all. As a result, in Panama City, garbage collection primarily done by DIMA, which is part of IDAAN.
Street Cleaning	Provided by municipalities.
City Lighting	Provided by IHRE-Instituto Hidraulico de Electricificacion. IHRE has provincial offices and collect user fees at provincial levels.
Urban Planning/Land Use Zoning	This is complex service because land zoning is done at the central, provincial, and municipal levels. To complicate matters, in some of the larger municipalities (Panama, San Miguelito, La Chorrera, David, Colon), there is considerable land invasion, making urban planning and zoning difficult.
Housing	The Ministry of Housing (MIVI) is in charge of housing. Pressure comes from the Community Boards through housing cooperatives or a Local Board dedicated to housing. Construction is largely done by MIVI, with some self-help community efforts.
Public Services Parks and Recreation	Provided by municipalities. MIPPE reports that they assist municipalities in park designs and provide services to municipalities.
Cemeteries	Provided by municipalities.
Slaughterhouses	Under municipal control. Some municipalities own a slaughterhouse and others rent out municipal facilities for such a purpose.
Public Markets	Under municipal control.
Licenses and Activities	The Municipal Code establishes 42 licenses and tariff activities that are relegated to municipalities. The problem is these 42 licenses and taxes are "mixed" and only 10-15 of these 42 are really used effectively.

Transportation Terminals

Under central authority.

Social Services

School Construction

The Ministry of Education provides school construction. Apparently there is good collaboration with Community Boards in manual labor.

Sports and Culture

Municipalities have primary responsibility with support from central authorities.

Health

The Ministry of Health has primary responsibility, with municipalities assisting in clinic construction. Apparently, this is the favorite activity for Community Boards.

Public Security

Police Department

There are 510 public security representatives (selected by the President) that correspond to the corregidor representatives. Municipalities do not possess their own police, even for traffic. All police activities occur through the Dirección Nacional de Tránsito. At the municipality level, the Mayor appointed by the President and is *de facto* in collaboration with the National Police. Municipal "technicians" are designated to control local markets. These are not police, rather enforcers of municipal codes and regulations.

Fire Department

There are provincial-level fire departments, with little services at the municipal level. Panama City is the only one with its own fire department.

B. LOCAL GOVERNMENT STRUCTURE

Panama has nine provinces (Bocas del Toro, Chiriqui, Veraguas, Cocolé, Herrera, Los Santos, Panama, Colon, and Darien) with a population of 2.4 million in 1991.

9	Provinces
65	Municipalities
510	Corregimientos (Districts)
510	Junta Comunales (neighborhood councils)
6,000	Junta Locales (estimated)

Province	Number Municipalities	Number Districts
Bocas del Toro	3	15
Cocle	6	39
Colon	5	40
Chiriqui	13	101
Darien	2	24
Herrera	6	40
Los Santos	7	72
Panama	12	98
Veraguas	11	71
San Blas	--	5
TOTAL	65	505

There is no geographic or population base for setting up municipalities or districts. Like Montana or Wyoming, some municipalities in Darien and Bocas del Toro have large land masses but small populations. Others have small geographic areas but large populations.

In general, districts have populations ranging from 500 inhabitants to 80,000, with an average population of 4,700. Perhaps 60-70% of districts have less than 4,700 inhabitants.

Panama is gradually becoming an urban society. At least 60% of the population resides in sprawling urban cities like Panama City which now has roughly 50% of this country's 2.4 million population (1991). This means that some of the traditional roles for Panama's municipalities may be different than in other Central American countries.

Representational Forms at Local Level

Representation takes place on a parallel system, as follows:

LEVEL	ELECTED	APPOINTED
Provincial	Provincial Council (Municipal Council)	Provincial Governor Regional Ministry Officials Technical Council
Municipal	Municipal Council (Corregimiento Reps)	Mayor (by the President) Correidores Districts (by the Mayor)
Junta Comunal	(Corregimiento Reps)	Corregidores
Junta Locales	n.a.	Appointed Leaders

This complex system carries different interpretations. One view is that local boards are "cells" or local units that are appointed by government corregidores at the community board level and are in effect control elements of central government at the local level. From this perspective, appointed Mayors and provincial Technical Councils are "masks" for central control. The other view is that there exists real representation at the local level that can be brought to bear for participatory democracy and empowerment. In fact, the reality may be a combination of both of these views.

Province Level

Provincial Governors are selected by the President and serve at his discretion. The President also runs a Provincial Technical Council, represented by the nine provinces, each with a Provincial Council. The provincial government is regulated by laws approved on June 2, 1987 for Provinces and Law No. 51, December 12, 1984 for the Provincial Council. Most observers find provincial-level government weak and inefficient. Each Provincial Council consists of elected officials (Municipal Council Presidents and members selected from the corregimientos) coming from municipal council election.

Municipal Level

There are 65 municipalities that correspond to 65 geographic districts. Each Municipality has a Municipal Council. The Mayor of each municipality is selected by the President and serves at his discretion. The mayoral system is the executing body at the municipal level. Mayors oversee a municipal operation with the 5,885 municipal employees.

The Municipal Council, an advisory body, is comprised of the Mayor (voice but no vote) and representatives of the "corregimientos" plus Councilmembers. The Council selects its own president.

There are 510 corregimientos (districts) within the 65 geographic districts. These districts are not based on either population or geographic criteria.

Mayors have a dual function in Panama. They serve as the selected Mayor of the President, and as the principal policeman at the municipal level. Municipalities must deal with police actions and judicial processes for fines greater than \$15.

Electoral Processes and Mayor Periods

In understanding Panama's local development, it is important to remember that two parallel systems exist at the same time. One system is based on popular election, and the other is based on appointments made by the President at the provincial, municipal, and district (corregimiento) levels. Elected officials are dependent on central authorities for budgets, salaries and operational expenses. In some cases, elected and appointed officials can work together, while at other times there is both direct and indirect confrontation. This mixed system is terribly inefficient and works at cross-purposes for the socio-economic development of the country.

These dual systems are a result of conflicting political philosophies that have dominated Panama in the past 23 years. These include a military administration with both a populist bent as well as other military leaders with a more authoritarian orientation (Torrijos vs Noriega). New laws and administrative procedures have been piled on top of older ones that together create a jumbled puzzle that is both confusing and contradictory.

Panama has three types of elected officials: 1) the President, along with his two Vice-Presidents; 2) 67 Representatives to the National Assembly; and 3) 1,020 corregidor representatives. They are all elected at the same time and for a five-year period. Provincial governors and mayors are appointed by the President.

The President of the country selects the Mayor of the Municipality, for an unfixed period of time and entirely at the disposition and discretion of the President. In concept, the Municipal Council passes laws and sets policies while the Mayor is Administrator. The Municipal Council has minimal staff and certainly no technical staff while the Mayor possesses the technical staff. This can create a strained relationship between the Municipal Council and Mayor if from different parties.

In late 1991, Panama began to undergo a transition with regard to elections. The 1984 mayoral elections, which occurred for the first time in 40 years (after 16 years of military rule, from 1970 to 1984) was a watershed for elected local officials. This lasted only five years (until 1984), at which time direct election for mayors was rescinded. There is currently much discussion about having mayors elected directly again.

Relationship of Candidates with Parties

Three separate ballots exist for the President, Congressmen and corregidores. For Congressmen, candidates are listed by party at provincial level. Corregidores are also listed by parties and can be candidates for multiple parties. In each electoral district, corregidores are listed *only* for that electoral district.

Relationships between Municipal Government and Lower Levels of Representation

Corregidores (representatives, consejales) by law are the Community Board Presidents. Community Boards exist within each geographic district or corregimiento. Members of the Community Boards are selected from representatives of the Local Boards.

There is considerable debate, both positive and negative, about Community Boards. Some Congressmen claim that Community Boards were formed by Torrijos for national security and control reasons at the corregimiento levels. Others state that these constitute a good form of democracy at the grass roots level. In any event, Community Boards wield considerable power at the local levels.

Administrative Forms at Local Levels

Corregimiento

The corregimiento is the basic unit at the local level. It works at three levels of government through direct participation in the corregimiento, municipal council and the provincial council.

Junta Communal

In each corregimiento, there is a Community Board that is in charge of community interests and that channels funds to the community. Law No.105, dated 1973, and revised by Law No.53 in 1984, provides 24 specific attributes to the Community Boards. These range from conducting community needs assessments to establishing small businesses or engaging in mixed companies to generate income for the community. These laws, if implemented, provide Community Boards wide flexibility to represent the interests of the corregimiento. Community Boards are from the same geographic area as the corregimiento, each representing about 4,700 average inhabitants.

Members of the Community Board are appointed by the representative *corregimiento*, who is also the Board President. This directly links the Community Board to the *corregimiento*.

The Community Board has the responsibility to develop and promote the socioeconomic and cultural needs of the community it represents in coordination with the Municipal Council and the central government agencies represented in the province. It serves as the coordinating board for the needs of the community at the local level.

Juntas Locales

Below the Community Board are a number of neighborhood organizations called Local Boards that articulate community needs. Local Boards may be trade-based, labor-based, or other, non-geographic-based groups. These grassroots organizations support and implement programs and projects of the Community Board, of which they are an auxiliary organ.

There are an estimated of 6,000 of these unwieldy clusters of local groups, representing cooperatives and interest groups. Panama has traditionally had a system of local government that is designed for grassroots participation. Elected Local Boards (*juntas locales*) represent the interests of neighborhoods. Each of the 510 geo-political districts or *corregimientos* in the country have several of these neighborhood boards; a representative is elected from each *corregimiento* who chairs the Community Board and who is also a member of the Municipal Council.

This layered structure of local government does not necessarily result in a responsive government since some councils and neighborhood councils are inactive. In addition, local authorities do not always have the means to determine local priorities and have even less capacity to finance projects that respond to the needs of their constituents. The various layers of local government also diffuse decision-making and weaken the autonomy of municipalities.

Decentralization Policies

Panama has historically had a highly centralized government, with municipalities serving as "tentacles" of central authority. In 1941, the Constitution severely restricted municipal attributes, placing municipal administration under the control of central authorities. While municipal administration was established under the Consejo-Alcalde system, lacked autonomy. Municipalities are taking a beating by central authorities. Most observers even witness increased centralization and a deterioration of municipality authority since the Panama revolution in December 1989. Municipalities are becoming more clearly dominated by the Controller. Municipalities are weak and have difficulty responding to or challenging more sophisticated central authority.

The general impression is that municipalities represent a "deconcentration" (rather than decentralization) of services initiated by the central authorities. This general tendency contrasts with healthy signs of local initiative and actions by the Community and Local Boards.

Still decentralization is not alive and well in Panama. Most observers maintain that Panama has gone down hill since December 1989. Not surprisingly, many people interviewed felt present government was tending to centralize, especially through the Comptroller's Office.

Participatory Planning Process

Community Boards and Local Boards have sporadic histories. Each community is different, and depending on the corregidores from the Boards. In Pueblo Nuevo, Panama City, the corregidor has been active in promoting her neighborhood through the Community Board. Community Boards can place direct impact on the central authorities. For example, on October 29, 1991, two references in La Prensa by two different Junta Comunales (David, Panama City) in which the Community Boards demanded the central authorities of IDAAN to take action for needed repairs. Thus, while Community and Local Boards can and do play a role in planning, it is uneven.

ANNEX III

MUNICIPAL SUPPORT INSTITUTIONS

REGIONAL LEVEL

At the regional level, municipal governments have made several attempts at establishing a region-wide association. The two first attempts were unsuccessful, with the Federación de Municipios de Centroamérica y Panamá (FEMUCAP) in 1978 and the Unión de Municipalidades del Istmo Centroamericano (UMICA) in early 1991. However, a recent attempt in late 1991—with the Federación Municipal del Istmo Centroamericano (FEMICA)—appears to be much more promising, particularly in light the support it and national associations are simultaneously receiving from international donors, such as USAID. The potential of FEMICA was further enhanced during the November 1991 Regional Municipal Seminar held in Tegucigalpa, Honduras. During the Seminar, FEMICA's role and base was consolidated through the clarification of regional and national municipal association functions, a declaration of action (the Declaration of Tegucigalpa) for municipalities and their associations, the formulation of a FEMICA work plan and budget, and the generation of a solid resource base for FEMICA's future work.

The purpose of FEMICA is to support mechanisms that strengthen municipal institutions and the processes of decentralization in the Central American Region and Panama. Specifically, FEMICA's objectives are to:

- Consolidate FEMICA as a permanent representative organization and voice for municipalities throughout the Isthmus;
- Support the exchange of experiences among its members;
- Elevate the theme of "municipalism" and decentralization to the "agenda" of governments throughout the Isthmus;
- Obtain support from international (bilateral and multilateral) donor agents in the achievement of FEMICA's objectives;
- Conduct research and studies that insert the municipal "sector" into the new economic strategies and activities of the central governments.

FEMICA has the potential to successfully achieve such objectives, given the clear work plan that FEMICA has formulated to implement these objectives, initial confidence from mayors and their local governments, support from the international donor community, and its ongoing efforts to mobilize a solid resource base. However, sustained support will be necessary for FEMICA to realistically achieve these objectives. In addition, FEMICA must prove itself to be consistently democratic and participatory in order to ensure its legitimacy and maintain its support from its members—a problem that is common with associations at the national level.

Annex III, 2

GUATEMALA

Guatemala has various entities working to support municipal development. First, as in other countries, it possesses both a municipal association, "ANAM" (the Asociación Nacional de Municipalidades), and development institute, "INFOM" (Instituto de Fomento Municipal). In addition, two other private entities—FUNDAZUCAR and APOLO—are supporting the municipalities.

ANAM, the municipal association, was approved by the government in November 1969 to attend to the interests of all municipalities throughout the country and to promote their development. It represents all municipalities and currently charges a fixed fee based on a "sliding scale" (i.e., on municipal income). The association is comprised of the National Assembly, an Executive Board and a Secretariat. In January 1992, Guatemala's municipal governments held a Congress to reform the statutes of the association such that the association's President will be elected by its members rather than, as previously established, be automatically held by the Mayor of Guatemala City. This change will improve the representation of association members and, through elections, allow greater participation of its members. It is important to note that, in addition to the national association, departmental associations exist, which convene on a regular basis in order to exchange ideas, discuss common problems and obtain information on the state of municipalities.

INFOM, the municipal development institute, was created in February 1957 and provides training, assistance and financing. The role of INFOM in financing is significant, given that central government transfers (8% of the annual budget and a percentage of taxes on beer, spirits, coffee and other items) to municipalities are made through INFOM.

The two other entities that provide assistance to municipalities are clearly limited in their scope or by their fees, but are nonetheless worth mentioning. FUNDAZUCAR, a nonprofit foundation organized by sugar producers, provides assistance to municipal corporations as part of broader socio-economic development efforts. Meanwhile, APOLO, an organization established by the Francisco Marroquín University, provides technical assistance to city councils in return for some form of remuneration.

EL SALVADOR

El Salvador possesses, as several other countries in the region, both a municipal association and a municipal development institute. These are "COMURES" (the Corporación de Municipalidades de la República de El Salvador) and "ISDEM" (the Instituto Salvadoreño de Desarrollo Municipal), respectively. In addition, there also exists an institute that supports municipal councils, known as "ISAM" (the Instituto Salvadoreño de Administración Municipal), which is funded by the Adenauer Foundation but which has a party affiliation.

COMURES, the municipal association, was organized in November 1940 during the First Congress of Salvadorean City Councils. It eventually became inactive, not to be re-established until September 1991 during the Sixth National Congress of Salvadorean City Councils. At this Congress, the municipalities agreed to a proposal that reforms the statutes

of COMURES. The changes establish COMURES as an association comprised of the National Congress of Mayors, the Departmental Mayor Councils,¹ an Executive Board (with 38 directors), a Secretariat and various "commissions" dedicated to research, evaluation, consulting and publication. Accordingly, the association has already defined its goals for 1992, which include to: 1) create and operate Departmental Mayor Councils; negotiate with the Legislature in order to establish a Commission on Municipal Affairs; formulate Social Security programs for municipal officials and staff; and implement Article 28 of the Municipal Code, which calls for the creation of a special court to hear complaints against council members. These efforts, if achieved, will strengthen and help assure the sustainability of the association.

ISDEM, the municipal development institute, was created in March 1987 with the objectives to provide technical, administrative, financial and planning assistance to city councils. The ultimate goal is to empower city councils and assist them in better accomplishing their duties and obligations. According to law, the institute is also responsible for the "Economic and Social Development Fund of Salvadorean Municipalities" as well as the distribution to city councils of their share of the coffee export tax. As such, the institute provides both technical assistance and financing services.

Finally, the Salvadorean Institute for Municipal Administration (ISAM), while limited by its apparent politicization, does offer important services to its members. It provides technical assistance training and legal assistance to municipalities as well as serves as a research and publishing arm.

NICARAGUA

Nicaragua, while it does possess a fairly strong municipal development *institute* (INIFOM), can not claim to have a broad-based, nationwide *association*. In the 1980s, there was a "Mayor's Movement," with the ultimate purpose of forming an association. However, this movement acquired a political affiliation and lost its municipal one. While there exists recognition that the political affiliation of municipal associations must be diminished in order to effectively promote decentralization, this problem persists. For example, in the Department of Matagalpa, a Mayor's Association has been established but only some municipalities in the Department belong, due to its political affiliation with the UNO party (Unión Nacional Opositora).

The development institute that does exist ("INIFOM" or the Instituto Nicaragüense de Fomento Municipal), was recently created (in March 1990), but has already established a good track record as well as a relatively autonomous character. The basic purpose of INIFOM is to strengthen municipal administration and promote municipal development. The Executive Board has 40 members, 34 of which are mayors. At the present time,

¹These councils, which are comprised of all the city councils in a given department, constitute the representative bodies of COMURES at the departmental level.

Annex III, 4

INIFOM does not have a stable funding base, despite some international assistance, and relies almost totally on central government funding. While INIFOM is quite new and currently has severe budget limitations as well as a heavy dependence on central government, the institute holds potential, particularly given the majority representation of mayors on its board.

HONDURAS

Two organizations function as municipal support organizations in Honduras. The first is "AMHON" (the Asociación Municipal de Honduras), which is the official municipal association. The second is "BANMA" (Banco Municipal Autónomo), which is the municipal development bank. In such capacities, AMHON plays a key role in representation and exchange of ideas while BANMA, despite some financial difficulties, continues to play an important role in financing, technical assistance and training.

AMHON includes representatives of all municipalities of Honduras. The current President is the Mayor of La Ceiba. While it has been relatively inactive in the past, it is currently attempting to revitalize itself. To do that, AMHON is working closely with BANMA to secure credits for its member municipalities. While all mayors are automatically considered members of AMHON, only the larger municipalities (i.e., 35-40) are active in the association.

BANMA plays the role that many municipal "development organizations" or "institutes" play in other countries, at least with regard to technical assistance and training. In addition, as a development bank, it offers financing that some of the "institutes" do not. However, BANMA faces serious difficulties that limit its potential. It has substantial arrearages in loan repayments by the municipalities and generally lacks the full confidence of the municipalities. BANMA currently has a TA and training staff of 12 and plans on contracting 13 additional persons in the near future with IADB funds. These are experts in accounting, budgeting, project preparation and land surveys. With IADB funding, BANMA is providing financing and technical services (free of charge) to 40 medium-sized municipalities (with 10,000—80,000 inhabitants each), with plans to expand these services to another 50.

In addition to the municipal support organizations, there exists a central government-run entity that supports municipalities. This entity, working out of the Ministry of Government, is called the General Direction on Technical Assistance to Municipalities. The Direction's assistance is extremely limited and focused primarily in budget preparation, given that the vast majority (70%) of municipalities do not have any internal budget planning capabilities.

AMHON and BANMA entered into a cooperation agreement in April 1991. This agreement, which was also approved by the General Direction on Technical Assistance to Municipalities, was accompanied by financial assistance from the German Development Foundation (CFE). This agreement should further strengthen both support organizations and improve their cooperation in assisting municipalities.

The new Municipal Law requires the formation of a municipal development institute, as is common in other countries. While as of October 1991, the institute had not yet been formed, meetings were being held within the Ministry of Government to establish one. The formation of such an institute could indeed replace the assistance provided by the Ministry's municipal technical assistance office. However, it could also potentially replace some of the technical services provided by the already troubled BANMA. As such, ultimately there could be three municipal support organizations with some overlapping and possibly competing functions.

COSTA RICA

Costa Rica also has two municipal development support organizations. These include the municipal association, the "UNGL" (Unión de Gobiernos Locales), and a municipal development institute, called "IFAM" (the Instituto de Fomento y Asesoría Municipal).

The UNGL, founded in 1977, officially represents Costa Rican municipalities at the national level, while the "municipal leagues" (Ligas Municipales) represent municipalities at the regional level. In general, the Union works with 40 of the 81 municipalities, and largely these are the smaller ones, perhaps due to a greater need for representation. Municipalities elect delegates to the national assembly of the UNGL and pay a quota (2C per every 1,000 inhabitants) for its operations. In addition to domestic financing received through quotas, the UNGL also receives international financing. With a resulting annual budget of \$50,000 (C 7 million), the UNGL provides services in three areas: training of municipal officials; national representation and legal advice; and land title searches, which are helpful in identifying people avoiding municipal property taxes. The UNGL also recoups a fee for this last function (US\$1.00 per search), helping to finance its operations.

IFAM is an autonomous public organization, which was established in 1971 as was the Municipal Law. The organization was established as a means for central government to implement this Municipal Law. Since IFAM is a central government-run program and does not represent municipalities but provides a service to them, IFAM is in effect an example of "deconcentration" rather than "decentralization." Despite the potential limitations of a centrally-run organization, IFAM is in fact the strongest, largest and best organized municipal development institute in the region, with 245 employees and an operating budget (as of 1991) of C 1,197,777,250. IFAM's work comprises eight areas:

1. Project Development

IFAM works with municipalities on the following types of projects: irrigation, construction, machinery and design.

2. Credit Program

IFAM provides credit for water and sewage systems, construction, procurement of machinery and computer equipment, road repair, secondary road construction, and a variety of other municipal operations.

3. Technical Assistance

IFAM's technical assistance encompasses: income generation activities (290 in all); administration assistance (260 in all) including computer work and tariff studies; budget and project planning; judicial and legal matters; civil engineering, architecture and topography; reconstruction and maintenance of machinery; and the development of the municipal leagues and intermunicipal organizations. The high municipal staff turnover rate every four years, due to the desire of municipal executives (city managers) to contract their "own" people, presents a problem for retained knowledge and capabilities, necessitating repeated assistance to municipalities.

4. Training

IFAM has a total of eight training programs. The two largest training areas are in management and operations. Other training programs include policymaking, legislation, municipal education, urban development, computers, relationships with communities and research. IFAM also has domestic agreements with the Ministry of Education and Health as well as international agreements with IULA and UNDP. Under all their programs, IFAM estimates that it trains 2,000 officials per year.

5. Research and Publications

IFAM conducts research in a variety of areas. For 1991, IFAM has planned to produce approximately 30 research activities, articles and publications. While the quality of IFAM's publications are quite high, the distribution of publications is low since IFAM can generally produce only 1,000 copies per study.

6. Municipal Tax Collection Program

IFAM collaborates with the Ministry of Finance (Hacienda) in efforts to increase tax collection at the municipality level.

7. Secondary Road Programs

IFAM has a special program, in addition to training, that supports secondary road construction and maintenance.

8. Other Programs

IFAM is engaged in a variety of other activities, including coordinating functions and conducting international seminars.

PANAMA

Panama, in contrast to other countries in the region, does not currently possess a functioning municipal association or development institute. While not currently active, there have been three associations: an association of municipalities (the APCI); an association of local representatives; and an association of mayors. There is a National Council of City Councils that is active, but it does not serve as a municipal association *per se*. Finally, there is a very recently established development institute (IPDEM) but, having only been in operation since January 1992, as of yet possesses no track record. While attempts are being made to both reactivate APCI and to begin a development institute (IPDEM), neither yet effectively supports municipalities or any decentralization process.

The first type of association is a **municipal** one: the "APCI" (Asociación Panameño de Cooperación Inter-Municipal). The APCI, which was founded in 1954, only functioned well for five years. While it was re-activated 20 years later in 1985, it has not been particularly active in recent years. The purpose of the association was to further communication among mayors and local representatives who form the 65 municipal councils. Once an advocate of municipalities against encroachment and increased power of provincial governments, the APCI no longer plays this role.

The second association is for a relatively "loose" organization of "**corregimiento**" **representatives** nationwide: the Asociación Nacional de Representantes. Apparently, the association represented a political initiative to organize representatives by parties. Currently, the association is not active.

The third is an association of **mayors**, known as the "Asociación de Alcaldes." It was established when mayors were elected directly by popular vote. However, currently, this association is also no longer functioning.

The Council of City Councils and Representatives, while not an association *per se*, functions as such for its members. It serves as a representative and liaison with ministries in efforts to foster development projects at the provincial levels. While the Council reportedly has a limited budget, it does receive approximately \$100,000 per year to run its operations. In terms of organization, the Council has nine members who, in turn, are the Presidents of the nine Provincial Councils. The National Council President is elected by all 510 representatives and the 24 councils at large. The current President is Guillermo Guillen, Representative from the Francisco Diaz corregimiento in the Panama District.

Annex III, 8

The development institute that exists, IPDEM, is extremely new and has, as of this writing, virtually no track record, given that it was formed in late October 1991 and did not even begin its operations until January 1992. Along with support of the Adenauer Foundation, it will attempt to provide services directly to municipalities in analysis and training. Given that the IPDEM leaders are also members of the Partido Democracia Cristiana (PDC), however, they will have to demonstrate clearly and early on that IPDEM is not a party organization. This will be necessary to establish broad credibility and legitimacy among municipalities.

ANNEX IV

COMMUNITY PARTICIPATION AND EMPOWERMENT

INTRODUCTION

This Annex contains the supporting analysis, menu of key components and case studies related to **Section III.B.2** on community participation and empowerment in Central America. The first section briefly summarizes the analytical framework on which the assessment was based, the guidelines for identifying key community empowerment characteristics, and the individual country studies. These country studies include case studies on community participation. Given the complexity and numerous dimensions of community participation, as well as the different conditions within each country, the studies differ substantially among countries. These complexities and differences make any regional (cross-country) analysis difficult. Likewise, they only enabled PADCO to draw *general* conclusions and to only *suggest* an approach, some guidelines for key components, and recommendations for a regional and national strategy for community empowerment and participation in the municipal development process.

A. PARTICIPATORY PLANNING FRAMEWORK¹

This framework is primarily focused on community participation through NGOs in the government planning process. However, this framework is also directly relevant to the participation of municipal governments (individually or through municipal associations) in the departmental and/or central government planning process. As a result, the framework is relevant to the other areas covered under the broader Central America Municipal Assessment.

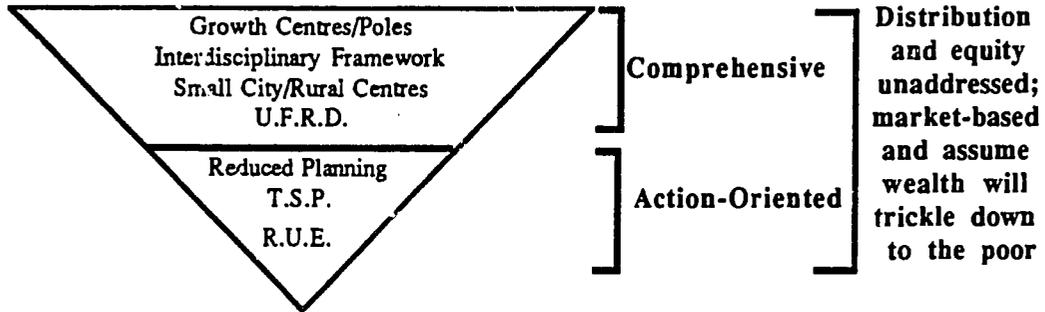
1. The Debate Over Participation: Top-Down Vs. Bottom-Up

The debate among development policy specialists over the participation of the poor in the benefits of development has revolved around two theoretical points of view. As **Figure I** illustrates, these perspectives are to assume, first, that the benefits of development will trickle down to the poorer, less direct beneficiaries, and second, that local small-scale and participatory projects are the best means for the poor to participate in the benefits of development. Because of these perspectives, the focus on alternatives has been associated with top-down or bottom-up development approaches, respectively. However, theory and experience indicate that the benefits of development do not necessarily "trickle down" to the poor and that a small-scale, disjointed approach does not necessarily address the larger political and economic obstacles that impede the poor from significantly improving their living conditions.

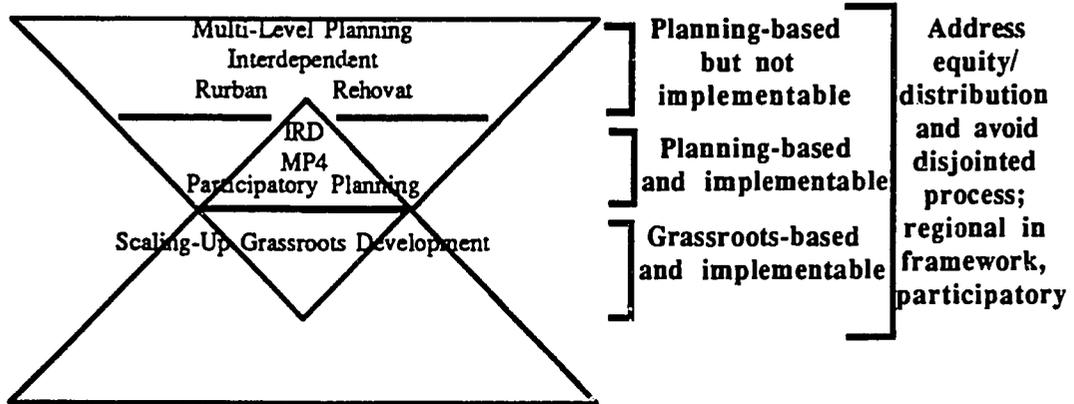
¹Note: a complete version of the framework, including a full description and analysis of approaches and cases, can be made available upon request from the author, Sandra Wheaton (Copyright 1991), PADCO, Inc.

FIGURE I: REGIONAL DEVELOPMENT APPROACHES

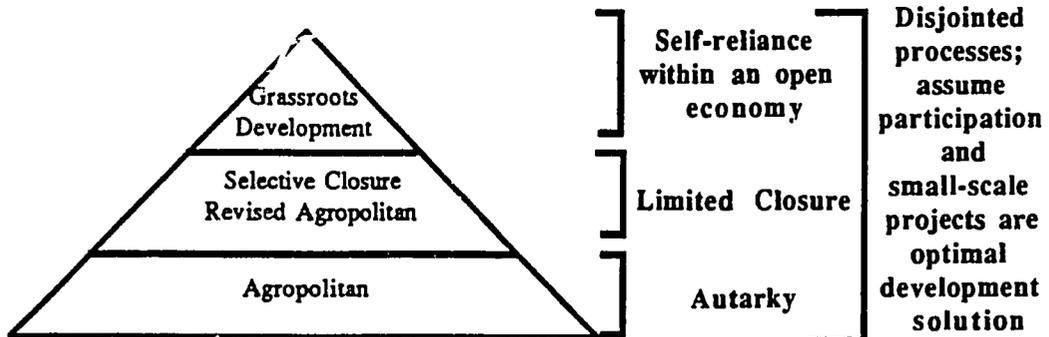
Top-Down Approaches



Mixed Approaches



Bottom-Up Approaches



2. The Shortcomings of Top-Down Approaches

Neoclassical economic theory and associated top-down strategies encompass diverse methods of functional and spatial integration and diffusion that promote economic growth.² While these strategies are diverse, they share a "doctrine of unequal development" that underlies neo-classical theory. This doctrine maintains that inequality is potentially efficient economically and may promote growth because "...the rich save...more out of their incomes than the poor and...high profit levels...[are]...essential as an incentive to private...saving" (Friedmann³ 1979, p.93). Distributional questions are considered of lesser importance because they are presumed to be addressed by market forces and the eventual "trickle down" of the benefits of development from the more direct and wealthier beneficiaries of society to the less direct and poorer ones (Friedmann 1979).

While the assumption of neo-classical theory is that distributional issues will ultimately be addressed by market forces, the resulting top-down strategies do not necessarily alleviate disparities between socio-economic income groups. Top-down decentralized approaches for small city/rural center development are an improvement upon the more traditional functional approaches and may in fact alleviate regional and rural/urban disparities in broad terms. Nevertheless, no matter how decentralized, top-down approaches continue to be based on the "trickle down" theory and do not address problems of distribution or equity, such as land tenure, income distribution and market control. Neither do they address the problems of channelling development through government agencies that are not democratically elected and/or are disinterested in true participation and, as a result, tend to direct the benefits of development to individuals with vested interests and political/economic control.

Furthermore, the one form of participation that is considered acceptable under the neo-classical view—and in some cases is considered necessary when market forces fail to address distributional issues—is limited. This form of participation, known as the "welfare" approach, is limited in that it constitutes the "passive" participation of the poor in only the benefits of development through either the "trickle down" of benefits or contributions from the rich. This form of participation may indeed help the poor, but it does not address problems inherent in the socio-economic and political structure and may be, at best, a temporary and partial strategy.

3. The Shortcomings of Bottom-Up Approaches

The role that participation plays in the development process is the main factor that differentiates bottom-up from top-down approaches. The underlying assumption of bottom-up approaches is that local participation of the poor in small-scale development activities will facilitate the transfer of resources and the benefits of development to that group and will have a positive impact on socio-economic conditions for this group. These approaches

²These strategies include: Growth Centers/Growth Poles; Interdisciplinary Framework; Small City/Rural Centers; Urban Function in Rural Development (UFRD); Reduced Planning; Themes Systems Planning (TSP); and the Rural-Urban Exchange (RUE).

³Territory and Function: The Evolution of Regional Planning. London: Ernold Arnold, 1979

Annex IV, 4

focus on activities primarily at the local level, advocate varying degrees of economic closure (from total autarky to an open economy), and support participation in either a capitalist or socialist context.⁴ The theoretical paradigms underpinning these approaches advocate active participatory processes in which the poor are given not simply the benefits of development, as in the "welfare" approach, but rather the means to develop. As a result, bottom-up approaches are based on "advocacy" and other empowerment views and support participation in the local development process.

While bottom-up approaches do provide the poor with more direct access to the benefits of development as well as the means to develop, the assumption underlying these approaches (i.e., that local participation in small-scale development activities is the most effective and meaningful means of participation) is flawed. Bottom-up approaches constitute somewhat unrealistic or impractical views about the devolution of power and resources to the local level in both theoretical and practical terms and about the long-term or wide-scale impact of that devolution (assuming it occurs) on the welfare of the poor. In addition, the tendency of such approaches to promote numerous, isolated small-scale projects tends to result in a disjointed development process.

4. The Need for Middle-Level Participatory Approaches

Because of the flaws in the assumptions underlying the top down and bottom-up approaches, policy specialists have begun to focus on middle-level approaches—such as the "Participatory Planning" or "Scaling Up" approaches—that attempt to combine the advantages and eliminate the shortcomings of top-down and bottom-up approaches. Specifically, they focus on approaches that are both participatory and territorially broad (i.e., regional) in framework.⁵ These middle-level approaches have made significant advances towards solving a common problem: making development planning—and participation in it—more meaningful.⁶

The "Participatory Planning" approach is a generic approach that merits consideration because it provides planners with practical tools for incorporating participation into the planning process. It explains how to identify the criteria that determine the most appropriate approach (techniques and actors) for participation throughout the planning process. The approach further specifies that public participation can be elicited through various means:

⁴These approaches include: Agropolitan; the Revised Agropolitan; Selective Closure; and Grassroots Development.

⁵These include the following strategies: Participatory Planning; Integrated Regional Development; Micro-Regional Planning 4; and Scaling Up.

⁶"Meaningful" refers to a more positive quantitative impact (i.e., growth) and/or qualitative impact (i.e., development). Examples of the former are increases in production, income and savings. Examples of the latter are improvement in the quality of life or the means to improve one's living conditions through, for example, greater participation, economic or political leverage, economies of scale and scope, legal status or human rights, environmental and natural resource protection, and access to technical assistance, adequate infrastructure, housing and social services.

one-one approaches and/or through interaction with community leaders, community meetings, and representative organizations that are community and multi-village, regional and/or functional in nature. Which approach should be taken depends on: 1) the **dependability** of the information which would result from the use of a given approach; 2) the **practicality** of the approach in regard to cost and efficiency; 3) the approach's **integratability** with the regional planning process; and 4) the amount of **local support** to the plan which a particular approach may generate. In general, the closer to the local level and the wider the range of participation, the greater the dependability and local support but the lower the practicality and integratability to the plan.

A grassroots-based (as opposed to a planning-based) middle-level strategy that is becoming more prevalent is the "Scaling Up" approach. Of all the middle-level approaches, only this one is based on initiatives from the grassroots (i.e., the poor themselves). The Scaling-Up approach is not a theory but rather a way of conceptualizing the lessons gained from bottom-up development experiences during the last two decades. By the late 1980s, bottom-up strategists began to recognize the need to work within a larger framework that sustains grassroots growth over the long run. Some of these strategists noted that:

Non-governmental grassroots organizations are so frequently lost in self-admiration that they fail to see that the strengths for which they are acclaimed can also be serious weaknesses...In the face of pervasive poverty...'small-scale' can mean merely 'insignificant'...Politically independent" can mean 'powerless' or 'disconnected'... 'Low cost' can mean 'underfinanced' or 'poor quality'...'Innovative' can mean simply 'temporary' or 'unsustainable.' (Annis and Hakim 1988 in Wheaton 1991).

However, from the growing "web" of smaller, dispersed and less sustainable grassroots organizations have emerged grassroots-based regional and micro-regional intermediary organizations, known as "Grassroots Support Organizations (GSOs). Specifically, GSOs are a sub-set of the broad spectrum of NGOs (or Non-Governmental Organizations). GSOs are developmental civic entities that provide services for and channel resources to local groups of disadvantaged rural or urban households and individuals. In their capacity as intermediary institutions, GSOs provide a link between the beneficiaries and the often remote levels of government, donor and financial institutions. They may also provide services indirectly to other organizations that serve the poor or perform coordinating or networking functions (Carroll 1990 in Wheaton 1991).

This Scaling Up approach suggests that local participation can be made more meaningful when raised (i.e., connected) to a broader territorial level and larger scale through intermediate, "non-governmental" organizations (NGOs) or "grassroots support" organizations (GSOs). Literature on intermediate organizations, particularly that on network forms of organization, sheds light on the GSO traits that make participation more meaningful. These traits include external and internal economies of scale and scope, organizational flexibility, territorial reach, regional leverage and participatory management. This literature suggests that small organizations and communities can make their participation more meaningful by participating in networks of intermediate organizations such as GSOs.

Figure II illustrates that the regional dimension of the grassroots-based Scaling-Up approach is necessary to increase the success of grassroots projects. Without this regional dimension, the small, diverse, dispersed, impoverished and unempowered community organizations are unable to compete with the regionally based power of local and regional elites. However, with the regional and large-scale dimension of GSOs as well as their leverage and technical assistance, these poor groups can increase their impact and improve the socio-economic and environmental conditions of their members. GSOs also provide linkages with the public sector which, in turn, increase the role of local groups in the development process.

Figure III illustrates, through NGOs and GSOs, how: (1) middle-level approaches can achieve more meaningful participation and have a more positive impact on development projects; (2) the planning-based approaches can improve their impact on projects through increased participation; and, (3) the grassroots-based approaches can improve their impact through a regional framework and affiliation. On the one hand, the planning-based approaches can, through participation, improve their information base, beneficiary commitment and initiative as well as achieve a greater transfer of resources and skills to the beneficiary population. On the other hand, bottom-up projects can, within a regional framework, improve their impact on development projects through institutions that make possible: 1) regional leverage; 2) large firm benefits; 3) widespread provision of social services, infrastructural investments and technical assistance; 4) public/private linkages. These benefits of GSOs can, in turn, contribute to the process of regional planning. Since GSOs could help to make the development and planning activities of both these groups more meaningful, such "intermediate" organizations will most likely become a more critical link for the mutual interaction of these approaches.

The above illustrates that it is possible to suggest that GSOs not only constitute a channel for raising participation to a meaningful level, but also provide a means for making top-down regional planning efforts—and participation in them—more meaningful. GSOs provide a link between top-down and bottom-up initiatives and a mechanism for synthesizing approaches, which suggests that GSOs should be incorporated into the planning process.

B. GUIDELINES: KEY COMMUNITY EMPOWERMENT CHARACTERISTICS

To assist the team in selecting, evaluating and drawing cross-case conclusions, PADCO prepared preliminary guidelines for conducting the assessment. These guidelines consist of a means to: 1) identify and select cases that share as many characteristics as possible (so as to make the cross-case analysis possible); and 2) evaluate these cases based on a preliminary "menu" of components or "variables" for "effective" or meaningful" community participation in the municipal development process.

1. List of Shared Characteristics

To facilitate the case selection process and to make a cross-case analysis feasible, PADCO identified a list of suggested characteristics for the cases. While it will be impractical and impossible to select cases that fulfill all or even the same characteristics in the list provided, the team made every effort to identify cases that share a majority of the characteristics suggested, as included in **Table I**.

FIGURE II: SCALING-UP APPROACH - THE IMPORTANCE OF REGIONAL ASSOCIATION AND GSOs

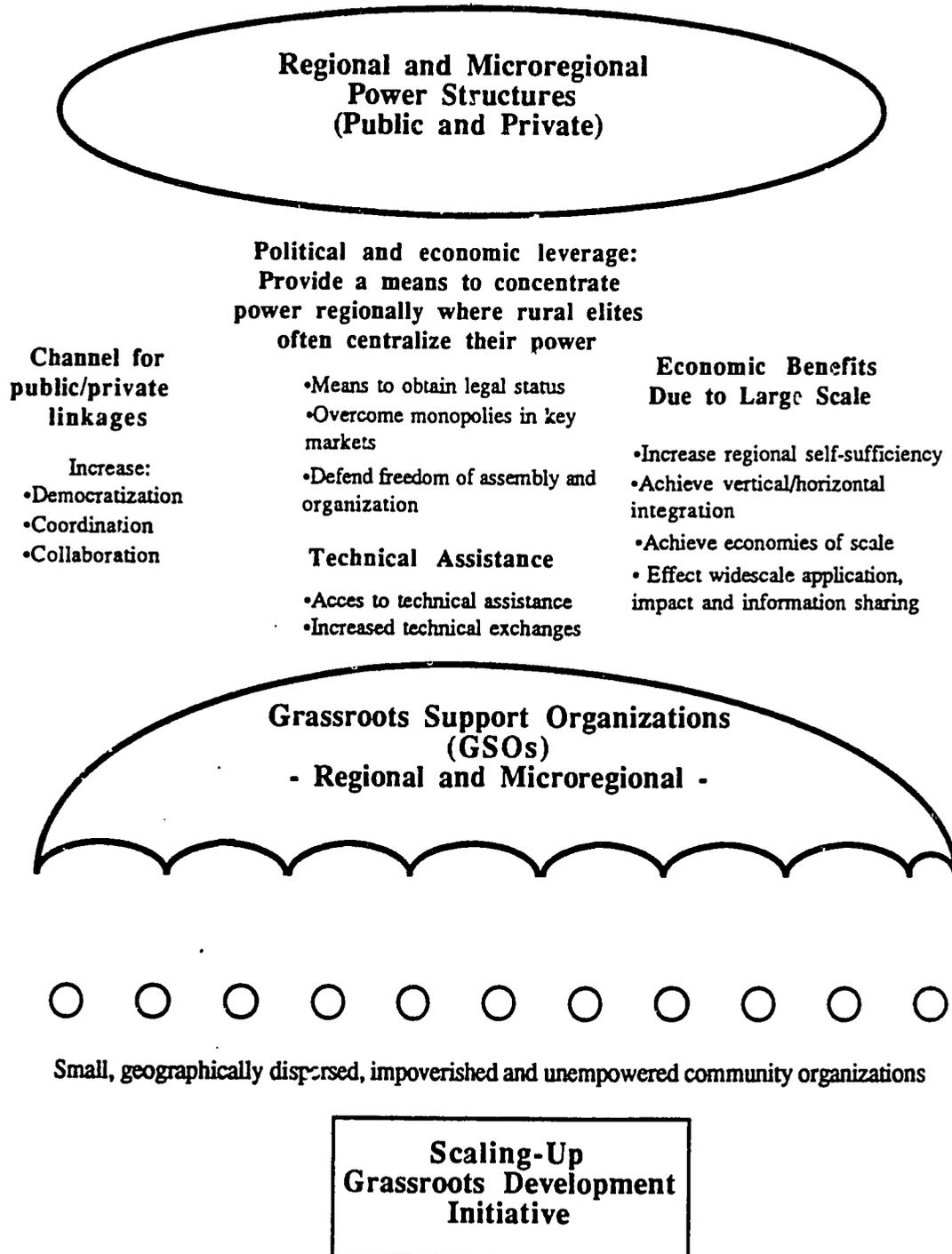


FIGURE III: MIXED REGIONAL DEVELOPMENT APPROACHES

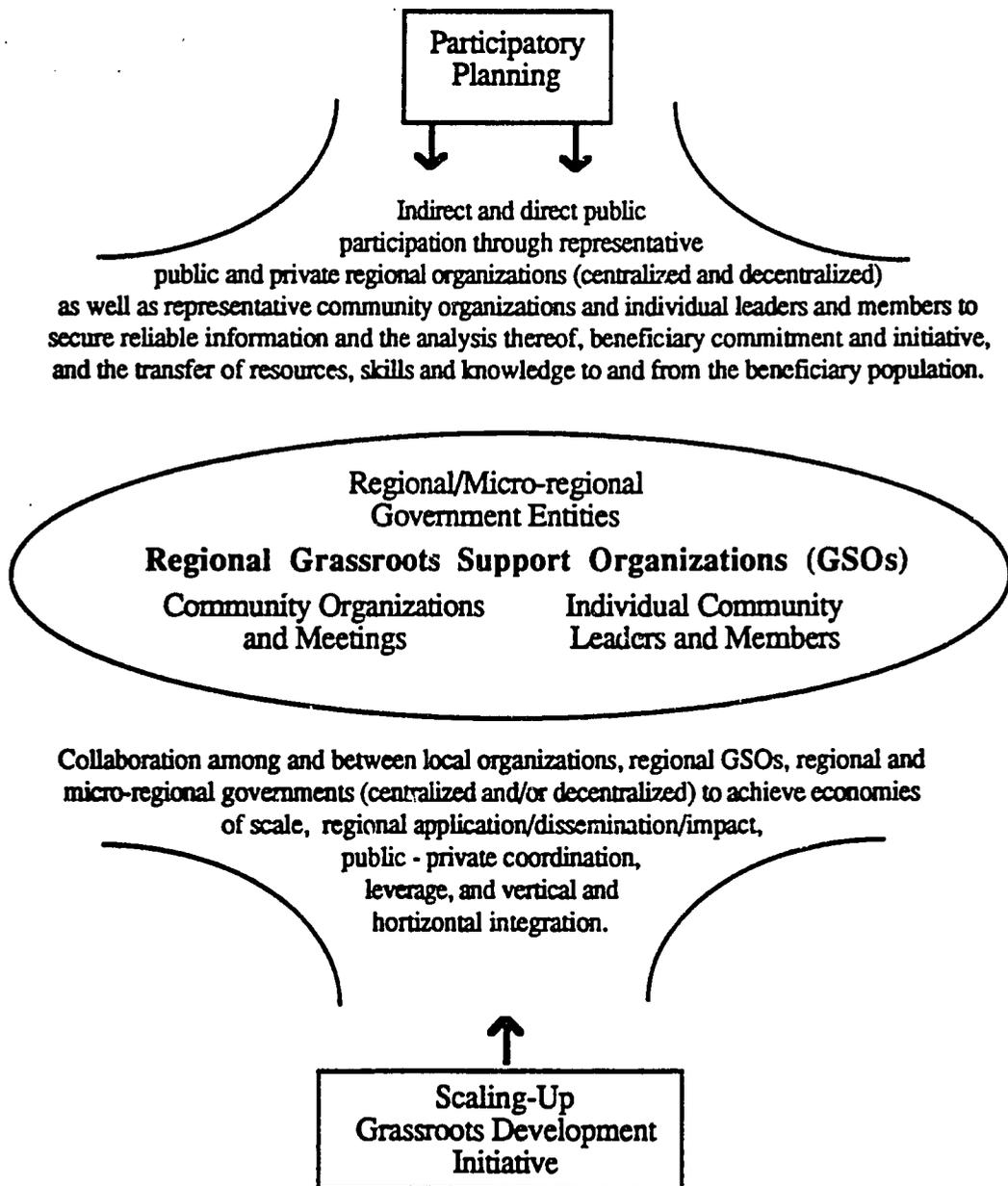


TABLE I: CHECKLIST FOR SUGGESTED CASE CHARACTERISTICS	
A. GOALS	
1.	Reduce local and/or regional disparities (in income, services, infrastructure, etc.)
2.	Promote public/private collaboration
3.	Improve/increase participation in the municipal development process
4.	Improve the leverage of community groups at the local and/or regional level in the municipal development process
5.	Achieve or improve economies of scale and/or scope
B. OBJECTIVES	
1.	Increase and/or improve the local provision of and access to services, facilities, housing and/or infrastructure
2.	Increase and improve community participation in the needs assessment, planning/design, decision-making process, implementation and/or evaluation of municipal development policies, programs and/or projects
3.	Improve technical methods/skills and provide technical assistance/services to local organizations
4.	Improve the legal status and rights of the poor
5.	Increase local access to and control over land/natural resources
6.	Promote local economic development (through better access to financial resources, increased employment, better market conditions, etc.)
7.	Achieve or improve horizontal/vertical integration within/among NC Os
8.	Achieve or improve NGO diversification
9.	Achieve or improve NGO economies of scale
C. ACTORS	
1.	National governmental agency or agencies operating at the municipal/local level and/or municipal government
2.	Non-governmental or quasi-governmental organization(s) at the local level that is/are part of one of the following local or regional/inter-community organizations:
	a. Membership non-governmental, cooperative or other organization
	b. Membership quasi-governmental organization (e.g., federation or association of communities or patronatos)
	c. Advocacy organization (private) (i.e., that works on behalf of the poor but is not a membership organization).

2. "Menu" of Key Community Empowerment Components

To facilitate the evaluation and analysis process, PADCO also prepared a preliminary list of components or "variables" related to effective community participation in the municipal development process. Since the dimensions of what constitutes "meaningful" or "effective" participatory planning are diverse and numerous, particularly depending on the nature of the project and the actors involved, the preliminary list is understandably more comprehensive than the scope of any given project. However, this "menu" provides a helpful checklist in the case evaluation process and also assists in identifying cross-case patterns and the relative strengths and weaknesses (as well as obstacles and opportunities) related to meaningful participation in the cases evaluated. PADCO and its consultants utilized this list, incorporated as **Table II**, in the evaluation and analysis processes.

TABLE II: COMPONENTS OF MEANINGFUL PARTICIPATORY PLANNING	
COMPONENTS	
A. COMMUNITY PARTICIPATION IN THE PROJECT	
1.	Evidence of participation of the poor that is:
	a. Direct (through membership organizations or the one-on-one approach); or
	b. Indirect (through advocacy organizations)
2.	Utilization of Participatory Techniques
	a. Group Discussion Techniques
	■community meetings (forums or "cabildos")
	■workshops and workshop surveys of a sample population
	■"nominal" groups, through which individuals formulate independently and contribute anonymously their opinions about specific problems, priorities and solutions but learn from and discuss the combined opinions of the entire group
	■conflict resolution (in conjunction with other techniques)
	■planning simulation, through which participants must assess and rank the impacts of different policies, as would be required in a real planning situation
	b. Individual or "one-on-one" techniques:
	■public opinion surveys
	■surveys about different scenarios

TABLE II: COMPONENTS OF MEANINGFUL PARTICIPATORY PLANNING

COMPONENTS	
	■quasi-experiments to observe the effect that manipulated or naturally occurring circumstances have on public preference and apply such information to project planning and information (e.g., a pilot project)
3.	Nature and Stage of Participation
	a. Assessment Stage: Participation in the form of "information-giving" regarding opinions, conditions, needs, solutions
	b. Planning/Design Stage: Participation in planning and design of policy, program or project
	c. Decision-Making Stage: Participation in the ultimate approval or rejection of the activity
	d. Implementation Stage: Participation in actual implementation
	e. Evaluation: Participation in on-going or post-activity evaluation
B. PUBLIC/PRIVATE LINKAGES ACHIEVED THROUGH PARTICIPATION	
1.	Increased/improved access to government TA, social services, and other programs
2.	Increased/improved access to governmental infrastructure investments
3.	Increased/improved collaboration and coordination in government development activities
4.	Increased democratization by making public agencies more responsive/accountable to citizenry
C. LEVERAGE (POLITICAL/ECONOMIC/SOCIAL) ACHIEVED THROUGH PARTICIPATION	
1.	Increased/improved access to (public or private) land, services, housing, facilities or infrastructure
2.	Increased access to financial resources
3.	Attainment of legal status, rights, representation and/or licenses
4.	Attainment of government concessions, commitments, procedural and/or legislative changes
5.	Increased/improved capacity to generate, fund and/or manage development activities

TABLE II: COMPONENTS OF MEANINGFUL PARTICIPATORY PLANNING	
COMPONENTS	
D. CHARACTERISTICS/ENVIRONMENT OF PARTICIPATING MUNICIPAL GOVERNMENT	
1.	Authority/Approval:
	a) De Jure: Has legislative mandate/authority for community participation in its development and planning activities
	b) De Facto: Has actual (effective) authority to engage in participatory development activities
2.	Rationale: Is engaged in community participation (in this case) due to:
3.	a. Central government and/or external donor requirements
	b. Interest in promoting community participation
4.	Capability: Has system(s) for engaging community participation (Briefly describe: _____)
5.	Obstacles: Encountered obstacles in engaging participation (If yes, please list obstacles and reasons for them separately)
6.	Opportunities: This case as presented or revealed opportunities for participation (If yes, please list these opportunities separately)
E. CHARACTERISTICS/ENVIRONMENT OF PARTICIPATING NGO	
1.	Legal Status: Has formal, official or legal status as an NGO
2.	Representation: Is considered by members' or clients' to be a true representative of their interests and concerns
3.	Internal Participatory Mechanisms: In the case of a membership organization, possesses good participatory mechanisms
4.	Organizational Flexibility: Has shown itself capable of adjusting/adapting to changing market, legal, or other external conditions
5.	Leverage: Has shown to possess local and/or regional leverage (Describe how and why: _____)
6.	Large-Scale Benefits:
	a) Has achieved economies of scale
	b) Has achieved vertical and/or horizontal integration
	c) Has diversified its services, products, etc.
	d) Has obtained superior access to and/or prices for inputs

TABLE II: COMPONENTS OF MEANINGFUL PARTICIPATORY PLANNING

COMPONENTS	
	e) Has overcome market, distribution and/or supplier monopolies
7.	Access to Financial Resources (credits, grants, etc.)
8.	Means to improve capacity/capability through TA/training services
9.	Obstacles: Has encountered obstacles in community participation (If yes, please list obstacles and reasons for them separately)
10.	Opportunities: Has identified new opportunities for increasing and/or improving participation in the future (If yes, please list separately)

C. COUNTRY STUDIES

Below are country studies on participation, based on both interview and case study evaluations conducted by PADCO staff and field consultants.

1. Costa Rica

General

In Costa Rica, there are essentially two public sector entities in which and with which the community can and does (to varying degrees) participate: Municipalities and DINADECO (Dirección Nacional de Desarrollo de la Comunidad).

With regard to the former, Costa Rican municipalities are considered institutions of popular representation and should, among its responsibilities "...support the active, conscious and democratic participation of citizens in municipal affairs." [Instituto de Fomento y Asesoría Municipal (IFAM), Información Básica, p.18]. While community participation in the activities of municipal governments takes place, the consensus of those interviewed was that this participation exists on a very limited basis through: 1) elections; 2) some collaborative projects (e.g., to build a road); 3) community meetings (cabildos); and 4) informal collaboration.

The organizational entities in the private sector that represent an important conduit for collaboration between the public sector and communities are the "Asociaciones de Desarrollo Comunitario." These associations are private but are not considered—or even permitted to register as—NGOs in Costa Rica. In fact, the Asociaciones, from their experience, view NGOs as financial "intermediaries" that function like private companies (sociedades anónimas) and simply offer financial and legal services at elevated prices and interest rates. While only some NGOs need to increase prices and interest rates to finance their own activities, other NGOs have their own funding sources and offer competitive financial assistance (among other types of assistance, as will be discussed further below). Nevertheless, as a result of this view, the Asociaciones adamantly oppose being compared with or referred to as an NGO even though they function in many respects as NGOs.

The Asociaciones are directly linked to the public sector, however not through municipal governments, but rather through a public institution, called DINADECO, which is the second—and currently the most important—public sector entity in which communities participate. While the arrangement between Costa Rican communities and DINADECO does require and results in collaboration between these communities and their respective municipalities, such collaboration is still fairly limited and pales in comparison with these communities' collaboration with DINADECO representatives at the regional, Canton and local level.

DINADECO was created in 1967 under the Executive Branch and is attached to the Ministry of Government and Policy, as a "...basic instrument for development to support, guide, coordinate and evaluate community organizations throughout the country, in order to achieve the active and conscious participation [of the community] in the implementation

of the objectives outlined in the National Economic and Social Development Plan." (Article I, Chapter I, Community Development Law, No. 3859) According to this Law, any public or private entity (at the national or international level) that dedicates itself to community development in Costa Rica and that obtains the expressed authorization from DINADECO, can operate [as an association] under this law. (Article II) These associations can be for a specific purpose or for integrated development, can exist at the District, Canton, Regional, Provincial or National level, and should ideally have a membership of between 100 and 500 individuals. (Article 15 and 16, Chapter III) Once formed, these associations are in theory supposed to coordinate their activities with the municipal governments in order to support municipal activities and obtain, in turn, their support. (Article 18, Chapter III)

The Confederación de Asociaciones and DINADECO, along with their regional and local entities, are responsible for administering the National Community Development Plan that is based on individual work plans from the associations, formulated by the National Confederation of Associations and approved by DINADECO and the Consejo Nacional of the Confederation. DINADECO is responsible for working closely with the Confederation and the associations in carrying out the plan, providing funding for and monitoring projects, and keeping the municipalities informed of DINADECO's activities in their respective local associations. These governmental and quasi-governmental structures involved in community participation efforts are illustrated in Figure I. Within DINADECO and the Confederación, there exists significant local participation in the assessment, planning, decisionmaking for and implementation of projects.

FIGURE I FORMAL STRUCTURES FOR COMMUNITY PARTICIPATION IN THE PUBLIC SECTOR, COSTA RICA		
Sector Quasi-Gubernamental	Sector Público Nacional	Sector Público Municipal
(Concejo Nacional) Confederación de Asociaciones	DINADECO	Union, Nacional de Gobiernos Locales
Federaciones Regionales	Representantes Regionales	Ligas de Regiones Sectoriales
Asociaciones Cantonales	Representantes Cantonales	Municipios
Asociaciones Locales	Representantes Locales	Distritos

The participation of the 1,400 community development associations registered to date in the Confederation and DINADECO throughout the 81 municipalities of Costa Rica constitutes an impressive case of community participation in the public sector. Even more striking are recent developments within DINADECO and the Confederation that seek to improve this participation. First, while in the past (up until two years ago) DINADECO technicians

designed themselves the National Community Participation Plans, now these plans are entirely formulated by the Associations in a Congreso Nacional, convened by the Confederation. DINADECO and the Concejo Nacional approve the plans but generally make little change, once the Association themselves have reached agreement. Second, there has traditionally been in some municipalities much jealousy between the municipal governments and the associations within their boundaries since the latter often has access to resources unavailable to the municipalities, usually as a result of party differences and a resulting inability to share and coordinate resources. Now Costa Rica is undergoing a "Reforma del Estado" that seeks to encourage activities between municipal governments and community associations (15 cantones have already been selected) in order to help resolve differences and promote collaboration where it is needed. This Reforma is being coordinated with IFAM and MIDEPLAN (the Ministerio de Planificación). It includes support for more cabildos through Comisiones Informales under the Concejos Municipales. An important aspect of these Comisiones is that they would meet in the district where the associations exist in an informal setting, since community associations shy away from the Comisiones of the Concejo Municipal, which they consider extremely formal.

According to an interview with the Director of a Costa Rican NGO called CECADE (Centro de Capacitación y Desarrollo), the structures and functions of the Confederación and DINADECO fulfill many of those traditionally filled in many Central American countries by NGOs. As a result, the Costa Rican case is peculiar and to a large extent obviates the need for NGOs. Nevertheless, Costa Rican NGOs (now numbering 150 in all) are not only thriving and playing an increasingly important role, but they also offer support to the community development and participation process in ways that apparently the Asociaciones or DINADECO do not. As previously mentioned, some NGOs offer credit and other financial services at somewhat elevated prices in order to finance their operations, which has proven entirely unhelpful to the Asociaciones.

However, there is extensive diversity among NGOs in Costa Rica. As such, other NGOs (such as CECADE) receive their funding from external donor agencies, such as AID (through PACT), the Inter-American Foundation, Ford Foundation, FAO, and international NGOs from Germany, France, Holland and Canada. This funding, which eliminates the need to charge for their services, provides largely free support to grassroots organizations (grupos de base) through, for example, revolving credit funds as well as TA and training. It is this TA and training (as well as the associated financing) that could be very helpful to the Asociaciones, not only because NGOs may be able to offer knowledge and techniques unavailable through DINADECO but also because they require a highly participatory process within the communities or organizations receiving assistance, which could only support the process already in place through the Asociaciones and DINADECO. CECADE, for example, focuses its support on largely integrated rural development projects (at the micro-regional level) and provides TA and training in institutional development, strategic economic and microenterprise planning (including production, commercialization and processing). The expertise of CECADE and NGOs in "productive" development projects could prove quite useful to the Asociaciones, which (along with the support of DINADECO) are seeking to engage in less (or not solely) infrastructure projects and more (or additionally) on productive projects. In addition, CECADE is the current headquarters for

a Central American regional network of NGOs called "Concertación," the expertise and resources of which could further assist the community development process in Costa Rican.

As a result of the potential among the Asociaciones, DINADECO, CECADE and the municipalities in improving community development and participation, CECADE has expressed a strong desire for increased collaboration among these groups. Specifically, CECADE has recommended "espacios de encuentro" among these groups at all levels but particularly at the highest level (i.e., with the Director of DINADECO) in order to initiate the collaboration required at the broadest levels.

SUMMARY OF CASE STUDIES

The following three case studies are all of private community development "associations" (*not* cooperatives or NGOs) that were formed in accordance with the Community Development Law (No.3859). As such, they all fall under and are represented by larger umbrella organizations at the regional and national levels, which are the Regional Federations and the National Council of Associations, respectively. In turn, this private National Council (and its second and first-tier entities) is directly connected to the public sector through DINADECO (the National Directorship for Community Development) and its respective representatives at the regional and local levels. As such, the organizations analyzed in the following cases have parallel public sector representatives at the local level.

- **Asociación de Desarrollo Comunitario de Futricultores de Atenas, Provincia de Alajuela**

General

This Association, which currently has 138 paying members, was founded in 1988 by Don Ivan Perez and is the first association in Costa Rica with a "specific" rather than multi-faceted purpose: to form an association of mango producers with economic ends. These small producers (the majority or 86 percent of which have no resources and only between four and ten "manzanas" of mango trees growing at any given time) are represented by a volunteer Board of Directors (with an administrator and secretary) that meets every eight days; however, they hold a general assembly for all the producers on a yearly basis. These producers began with 1,750 three-year old mango trees and received their first assistance from a Del Monte subsidiary (called PINADECO) that, through technical assistance, helped them to increase their annual income from 60,000 to 400,000 colones. Subsequently, they received assistance from DINADECO in two installments totalling 650,000 colones. With still additional assistance from DINADECO in the form of feasibility studies and financing, they are currently attempting to purchase property (costing 11 million colones) on which they will package their mangos for export. Now the Association buys approximately 4.5 million colones worth of fertilizer alone. In addition, it has increased its exports by 48 percent (from 338,000 kilos in 1990 to 500,000 in 1991) and anticipates increasing its exports to 5 million in the next five years (by 1996 or 1997) or nearly 10-fold.

Benefits Achieved

Resource Leverage/Legal Status:

The mango producers have found the association and related legal status advantageous in terms of economies of scale since it reduces the costs of their inputs considerably, leaving them with a more disposable income to invest in infrastructure, property and machinery. In the future, they hope that this savings will also enable to invest in social and cultural projects for their community. The association also helps them leverage financing (from DINADECO, the National Bank and the Popular Bank) as well as technical assistance (from Del Monte's PINDADECO).

Participation and Representation:

The association is participatory (among its members) even though this is limited due to lack of time and physical distance. It encourages the participation of their members through the general assembly, through their representatives, and through frequent on-site visits to the farms and meetings with the members. In addition, in the Board of Directors' Meetings, anyone is allowed to express their opinion, even though they may not have the right to actually vote. While the association appears to have some control and discretion on the planning and development process of its members, each producer does collaborate with the association directors. The association also engages in informal surveys and discussions with its members. Note that there is no participation of community members outside of the association.

Public-Private Linkages:

The association does interact with DINADECO, which is a public sector entity. While the association does not interact with local government, its members feel that its collaboration with DINADECO is substantial and supports the democratic process.

■ **Asociación de Desarrollo Comunitario del Barrio el Carmen del Canton de Tres Ríos en la Provincia de Cartago**

General

This community development association for the Carmen Neighborhood (now with a total of 690 families) was founded in 1987 by 125 members and has grown to 147 paying members. The association has both productive and social ends since it runs a small village store and a curb and block factory but has also been engaged in the construction of a school and is attempting to obtain transportation services for the community. Carmen began as a very small, isolated village, located on the edge of a hillside with a road that had a 37 percent slope, meaning that no vehicle to climb the road to reach the village. In order to go to the nearby town of Tres Ríos, the residents had to spend more on transportation than on the goods they purchased. They also had no school for their children, who had to go to Tres Rios schools. To overcome these obstacles, the inhabitants decided that they needed to gain legal status and form a community development association.

The village formed an association that now has five employees and a Board of Directors that meets every 15 days and once a year in a general assembly. After forming the association (through which the members receive 60,000 colones per year from DINADECO), Carmen began construction of the school (partially with AID financing), the factory and a

road. The village obtained a land donation of nearly one hectare from the landlord (the Castillo family) in order to build the road; the school and factory were finished in 1982, and the road in 1986. The Carmen association subsequently built a 5-kilometer aqueduct as well as several homes alongside the road. With additional assistance from AID, the village built an additional 115 homes in 1989. Now with the factory, the village can provide housing for their own residents and neighbors. In addition, the association trades blocks that it produces for material and equipment from the Ministry of Public Works and Transportation (MOPT).

Benefits Achieved

Resource Leverage:

Through the association, the community has access to financing, materials, services, infrastructure. The association has achieved economies of scale with their production of blocks, which now only cost 3 colones in the village. There are no special price privilege for association members over the village at large, thereby allowing the entire village to take advantage of the association's scale economies. The association has also been instrumental in providing water and wastewater systems as well as housing, as previously mentioned. The association's success is evident by the fact that less than 10 percent of the population rents their homes and, of the 90 percent that are homeowners, the association helped every single one in building their homes. In addition, through *fideicomiso*, association members can obtain financing for home improvements. Finally, the factory allows the association to have a lucrative business and provides employment for village residents. Moreover, the village stores provides additional income and provides food and basic necessities to the residents.

Participation and Representation:

The association members have legal status and are represented, as previously mentioned by a Board of Directors that meet regularly; any village resident (whether an association member or not) can express their opinions during the Board of Directors meetings as well as in the general assembly that meets annually. The association also holds workshops with the village at large, such as the one on cholera, which has resulted in the formation of a women's committee and improved trash collection through contracting out for such a service (paid for by residents at 50 colones/each). The association also uses various informal means to collaborate and survey the population on needs and opinions. It also has engaged in pilot projects on, for example, erosion avoidance. Finally, association members engage in quantitative and qualitative evaluations of their own projects.

Public-Private Linkages:

The association does not ask for "gifts" but rather negotiates with the public (and private) sector for resources, goods and services. It collaborates with the following *national level* public sector agencies: DINADECO; the MOPT; the National Production Council; the Ministry of Housing; and the National Housing Bank. While the National Institute of Housing has also made offers to the association, it has never delivered. At one time, the association had worked a lot with the Tres Rios Canton Union but had found it to be a large obstacle, due to its being highly politicized. It does not collaborate with the municipality because it "...promises but does not deliver."

■ **Asociación de Desarrollo Comunitario del Barrio de la Margot en el Municipio de Turrialba, Provincia de Cartago**

General

The Margot village (or neighborhood) association was formed approximately 20 years ago and now has 350 members, the current President for which is Mr. Jose Rafael Rojas. Mr. Rojas has directed his efforts on changing the paternalistic mentality of its members, obtain their economic collaboration through membership fees for specific projects, and effect important community public works projects. While such efforts are not all presently visible (e.g., the community smells badly from backed up sewers), they are underway (such as the current canal construction, for which residents are paying 5,000 colones/each (for a total of 800,000). In only eight months, the association has installed 1,000 water pipes and has constructed a wastewater and irrigation system (the latter of which has benefitted their coffee production).

When Rojas first arrived in the community, the association was not doing anything to improve community conditions. Mr. Rojas soon formed block committees and helped to establish a new Board of Directors. While the Margot Association is considered one of the most dynamic in the Turrialba municipality, it has achieved many of its successes with very little support from either the municipal government or from DINADECO. However, now the association (through its Board) meets and collaborates regularly with the mayor, who "...helps them when he can." This contrasts sharply with the former mayor, who never gave the association any assistance at all. While the GTZ provides assistance to many of the associations in Turrialba, it is unclear whether Margot receives such assistance.

Benefits Achieved

Resource Leverage/Legal Status:

The association has been able to obtain and provide services and infrastructure for residents that were previously non-existent. The landowners have also legalized their properties and, as such, have achieved more housing rights and privileges. While the association has not achieved any income-producing activities, it may in the future. For example, it would like to begin a small store to sell basic necessities to its residents, but some of the Board Members are indecisive about this. The association would also like to produce its own construction materials, such as blocks.

Participation and Representation:

The Board of Directors represents the association members and also encourages the participation of both members and Margot residents in their meetings (biweekly and annual). In addition, the Board and its members meet and inquire with the residents who are affected by the community's problems and, accordingly, the association's projects. The association then solicits the approval of those residents affected for any specific project. In addition, the residents participate (with their labor) in the execution of projects that directly affect them; for example, they help with the digging and installation of water pipes that cross their land. Finally, the association invites the residents to a final public report on the project.

Public-Private Linkages:

The association is registered with DINADECO (as is required by law) but it does not belong to (or at least participate in) the Regional or National Federation of Associations. However, it does appear to collaborate directly with DINADECO (probably the local representatives) and, unlike some other associations, collaborates extensively with the municipal government of Turrialba. In the case of the latter, the association does not obtain financial resources but does obtain access to machinery and tools. *(Note that, while this is only conjecture, the association's collaboration with local government may actually diminish its need to collaborate with the National Council of Associations and DINADECO).* The association also collaborates with and seeks the assistance of the privately owned "Peter" Hacienda.

FINDINGS

The case studies showed that all three cases fulfilled (i.e., shared) the basic characteristics suggested by PADCO (making a cross-case analysis possible), with the exception of those characteristics referring to NGOs since none of the associations consider themselves NGOs even though they all have relations with non-governmental groups. Participation **within** the associations was extensive and direct, based on a variety of group and one-on-one techniques, and occurred in all phases of the planning process. The participation tended to be greater and more complex in the associations with productive (rather than just social) ends. Participation with governmental entities **outside** of the associations and DINADECO takes place at the municipal level (such as in Margot), even though it is limited (in the Atenas case it was non-existent). With regard to the municipal government environment for participation, all cases showed that their respective governments had legal and effective authority to promote participation and that in only two cases the rationale was due to both government/external donor requirements and interest (the exception was Atenas). An important finding is that in no case did the municipal governments have the capability (i.e., the systems or techniques) for engaging the participation of the community development association.

All associations studied achieved most all of the benefits (included in the survey) as a result of public/private linkages, increased leverage, legal representation, internal participatory mechanisms, and their large scale made possible through DINADECO and the National Council. The only exception was Turrialba, which has not achieved increased access to financial resources, largely because it has social rather than economic ends, but does intend in the future to increase its economic base. For this reason, these case studies suggest that DINADECO provides the community with the means—largely outside of the traditional municipal government system—to achieve meaningful participation in the development of their communities. Given the success of the National Council/DINADECO structure, all the associations surveyed considered their associations to be good models for other communities.

RECOMMENDATIONS

1. **Private Sector**—Recognize that Asociaciones de Desarrollo Comunitario, despite their non-governmental nature and important role in community participation are not NGOs and are not permitted to register themselves as NGOs. They could instead be viewed as quasi-governmental organizations. Since the NGOs that do exist in Costa Rica do not support or represent community participation as widely as elsewhere, efforts to support community participation in Costa Rica should be directed **not** solely or mainly to NGOs but rather also to the associations. While the associations could use support in all areas, small microenterprise development assistance could be particularly useful. In addition, support could also be given for more communication and collaboration between NGOs and associations, which currently is somewhat limited.
2. **Public Sector**—Three efforts should be made in this arena. One is to support the existing public sector entity that is central to the community participation process (DINADECO) but such that it will collaborate more with municipalities. The second is to provide TA and training to municipal governments regarding community participation as well as require that they engage the participation of the community in projects funded by USAID. The third is to support the overall Reforma del Estado and the increased collaboration between municipalities and asociaciones de desarrollo comunitario.

2. El Salvador

General

Community participation in El Salvador takes place within the context of severe political divisions, as it does in Nicaragua, but also carries the added burden of very recently (as of January 17, 1992) emerging from civil war. In addition to the existing modes of participation in government (albeit limited) and in the guerrilla-based or associated FMLN structures, external donors have continued their development activities during the fighting and have also provided support for the community participation process. As a result, community participation in the country can be viewed as falling into three broad categories:

- Community participation in government;
- Community participation in their own self-help programs;
- External donor programs (such as CONARA, FISE, UNICEF, Save the Children, etc.) which fund and support community participation and participatory projects.

Traditional community participation in government is required, as in other countries, in accordance with the Municipal Code.⁷ However, such participation is limited, generally occurs through the electoral process, cabildos and utilization of the community's labor for the execution of projects. In addition, at the national level there are three public agencies whose purpose is to support municipal and community development. The first is DIDECO (the Dirección de Desarrollo de la Comunidad), under the Ministry of the Interior, which had its heyday in the 1960s and 1970s, before the proliferation of community development organizations, the proliferation of the civil war, and finally the creation of the second public institution designed to support similar programs through municipal governments: CONARA. While DIDECO is still in existence, its role appears to have diminished considerably, serving largely as a political instrument, and is apparently facing termination.

Community participation in their own self-help activities is widespread, as in other countries and is not coordinated to a great extent with municipal government. This community participation occurs through a multitude of grassroots groups, such as associations and/or cooperatives, depending on the locale. There also exist unions, professional/trade associations, and service organizations. Moreover, as in other countries, there exist higher level (second and third tier) organizations of all these groups, such as federations and co-federations, respectively. While these higher level organizations play an important role in broader scale issues, they are also more politicized than their grassroots counterparts, such that some external donors prefer to work with the grassroots groups rather than with the higher level ones. It should be noted that grassroots groups in the highly militarized zones are apparently among the best organized, despite previous fighting conditions.

⁷This code requires city councils to hold open cabildos and to promote community organizations (associations). The purpose of the former is to inform the public about municipal development activities, obtain the participation of the community in discussions on policies and projects needing to be implemented, and to hear the opinions of the public. The purpose of the latter is to organize the public in a permanent fashion and obtain its participation in the research and analysis of municipal realities.

Annex IV, 24

While community participation in municipal government programs is limited, participation under externally funded programs is more extensive. External donor programs can be differentiated into those that principally work through: municipal governments (i.e., CONARA); through NGOs and community organizations such as the Asociaciones (e.g., UNICEF, IAF and Save the Children); and finally through both the public and private sector (i.e., FIS).

CONARA is a central government run program, whose principal source of funds is AID, designed to support the municipal development process in El Salvador. As such, CONARA works solely through municipal government and provides funding (through a quota system for each municipality) in primarily infrastructure projects. It supports community participation at three levels: 1) "cabildos abiertos" for projects in which the funding is strictly under the municipal government's domain; 2) community manual labor to execute infrastructure projects; and 3) community projects themselves, in which the community has the opportunity to plan and execute their own projects, albeit with municipal government control of the funding. This last form of participation falls under a new program called the "Fondo de Fortalecimiento Institucional." CONARA supports the organization of communities at the local level into legally-recognized Asociaciones Comunales (a structure that is regulated through the Municipal Code) and, at a broader level, CONARA supports the organization of communities into "Comités Especiales Departamentales" (14 in all) through which communities have a forum to identify needs and prioritize projects.

The FIS, while also managed by central government, is perhaps more successful at promoting community participation, not only because it provides funding to public and private entities alike, and is broader in the nature of projects (i.e., not just infrastructure); it is also required to include community participation. As one representative phrased it, the projects must be "demand-driven" (i.e., requested by the community); otherwise, the FIS will not enter into a project. When a request is submitted to the FIS, the FIS goes to the community to verify the need through an on-site assessment and a workshop in which the community identifies and prioritizes those needs. While open cabildos are not required, the FIS is pleased to see them occur. The project that is proposed by the community must meet the FIS criteria and conditions, which are readily distributed in the form of a "guide" to any interested parties. If the FIS finds the project "eligible," it provides funding to the executing organization or contractor of the community choice.

Community participation, then, for projects in the private sector takes place at the level of assessment, planning (although the plan must conform to the FIS guidelines), and in counterpart of (in-kind) contributions during the execution of the project. This may take the form of manual labor but may also take the form of providing materials or complementary functions as part of the project to be financed by the FIS. For projects in the public sector, community support must exist, but the extent of community participation is unclear. It is important to note that the Unidades Ejecutoras established under the FIIS in Honduras are not used in El Salvador. Rather, communities utilize whatever structures they have and/or utilize the assistance of the contractor of their preference for the execution of a project.

FIS funds originate from the IADB (not the World Bank), UNICEF, UNDP, and USAID; apparently the European Community is also becoming involved in the FIS. The funding received via the FIS by community organizations, NGOs and municipal governments are

largely in the form of donations but sometimes rotating credit funds as well. According to the FIS, contract requires the approval of the Mayor as well as of any central government agency whose scope covers that of the project (e.g., the Ministry of Health for a health project). This undoubtedly creates more bureaucracy, but in theory keeps the FIS projects coordinated with all the pertinent public sector entities at all levels. In reality, however, the general opinion was that funding to the private sector was not always coordinated with local governments. The experience of municipal governments, in particular, seems to confirm this perception. They feel the FIS does not take into account the opinion of municipal governments.

As in Honduras, the consensus in El Salvador was that the FIS is focused on quantitative results and technical design and that the level of requirements and control are excessively high. Different from Honduras, however, was the consensus that the FISE in El Salvador was not that efficient but rather very bureaucratic. In other words, the FISE in El Salvador encounters similar advantages and disadvantages as the FHIS in Honduras (i.e., somewhat participatory but still needing much more democratization and loosening of controls), with the exception that the FISE in El Salvador was not as efficient as its counterpart in Honduras.

Finally, in the realm of external donors, there exist public and private groups (NGOs) that primarily fund domestic NGOs and community organizations, such as associations or cooperatives. There are approximately 150 domestic NGOs (that are largely non-profit operations) in El Salvador, and provide a wide variety of development assistance.

An example of this type of support is Save the Children, which provides substantial funding to the DJC (Desarrollo Juvenil Comunal), the local equivalent of Save the Children. As its international counterpart, the DJC is an NGO that provides integrated programs for agro-fisheries, education, health and sanitation, and financing (through community banks). It apparently is quite successful at stimulating community participation in self-help efforts and also in collaboration with local governments. They require that local groups establish local Committees of Community Development, utilizing either existing or new organizations. The Committees analyze community needs, identify projects and manage project funds themselves. The funding for these projects (and hence for DJC) originates in large part from AID (about 75-80 percent), with the remaining quarter originating from Save the Children. It is important to mention, however, that the DJC encourages the community to coordinate their funding and activities with other private and public entities working the area, so as to maximize funding and avoid duplication of efforts.

UNICEF, a UN-funded program, supports grassroots groups, just as DJC, but also municipalities concerning the activities and needs of such groups. Essentially, UNICEF focuses its work on the role of women and children in development (leadership, health, education, water and sanitation). As such, their simultaneous support for participation within the community (through development projects, technical support, etc.) and with local government (education, institution building and legislation) revolves around these areas. It bases its work on the concept that three areas are key to meaningful community development: 1) empowerment; 2) decisionmaking in development activities; and 3) access to resources, TA and services.

163

Under the projects for which funding is provided directly to the communities (not municipalities), UNICEF provides education, technical assistance, the "tools" for participation, and materials to assess, design, and execute their own projects. The fundamental aspect of these projects is "learning by doing," a common concept among NGOs supporting grassroots organizations. An unusual aspect of the assessment, prioritization and design stage is the use in at least some of the UNICEF-funded communities of a methodology that is a crude (but highly effective) system of planning. It involves an integrated spatial analysis of all the conditions, activities and needs in the community through a system of sketching out the collective knowledge of the community on a comprehensive map. The community then utilizes this information to better identify and prioritize needs as well as design viable and critical projects.

The projects supporting local governments takes place largely at the level of improving the government knowledge and acceptance of community activities and methodologies as well as the establishment of a social indicator system, which the government can use to more effectively and appropriately plan their own projects. Also important, at the national level, is the role that UNICEF plays in promoting legislation (Tratados Internacionales, such as the Convención de los Derechos de la Mujer) and the subsequent secondary laws (Códigos, etc.) that support their special interest areas in health, the role of women in development, etc. Another valuable component of UNICEF's work and of NGOs in general, are the existence of special interest networks.

The IAF, another international donor (a quasi-public independent U.S. government agency), also funds grassroots organizations in El Salvador as in most other countries in Latin America and the Caribbean. The IAF works, as DJC, uniquely with community organizations and has witnessed only limited community participation in government through cabildos. Otherwise, most participatory activities are community (not municipality) organized, designed, managed and executed. The IAF provides donations to a variety of projects in both rural and urban areas, the majority of which are income-generating projects. While the IAF often supports second and third tier organizations in other countries, it has refrained from doing so, given the extensive politization of the higher level organizations.

UNICEF and others have noted the excellent organization of local groups, particularly in the FMLN dominated areas. The relationship between some community associations and the FMLN in former guerilla zones is extremely important in light of the recent peace agreement between the government and the FMLN guerrillas. The parties agreed that, as part of the transition process, the FMLN would be given complete control of 15 traditional guerilla sectors of the country, to administer as they chose, totally independent of central government involvement, collaboration, funding, or military presence. At a later date, perhaps, collaboration might take place with central government, but for the time being, these sectors will be totally governed by the FMLN. Hence, the role of the associations, and their relationship with the FMLN, in these sectors will be particularly key to community development. While undoubtedly there will be external support in these sectors, it will more than likely be mainly from private NGOs.

In contrast, associations in other sectors, while perhaps continuing their affiliation with the FMLN (those that are affiliated to begin with), will need to work in collaboration with El

Salvador's traditional system of government. These associations will therefore be key to the community participation process in non-FMLN controlled areas as well and perhaps more open to public sector funding.

SUMMARY OF CASE STUDIES

In El Salvador, institutional—as opposed to project—case studies were conducted. The following institutions were surveyed and analyzed:

- **Municipal Governments (9 in all). These included the municipal governments of Nueva San Salvador, La Libertad, Zaragoza, Quezaltepeque, San Martín, Apopa, Nejapa, Ilobasco and Cojutepeque**

In general, the majority of the local governments surveyed found that there was not significant community participation in government activities and that the results for community participation as an instrument of support for these local governments was very limited. The participation that did occur was usually in government infrastructure projects in the form of suggesting ideas, discussing planned activities and executing projects. However, participation in project execution mainly involved community contribution of its own resources in the form of manual labor but sometimes also materials. The best example of such participation, however limited, is in projects financed under CONARA (the Comisión Nacional de Restauración de Areas), which generally utilize open town meetings to obtain community participation in the prioritization and selection of public works projects, to some extent in the planning and costing of such projects, and finally in the execution of projects through manual labor or materials (comprising 25 percent of the project cost). However, the control and direction of such projects resting with local governments diminished the incentive for community participation. In addition, community participation supported or obtained by local governments is not permanent in character since it tends to be based on infrastructure or service projects rather than on organizational, economic or integrated community development. Despite the criticisms that can be made of municipalities with regard to limited participation, municipalities are restricted by their own resource limitations to supporting community participation. Not surprisingly, the impact of this participation was found to be limited, as exemplified by that fact that a significant majority (80 percent) did *not* consider the participation to improve the quality of life. A similar majority also did not consider it to improve citizen access to credit, services or infrastructure. The one benefit that a majority (70 percent) did cite was an improvement in legal status and rights. While there was a 50/50 split regarding the stability of that participation, this split may have had to do with whether or not the *type* of participation used (e.g., manual labor) was consistently provided.

- **The Social Investment Fund (SIF)**

As an instrument of social compensation for Bank-funded structural adjustment programs, the SIF is focused on satisfying community needs in general with particular emphasis on communities with the highest level of poverty. Support for communities can be direct or indirect through NGOs or other entities. However, communities must be organized in order to participate in the identification of public works, as a pre-requisite for obtaining financing. In addition, communities must contribute 25 percent to the cost of implementing

the project, with manual labor, materials or both. Typically, after the project is finished, there is no longer any need to maintain the organization or to continue community participation, potentially resulting in a temporal form of community organization and participation. A criticism of the SIF, besides those related to community participation, is that it does not take into account the opinion of local governments in either the identification or execution of projects within their respective jurisdictions; as such, the SIF projects do not always complement local government activities.

Private Development Institutions

These included both domestic NGOs (3 in all) and international donors (2 in all). The former included: the local office of Save The Children (known as Domestic Junveil Comunitario or "DJC"); the Comité Evangélico de Ayuda para el Desarrollo (CESAD) and the Fundación Cristiana para el Desarrollo (FUCRIDES). The latter included UNICEF and the Comité Internacional de Rescate (CIF).

In general, these institutions support (as part of their philosophy) medium rather than short-term projects and the most stable (sustainable) and participatory community development projects as possible, with the goal that the participating community organizations play an active role in their own development and attainment of self-sufficiency. These private development institutions support the active participation of these community groups in the planning, execution and administration of the non-governmental projects they fund in a wide variety of areas. They experienced participation usually in form of suggesting ideas, discussing planned activities, and in the execution of projects. However, contrary to local government projects, participation in project execution took the form of not only providing their own resources but also in the administration and supervision of the projects. For the most part, these institutions believed that it contributed to the self-development of community groups and that across-the-board it improved the quality of life. In addition, a majority (60 percent) consider the integration of community participation with government planning and development to be important. However, these private development institutions did not always find (i.e., only 40 percent found) participation (in municipal activities) to be significant, and they found that participation contributed little to municipal development, improving their own legal status or rights, or obtaining better access to government services, credit or infrastructure.

FINDINGS

The findings of these institutional studies were generally that community participation is limited and that the advantages resulting from such participation are poor. The reasons for relatively unsatisfactory results, as compared to the case studies for other countries, stem from the majority of the institutions (i.e., 9 or 60 percent of the 15 analyzed) being public sector (municipal government) entities, which showed minimum advantages from public participation. In addition, the surveys conducted focused more on "external" participation with the public sector than on "internal" participation within non-governmental groups. As a result, the type of institution (i.e., public or private) and the type of participation (with public institutions) had much more of an effect on study results than the central purpose of the institution or organization being surveyed. [With regard to the latter, a vast majority of all the institutions (87 percent) cited as their central purpose to both support local

government and "assist communities." Such results tend to confirm the general analysis of community participation in the public sector, which is limited. When such participation does take place, it occurs mainly in the information gathering and prioritization stage (during open town meetings) or in the execution of projects through manual labor or contribution of materials. Such participation also tends to not be permanent but rather to be project-focused such that when the projects terminate, there remains little rationale for maintaining the organization established to execute the project or to continue community participation.

In contrast, the results for NGOs and "others" were more favorable in terms of the extent of participation and the impact/advantages of that participation (e.g., 100 percent cited that it improved the quality of life of the community). However, the response was equally unfavorable where the survey questions focused on participation in the public sector and improvements in access to infrastructure, credit and services. Both of these results confirm the conclusions of the regional report that participation is much more extensive in the private sector and that much progress still needs to be made for that participation in the public sector.

Despite the existing limitations of participation in government activities, there was a universal consensus on the importance of that participation. All of the institutions surveyed—public and private alike—believed that integrated municipal development would be strengthened to the extent that sustained community participation was achieved. For this reason, all found it important to support a permanent form of community participation.

RECOMMENDATIONS

The following are recommendations made by representatives of the public and/or private sectors.

1. Establish "espacios de encuentros" for representatives of the current government and of the FMLN. These encuentros should be product-oriented, with an emphasis on activities that transcend political differences, such as specific health, environmental or project development activities.
2. Support NGOs in their support of community development activities, both those that do not involve local governments and those that do. Promote more projects like the UNICEF program that simultaneously works on community and municipal development but that focuses on the mutual education of the two groups in the other's activities and that supports the collaboration of the two.
3. Provide education and support to public institutions (municipal governments) in the importance, timing and mechanisms for meaningful community participation. At the same time, resources should be directed to municipal governments to enable them to improve and engage the participation of their communities.

3. Guatemala

General

In theory, Guatemala has a structure that supports participation in government and development. This structure, designed by the government and established in the 1985 Constitution, is based on the concept of "concejos" (councils) that provide a platform for collaboration between the public and private sector. Its specific objective was to provide technical assistance and stimulate citizen participation to guide the use of the 8 percent transfer. The creation of this system stemmed from a number of previous experiences with establishing decentralized development administration that had met some success.⁸ The structure was intended to encompass many levels in the public and private sector: Central Government, Ministries, municipalities, NGOs, cooperatives, unions, and private businesses. Unfortunately, political polarization, resistance from mayors, a dislike among the military for such a participatory structure, and fear among more disadvantaged groups to participate have rendered the structure unimplementable. In fact, the government ultimately ruled that the councils were unconstitutional, based on their challenge to municipal authority at the local level. Nevertheless, representatives in both the public and private sector and NGOs, hold that it would be worthwhile to reconsider and eventually re-implement the councils, given the right conditions.

While the government's council structure does not presently work, a much more informal council structure within the private sector does. It consists of a broad spectrum of organizations known as "grupos organizados," encompassing associations, Comités de Pro-Desarrollo and cooperatives. These "grupos de base" are supported by the "Movimiento de Base," known as the Asociación para la Cooperación para el Desarrollo Rural del Occidente (CEDRO). This "movement" is represented by a "Concejo Comunal" (Communal Council), which is the point of union of all the "sector-specific" committees (i.e., for water, etc.). The community participates through the councils in virtually all aspects of self planning and development. The activities of these councils are also apparently coordinated with the local government structures in informal means and through *cabildos abiertos*.

Community participation in government, however, is extremely limited and usually consists of the electoral vote, *cabildos abiertos*, and "participation" through manual labor in the execution of municipal infrastructure projects. The last form of participation is consistent with a 1991 Municipal Development study by the Urban Institute (Ferguson and Echegaray) that states that village "participation" in such infrastructure projects was characterized as "significant," given the contributions made by the village with their labor and also material

⁸These antecedents include: the National Reconstruction Committee (Comite de Reconstruccion Nacional), which stimulated and coordinated a system of departmental, municipal and local reconstruction committees to repair damage from the February 1976 earthquake; a development project supported by the Organization of American States in the department of Baja Veracruz in the late 1970s; local Civil Defense Committees stimulated in 1982 by government efforts to deal with guerrilla insurgency; and a National Forum of Interinstitutional Coordination for Reconstruction and Development, which sought to involve government and local people in infrastructure provision and planning. (Ferguson and Echegaray, "Municipal Development in Guatemala: A Role for USAID," D.C.:Urban Institute, 1991)

and money. The study also referred to participation of the community in the prioritization of public works projects and noted that "local government officials say these village committees and auxiliary mayors know what is best for their community..." and that they "...seldom overrule their prioritization of public works." However, the role of these committees in the actual planning of and decisionmaking on projects was unclear.

The participation of the community in its own development projects (outside of the public sector) is not limited, as previously mentioned, and is supported by an estimated 300 NGOs operating in Guatemala. In addition, these NGOs coordinate their activities with and obtain funding through a national association of NGOs (known as ASINDES), which represents at least 50 of these NGOs. Other representative organizations of the broad NGO community exist, such as: 1) COINDES (the Consejo de Instituciones de Desarrollo), which is essentially a think-tank; and 2) the Centro de Integración Central, which is more focused on development projects. Moreover, ASINDES and the other NGOs have access to the Central American region-wide NGO confederation called CONCADE (the Confederación Centroamericana de Organizaciones de Desarrollo). These NGOs together provide the financial, theoretical, and technical support often required at the local level. Finally, the Inter-American Foundation provides funding and support to grassroots organizations throughout Guatemala, as well as ASINDES.

The Ministry for Urban and Rural Development, while unable to erect its "concejo" structure, is currently supporting 300 "grupos organizados" principally through its CAFEDESCO program, which is the "Capacitación Femenina para el Desarrollo Comunal." The Ministry has a myriad of other programs (such as BANDESA—funded by AID); such programs primarily benefit the same CAFEDESCO beneficiaries. In the near future (for 1992), the Ministry plans to support an additional 1800 "grupos organizados" with seed funding (for production) and small business development. It intends to utilize the funding it receives from the 8 percent tax for this purpose.

The Fondo de Inversión (FIS) or "Social Investment Fund" in Guatemala, while still largely inoperative, is designed to "complement" the 8 percent that is going to municipalities. Unlike in Honduras or El Salvador, however, the Guatemalan FIS has not yet gotten off the ground and is still awaiting Congressional approval, even though FIS money is already being disbursed in small amounts through a variety of organizations and programs and even though FIS offices are being set up under a central-government program called FONDAPAZ. If the FIS does ever obtain approval, it will be, as in other countries, a temporal program for social compensation. Given that it will be modelled after the FIS programs in Honduras, El Salvador and Bolivia, it will probably also be highly vertical in structure, although with potential for supporting participatory development among grassroots organizations and NGOs.

RECOMMENDATIONS

The following constitute recommendations made by representatives in the public and/or private sectors.

- Recognize that NGOs serve as representatives of base groups and that programs supporting the community development process should be conducted through NGOs and the "Movimiento de Base."
- Coordinate with and draw on the resources of the "Movimiento de Base" through CEDRO, the national NGO of ASINDES as well as regional NGOs such as COINDES and CIC in identifying and collaborating with base groups.
- Provide assistance and funding to a public-private committees or councils that are led by ASINDES and the Ministry of Urban and Rural Development in support of participatory projects, stipulating the participation of non-traditional beneficiaries (i.e., not solely CAFEDESCO beneficiaries).
- Support long-term activities towards the restoration of peace and trust such that eventually the government can reconsider the institution of public-private "concejos."

4. Honduras

General

Honduras counts among its principal actors in the community development process the "Patronatos" and associated organizations (such as the Clubes de Amas de Casas), the OPDs (PVOs), cooperatives, municipal governments and Corporaciones Municipales, local Ministry representatives, Churches and external donor agents. The Patronatos, perhaps the most common form of community organization in Honduras, are recognized as civil public-interest associations at the local level with legal recognition and exist in both urban and rural areas. The OPDs, which are Honduran equivalents of NGOs, provide a wide variety of support for community organizations and play a much more integral role in community development in Honduras than NGOs do in Costa Rica or Nicaragua. In addition, these two groups have access to higher level support, representation and coordination of their activities through the Federation and (Con)Federation of Patronatos, on the one hand, and the Federation of OPDs of Honduras (FOPRIDEH), on the other. Even though only the most active OPDs (39 in all) are members of FOPRIDEH, the Federation helps to coordinate and support all 139 existing OPDs in Honduras. The Patronatos and the OPDs collaborate with each other and with the public sector in their development project activities.

While these groups traditionally collaborate through cabildos and informal means, as in other parts of Latin America, an increasing amount of this collaboration between the communities and municipalities takes place within the context of a highly coordinated national development program that is a form of nationwide participatory planning, albeit with a majority of the planning and virtually all of the decisionmaking taking place from above. Given the impact, predominance, coordination and visibility of this new program (begun in 1990), the community participation process in Honduras has been described by some as "BF" (Before the FHIS) and "AF" (After the FHIS). This program, called the Fondo Hondureño de Inversión Social, is one of the World Bank's "social investment fund" programs that have become a common tool throughout the underdeveloped world to mitigate the negative effects of structural adjustment or—as it is known in Honduras—for "social compensation." These funds are generally known in most countries to provide short-term employment largely in infrastructure projects.

However, the programs and structures associated with these funds differ widely among countries, even within Central America, of which Honduras is a good case in point. President Callejas saw this fund as a concept with tremendous potential for nationwide development of disadvantaged groups and as an important component towards democratization and participation. President Callejas' idea was to essentially coordinate as many external (and internal governmental) funds as possible under one program and utilize these combined resources to target development where, how and when it was most needed. To achieve this, Callejas consulted with international donor agencies and, apparently, domestic private sector entities to formulate the "Plan de Gobierno: 1990 - 1994," which was entitled "Cambio: Participación, Bienestar y Dignidad Nacional." The knowledge and experience of all consulted were integrated in this Plan, which covers virtually every aspect of develop-

ment, from democratization and participation to health, education, infrastructure, business development and exports.

The Callejas Administration designed the FHIS as a temporary instrument (only through the end of his Administration) to implement the social sector development component of the Plan. The main objectives of the FHIS are to:

- Help reduce traditional and aggregate poverty;
- Generate permanent and temporary employment;
- Modernize and extend community infrastructure in the poorest areas;
- Guide the social program from the current administration.

The critical aspect of the FHIS is that the Honduran Government is utilizing the program as the centralized instrument to channel its own funds and those from the international donor community, even though international donors are still free to work directly with community groups. The participating donors to the funds (outside of Honduras) include: 1) the World Bank; 2) the UNDP; 3) UNICEF; and the 4) U.S., Canadian, German, Dutch, Swiss and Taiwanese governments.

As a result of this centralized system for planning and funding development, private sector and community groups seeking funds for development that falls within the scope of the FHIS are encouraged to submit requests to the FHIS, including at the local level. This constitutes a significant transition in the development process for Honduran communities, patronatos, and OPDs. The centralized control felt by the FHIS beneficiaries was exacerbated at the beginning of the program because, when the FHIS was new and the experience and contacts of the FHIS staff at the local level were few, it channelled much of its funds through local municipalities. While now, according to the FHIS, it is trying to "break that chain of control gained by municipal governments" by working with local groups directly or through the network of PVOs that exists, the funding is nonetheless centralized in the FHIS. Furthermore, these municipal governments must continue to play a role given that, according to the FHIS, most of the Unidades Ejecutoras are housed in municipal government offices.

With regard to the process used by the FHIS, it reviews requests for assistance and funding from virtually any private sector group (including Corporaciones Municipales). Depending on if and how these requests fall into the larger Government Plan and FHIS program, the FHIS will provide the funding needed. According to PVOs interviewed, the FHIS gets an excellent rating for its expedient funding process. However, the drawback for the recipients (and yet the pride of FHIS staff) is that the FHIS is extremely demanding in its requirements. Furthermore, it is perceived as being extremely controlling (and hence quite vertical in structure) to the point, for example, that it designates where a PVO will provide its assistance (i.e., it is not always the PVO's choice).

To its credit, the FHIS does expediently fund projects that are largely designed by communities, community groups or their representatives (such as the Church or PVOs), and that are largely executed and supervised by them. Even the demanding requirements set forth by the FHIS can be considered to ultimately result in local training in the management

and execution of development projects. While perhaps the FHIS, in its current structure, is still far from the ideal of participatory planning, it nonetheless is a form of participatory planning that does contribute to the community development and participation process. The biggest concern of those interviewed included its temporal nature (even though it is not always publicized as such) and its emphasis on efficiency and control in its relationship to beneficiaries rather than on negotiation and participation.

The FHIS, despite its temporal nature according to the Government plan, appears to be different from traditional SIF (Social Investment Fund) programs in that it is not limited to short-term employment. However, the SIF programs all follow a basic plan. The Honduran FHIS, as others, has three broad areas in which it works: 1) basic necessities (food and health); 2) infrastructure; and 3) small enterprise development. The FHIS sees communities at different levels: some require the basic necessities before anything else, and others have the basic necessities but may now need assistance in infrastructure or small enterprise development. In order to determine who needs what, the FHIS requires that each solicitation be accompanied by a pre-designed survey of community needs. It then determines what assistance it will provide.

These community development projects, according to the FHIS, are ideally and in fact often coordinated at the local level with the municipal/local governments and other groups living and working there. Hence, while community associations and patronatos, for example, have their usual working relationships with local government through elections, cabildos and informal arrangements, they are also expected to collaborate with local governments in any FHIS-funded project. The Unidades Ejecutoras at the local level are supposed to formally serve that role, even though it also occurs informally.

Effectively, communities, community groups and local governments are able to engage in a form of participatory planning through the FHIS in that they propose their own projects either by themselves or in collaboration with another group, such as an OPD, private firm or some other community entity. This constitutes much more than simply participation in the assessment stage given that communities are able to actually design and ultimately execute as well as supervise their own projects. They simply do not have control over the decisionmaking process and possibly certain aspects of the design, as these must ultimately be consistent with the Government's Plan and the FHIS program. While missing from the FHIS is participation in the decisionmaking process, there exists a large extent of community participation at all the other stages. As a result, the FHIS itself can be considered the first attempt at a nationwide structure for participatory planning, even though the FHIS, in its relations with community groups needs to become more democratic and participatory.

However, apparently the FHIS is not the only entity that could benefit from more democratic processes. For example, several interviewed expressed a need for more democratization of municipal governments (i.e., the Mayors who are considered by some to now possess too much power under the New Law), of the Ministries in their dealings with communities, Patronatos (some of which canalize power for themselves as do Mayors), and of OPDs (which tend to support participatory process but are not themselves internally very participatory). One suggestion was the creation of Juntas Comunales at the local level to

serve as a representative of all community groups that could not only balance the distribution of power with the Mayors but also with the Unidades Ejecutoras of the FHIS.

CASE STUDIES

As in other countries in Central America, two case or "institutional" studies represented an increasingly important aspect of the existing situation in Honduras, namely the significant role of the FHIS in projects supporting community participation. Another project focused on the role of cooperatives and the importance of organizations with productive ends. Finally, two others focused on the importance of community organizations in the municipal development process and specifically the legally-recognized Patronatos and/or affiliated organizations, such as the Housewives' Clubs.

■ **Agencia de Desarrollo Integral Comunitario de Honduras (ADINCOH)**

ADINCOH is a PVO (specifically, a legally recognized non-profit civil association) that was created as a result of a convergence of advocacy interests (concern) for community development, on the one hand, and of an entrepreneurial spirit, on the other. Mr. Jose Roberto Lopez, co-founder of ADINCOH, had previously worked in organizations involved in community development, such as FUNDESA, Save The Children, and Foster Parents. In 1989, he decided, together with seven colleagues, to establish ADINCOH as a PVO to work in community development. These eight co-founders all had previous relevant experience working as employees or consultants for PVOs. Their technical backgrounds together covered the areas of social work, economics, law, agronomy and civil engineering, enabling ADINCOH to work in a variety of different disciplines.

The overall goal of the organization is to "improve the quality of life for the residents of communities where ADINCOH develops its activities, specifically oriented to marginal populations, be they in urban or rural areas." The focus in all cases is on children but through an overall strategy for community development (much like Save The Children), for which the specific objectives of the organization are to:

- Support and strengthen communities through training and participation;
- Construct training, athletic and social centers;
- Create a rotating fund to provide financing for small enterprises or industries of those individuals whose conditions otherwise prohibit them from obtaining access to such financing;
- Generate employment within these communities;
- Coordinate activities with national and international development institutions in physical infrastructure as well as equipment necessary to conduct workshops on carpentry, shoe repair, sewing and other vocations, with the ultimate purpose to help children avoid entering life without proper preparation;
- Attend the unprotected infant population that lives in the streets; and
- Participate in programs that support women in order to create and improve employment, health and educational conditions.

ADINCOH does not seek to increase its own membership (i.e., broaden its own local base and internal participation) but rather to serve as an *advocate for* local broad-based participatory groups, such as *Patronatos*, Housewives' Clubs, and agricultural or environmental protection committees. As an advocate of these groups, ADINCOH plays an intermediary role between community groups and the public sector agency of the FHIS. As a result of the FHIS, ADINCOH has been effectively *assigned* to play a role in a rural area south of Tegucigalpa (i.e., it did not select the location), which is composed of six municipalities (possibly the poorest in Honduras). In such a capacity, ADINCOH provides support in nutrition, health and water sources.

ADINCOH also coordinates with and supports local governments even though those municipalities in which ADINCOH works are very weak. Of the six municipalities in which ADINCOH works, four mayors collaborate with ADINCOH and the other two are indifferent. Generally, the collaboration consists of ADINCOH making mayors aware of community problems and needs in order that they, in turn, support community initiatives proposed to the FHIS. Part of the reason for this coordination is a result of the mayors and city council members often being members of the patronatos that ADINCOH serves. The areas in which the most concrete work is done is in natural resources (including water) protection, health, sanitation and animal control. Note that the communities served by ADINCOH are also provided by the National Professional Development Institute (in agriculture and small ruminants), the Ministry of Natural Resources, and the Ministry of Health.

The projects financed through ADINCOH support community participation in those projects at various stages, including needs assessments, institution building, project planning, administration and execution. Through interviews, surveys and record review, ADINCOH identifies basic community needs. At the same time, ADINCOH identifies community leaders who are interested in solving community problems and available to work on a voluntary basis. This group of leaders then undergo a six-month training process in the areas of health and agriculture. These leaders later help to coordinate various community groups, for which they generally serve in a leadership role anyway. As such, these leaders serve as the link between ADINCOH and community groups.

Once the groups to work on a project are formed and their leaders are trained, the project planning or "gestation" period commences. Through the leaders, ADINCOH convenes the community in an open town meeting, in which the project planning occurs. Later in the execution of the project, the same groups participate in the weekly work plan and assignments, collaboration, decisionmaking, and assistance in manual labor.

■ **Fondo Hondureño de Inversión Social (FHIS)**

The FHIS is a public sector agency of a temporal nature that was established, as in other countries, to mitigate the negative effects of structural adjustment programs, largely through short-term employment but also through other programs, such as in health. Accordingly, the basic objectives of the FHIS (in Honduras) are to: 1) help reduce traditional and aggregate poverty; 2) generate temporary and permanent employment; 3) modernize and increase infrastructure provision to the poorest communities; and 4)

coordinate the government's "social" program. In this capacity, the FHIS is in a unique position to support the privatization of public goods and service provision for the benefit of the poorest sectors of the population through contracting mechanisms and by allowing that the poorest communities themselves identify needs and projects as well as supervise their execution. In other words, the FHIS is in effect supporting privatization and decentralization, with an eye to helping the poorest segments of the population.

While the ultimate purpose is to assist the poorest communities, a wide variety of groups are allowed to solicit funds for, execute, supervise and finance development projects in these communities. The groups allowed to solicit funds for development are the communities themselves (patronatos, cooperatives, associations, Father's Associations, and municipal corporations), PVOs, church groups and even other State agencies. All of these soliciting organizations are required to conduct a small socio-economic research (survey), according to a pre-established FHIS basic community indicator (needs survey) form. Later, the groups actually allowed to execute the projects are patronatos, municipal corporations, PVOs, independent professionals and private enterprises. Finally, the groups that are allowed to supervise projects are patronatos, community associations, municipal corporations, private enterprises, independent professionals, the FHIS and State agencies. As such, the FHIS works under a scheme of "identification, financing, execution and supervision."

The FHIS claims that its contribution in multiplier effects, social impact and national coverage is based on the participation and execution capacity of PVOs, churches and private enterprise, which are all intermediaries and/or contractors, rather than individual communities themselves. Essentially, the projects are executed by contractors (construction companies, PVOs, religious groups or independent professionals) that are named by the communities themselves. This contractor then, in turn, contracts within the community for manual labor and other services. The community, however, generally plays a supervisory role over the project.

Since 70 percent of the mayors throughout the country belong to the same party of President Callejas, who created the FHIS, one can assume that municipal support for the FHIS is fairly widespread. In addition, the Unidades Ejecutoras (or "Executing Branches") of the FHIS are located in municipal offices, suggesting a close affiliation between the FHIS and municipalities.

Financing for the FHIS comes from the Honduras government as well as from bilateral and multi-lateral donors. The bilateral donors include the U.S., Canadian, Dutch, Swiss, German and Taiwanese government. The multilateral donors include the World Bank, UNDP and UNICEF. In the first year and a half of existence, the FHIS has approved some 2400 projects totalling 192 million lempiras (or US\$35.5 million). Employment generation from these projects is estimated to be valued at 52 million lempiras, with 290 municipalities, 40 PVOs, 20 religious groups and 5 clubs or associations benefitting from these funds.

- **Cooperative Agropecuaria Regional Proyecto de Mecanización Agrícola la Concepción, Limitada (CARPROMACOL)**

CARPROMACOL is a regional agricultural cooperative, for which the central purpose is to promote integrated development of its members and the community through the production of goods and services. Effectively, the cooperative provides a means for small producers to take advantage of the economies of scale, access to credit and other assistance (such as in technical methods and mechanization), and product marketing to which they would otherwise not have access and which are made possible by the cooperative.

The regional agricultural cooperative or "CAR" was created in 1982 by the Executive Committee of the National Farmer's Union (UNC) in collaboration with a Dutch development organization called CEBEMO. CAR's creation was a result of a previous failed attempt between the same two organizations to develop a project called "La Concepción" in the Olancho Department. Because of the failures of the project, CEBEMO would provide additional assistance and support under the condition that the new entity to manage the project would have a clearly defined organizational structure and obtain legal status. Since the UNC did not yet possess legal status, its Executive Committee opted to establish a new cooperative—CAR—for which CEBEMO did provide substantial support. Now the CAR also collaborates with and/or receives assistance from the Ministry of Natural Resources, the National Agrarian Institute, the Ministry of Health, the Honduran Agricultural Marketing Institute, the National Bank for Agricultural Development, input suppliers and grain marketers or intermediaries. This assistance includes technical assistance, credit and marketing.

CAR currently has 13 affiliated (participating) local groups from the National Farmer's Union and a total membership of 153. The local groups produce basic grains, such as corn, rice and beans. Some have diversified their production with soya, sorghum, ranching, and other activities. The cooperative makes available to its members mechanization, commercialization, special deals on production inputs, transportation, training and credit services. In the cooperative headquarters, they also produce corn and *amacena*.

The CAR appears to be to some extent internally participatory (since it is a cooperative) but to be largely run as a private business. Apparently, the administration of the cooperative is heavily influenced by its "donors," particularly where guarantees are required on their loan investments to the CAR. Its participation therefore with the public sector, is more as a business than a socio-economic development organization, such as a patronato or a Housewives' Club.

- **Community Projects in the Consolidation Zone of San Pedro Sula: ASECOCA and the Club de Amas de Casa**

General

The municipality of San Pedro Sula, Honduras, is a local government that would like to support and engage community participation in the public sector. Currently, it is engaging in a strategic plan for the city, which necessarily focuses on the poorest and fastest growing areas of the city that together comprise a larger area denominated the "Consolidation Zone." As part of this process, the government has been interested in, albeit unable to, effectively

engage the participation of the zone residents, largely comprised of informal and marginal populations that do not possess legal status for themselves or their property, are hence not registered with the city and are virtual "unknown" residents, and who for the most part do not have adequate access to services or infrastructure. As a result, much difficulty exists in obtaining the participation of the zone residents. To make matters more difficult, the municipal offices that do interact with this population (Social Assistance; Community Services; and the Municipal Housing and Development Unit or "UMVIDE") are limited in their ability to engage community participation. These offices are limited by: 1) their official functions (e.g., Community Assistance is mainly an office for registering and giving legal status to patronatos as well as serving as the office to channel community proposals to the Mayor or relevant departments but does not have any function or funds for providing community assistance or engaging participation); 2) their limited experience and knowledge of participatory processes or mechanisms (the case for all but particularly important for Social Assistance since this office has both the assigned functions and funds for providing assistance to and engaging the participation of communities); unorganized communities (as is the case with some marginal populations and spontaneous settlements); and/or resistance among communities to formally participate since that often implies formally registering themselves and/or their property with the city and consequently requiring that they make payments (however minimal) to the city for housing, services and infrastructure (which is the experience and one of the main obstacles for UMVIDE).

The experience between the municipality and a small relatively unorganized group called "ASECOCA" is a good case in point of the limitations of unorganized communities as well as of municipal offices established to work with them. This experience contrasts to community participation within more organized groups (such as the Housewives' Clubs) that are affiliated with the legally-recognized patronatos. While the city does also interact with these more organized groups (such as is the case with Community Services), the limitations of the city in providing assistance to or engaging the participation of these groups, as described above, limits both the nature of assistance and the meaningfulness of community participation. Consequently, it necessitates that community groups themselves engage in more self-help activities that are independent of local government activities. Below is a summary of these two case studies.

■ **Asentamiento de la Comunidad de Calpules (ASECOCA) del Municipio de San Pedro Sula**

The human settlement project for the Consolidation Zone sub-area of Calpules was initiated in 1988 by the San Pedro Sula Municipality (under the Mayor Ing. Sandoval Sorto and through the Community Development Office), along with UNCHS. The purpose of the project was to resolve the problem of the residence (both in terms of land and housing) of families living in precarious conditions (e.g., in shacks on the edge of the river, green space, and municipal lands destined for road construction). The targeted informal settlements would simultaneously be those that were severely affecting urban development planning. The project be an example of integrated development to include three components: housing; training; and employment generation. Accordingly, the objectives of the project were to: 1) relocate the families from their precarious conditions; 2) implement nutrition and work programs that would also result in providing basic services to these families; and 3) create

programs, sub-programs and projects focused on engaging the economic participation of these families. The project consisted of providing small urbanized lots to 2,736 families, of which 1,670 would be homeless families, according to certain criteria established by the Municipality. In light of the socio-economic conditions of these groups, the Municipality established significantly reduced costs and interest rates that it would ultimately charge the families for the urbanized lots.

In order to execute the project, the Municipality unilaterally organized informal and relatively unorganized families into a community organization called the Calpules Community Settlement (ASECOCA). It also created a General Administration Board in the organization that, however, did not operate in practice, possibly due to limited autonomy from the Municipality and lack of democratic representation of the families. Apparently, the relationship between the Municipality and the ASECOCA families was not a very positive or participatory one given that the project was perceived by the families as an act of "force" rather than a process of participation. Nonetheless, they complied with the relocation and the pressures to be included in the project.

While the project did manage to relocate some of the families in the targeted areas, the project could be considered as generally unsuccessful. First, it did not accomplish all its objectives. Specifically, it did not accomplish the objectives for training or employment generation that were supposed to complement the relocation/housing objective. Second, the short gestation period (3 years) made successful implementation of the project difficult. Third, the project and the "community organization" that was created by the Municipality to implement it were both controlled by the Municipality and were not very (if at all) participatory. While some might conclude that *passive* participation did take place, the top-down manner in which the Municipality ran both the project and the organization imply instead that *forced* participation occurred. This resulted in a very weak community organization that was not democratically organized, that never received its much needed training, and that ultimately could not withstand local political pressures and fell apart. Finally, the uncertainty that surrounded the ownership and future of the land onto which the families had a negative effect on the renting and purchasing of the homes there.

This case underscores two serious limitations in local governments attempting to engage the participation of community groups. The first is limited knowledge in local government on the processes and mechanisms necessary for engaging meaningful community participation. The second (and equally if not more important) limitation is lack of recognition by local government of the importance of the institutional structures within the private sector (communities) that are also necessary for making that participation meaningful. The Municipality of San Pedro Sula had neither the knowledge on how to engage the participation of the public nor the institutional structures to do so. By creating its own structure and by not engaging the families' participation, neither the project nor the organization created for its implementation could be or were successful.

- **Comedor Infantil de la Colonia Lopez Arellano**

The child nutrition project in the Lopez Arellano community was created in 1979 as a joint effort among the National Well-Being Board ("Junta Nacional de Bienestar Social"

or the "JNBS"), CARE, the Centro de Investigación y Acción para el Desarrollo (CIADES), the Housewives' Club "Amor a Dios," and the Women's Club "Struggle and Brotherhood." This project built upon a 1972 joint JNBS-Housewives' Club Baby Bottle/Breastfeeding project. In 1978, the community decided it wanted to expand the project and hence presented its child nutrition proposal to the JNBS. The proposal was approved, and the project was jointly run by the JNBS and the Housewives' Club, with additional support from CARE, the Womens' Club, and CIADES. The JNBS provides food supplies and technical assistance as well as supervises and assures project compliance. Meanwhile, the Housewives' Club directly provides all the necessary equipment and machinery for the children's cafeteria and attends to a minimum of 50 malnourished children aged 3—6 years at lunchtime five days a week. The nutrition program provides lunch, naptime and also some preschool education.

The limitations of the program include: coverage (a maximum of 50 children despite much greater community needs); inconsistent support (i.e., periodic cutbacks) from the JNBS in its food supplies; limited training of the Housewives' Club members in organization and technical (health and nutrition) subjects; and difficulty in getting mothers to participate in the program (since some prefer to pay the 2 lempiras per day to cook themselves). Despite these limitations, the project has still achieved its objectives and is perceived to have positive results.

The Housewives' Club that runs the child cafeteria was created "by its own dynamic" (i.e., not by a donor or public agency) based on a real need felt by the community. It is concerned about its development and periodically conducts an assessment of the organization. Currently, it plans to expand the program, in terms of both services provided and number of children attended, with the support of a private organization, CIADES.

It is important to mention that Housewives' Club are not able to achieve "legal status" as patronatos. However, they are considered patronatos-affiliated organizations. As a result, they have access to the patronato structures at the local, regional and national levels. This is potentially important for representation, leverage and assistance.

FINDINGS

Three of these cases were examples of direct participation of communities (CARPRO-MACOL and San Pedro Sula community organizations) while two were examples of indirect participation (ADINCOH, which is a PVO or NGO that serves as an intermediary to local groups, and the FHIS). The participatory techniques that were most commonly used were community meetings, (informal) group discussion and surveys of the population. All of these entities (except the San Pedro Sula community organizations) shared to varying degrees the goals to reduce local/regional disparities, promote public/private collaboration, increase participation in the municipal development process, improve the leverage of community groups, and improve economies of scale and scope. The FHIS possessed 100 percent of these goals and ADINCOH 80 percent, while the cooperative possessed only 20 percent of these goals, focusing its energies in the more economically productive goals of its members and less on those improving the quality of life for the community as a whole. The same was reflected in the range of objectives that can be attributed to meaningful participation. These

showed that ADINCOH and FHIS sought to improve the overall participation of the community and improvement of their welfare, whereas the cooperative was focused more on its legal rights, access to land, and income gains where the cooperative was concerned.

Community participation in the FHIS, ADINCOH and CARPROMACOL cases occurred at every stage, except for the decisionmaking stage where only the cooperative case study allowed the participation of its members (Note that in no cases did the evaluation stage even exist). All cases achieved private-public linkages, although the most achieved were, not surprisingly, through the FHIS itself. While all showed some kind of increased leverage, the cooperatives achieved the most (100 percent of those listed) through its productive activities.

In these three cases, there existed many of the necessary elements in the public and private environment to support community participation. ADINCOH and FHIS (at its broadest level) represent public sector support based on both interest and donor requirements. The cooperative did not show the support of the public sector for its activities. While the FHIS can not be easily evaluated on its non-governmental environment (because it is a public sector agency), it does offer to its beneficiaries large-scale benefits as well as a means to have access to financial resources and improve their capacity and capability through TA and training services. In addition, the FHIS does not (but could) in its present state provide internal participatory mechanisms or representation of the groups it services. ADINCOH and the cooperative, on the other hand, shared most all of the characteristics that constitute an environment conducive to community participation, with the exception that ADINCOH did not possess good internal participatory mechanisms even though it did support participation within the community.

The cases that focused on community organizations and projects in the Consolidation Zone of San Pedro Sula were not evaluated according to the same criteria as the previous three cases (and hence could not be compared) but do illustrate and confirm the importance of organizational representation and capacity in the private sector to support the community participation and development process. One of these projects was between a community and the joint support of the local government and an external donor (UNCHS), while the other was between a community and the combined support of a national entity (the JNBS), a private development organization (CIADES) and an external donor (CARE). The first of these cases involved an unorganized and unrepresented spontaneous human settlement population that the Municipality of San Pedro Sula (specifically the Community Development or Services Office), along with UNCHS, organized into the "Asentamiento de la Comunidad de Calpules del Municipio de San Pedro Sula" (ASECOCA) in order to implement a settlement project. The other involved a comparatively well-organized "Club de Amas de Casa" (Housewives' Club), which is a community organization affiliated with and represented by the legally-recognized local Patronatos Board (and Patronatos Federation) and the National Social Well-Being Board ("Junta Nacional de Bienestar Social" or "JNBS"), to carry out a child nutrition (cafeteria) program.

The difference in the success of these two projects related directly to the communities' organizational capabilities, support and resources. The government-organized human settlement (ASECOCA) had very limited success, not only to the lack of participatory mechanisms used by the government, but more importantly the lack of organizational exper-

ience of the settlement, its poor relationship with the municipality, and to its not receiving appropriate institution building during the project, even though such institution building was one of its objectives. While the nutrition program of the Housewives' Club also had its challenges (limited beneficiary coverage, inconsistent donor support and limited organizational capacity), it was much more successful (in fact, did achieve all its objectives), primarily because it did possess previous organizational experience and the long-term (albeit inconsistent) organizational support of community organization (Patronatos and JNBS) as of CIADES and CARE. The issue of "ownership" is also important here: ASECOCA was created by local government to achieve a government end; the Housewives' Club is a self-organized community group existing throughout Honduras to respond to basic family needs.

RECOMMENDATIONS

The specific recommendations for Honduras would be to:

1. Analyze the impact of and potentially improve the democratization of the FHIS to ultimately improve support through FHIS for community development projects. While it does support community participation in the public sector and in their own community development, its emphasis on efficiency and control reduce its potential for supporting the community development and participation process.
2. Provide financial, administrative and technical support to the key existing community development entities (the Patronatos and OPDs) through their Federation networks at the national and regional levels.
3. Investigate the possibilities for a long-term (not just temporal) program that seeks to improve the welfare of the poor and to support the community participation process.
4. Provide training and technical assistance to the public sector (national and local governments alike) in participatory mechanisms and processes.

5. Nicaragua

General

Any analysis of the existing situation in Nicaragua with regard to community participation must take into account the recent political changes in the country. With the election of Chamorro in 1990 and the end of the Sandinista Government, the structures and processes for community participation that once were integral to the functioning of the latter (i.e, the extensive network at the local level) exited the public sector arena entirely. While this Sandinista organization "de base" continues to exist as a private sector entity under the "Movimiento Comunal," they are relatively isolated from and engage in fairly limited participation in government. In addition, the ex-functionaries of the former Sandinista Government have spun out of the public sector into approximately 400 NGOs, which were virtually non-existent prior to 1990, and which now (due to their affiliation) do not interact extensively with the public sector. As a result, much of the former government employees and associated network of grassroots organizations are now entirely private political and/or development organizations.

Given this dramatic change, the new Chamorro Government was left with few (if any) community (grassroots) structures or processes on which to build. Chamorro did not have access to the vast network established by the Sandinistas, on the one hand, and was not going to be able to easily establish the collaboration she needed between the Sandinista organizations and her Government, on the other. This situation posed a serious problem for Chamorro, given the obligation of Mayors and City Councils in Nicaragua to support popular participation in government (Articles 28 and 34 of the Municipal Law). At the same time, the Instituto Nicaragüense de Fomento Municipal (INIFOM), a public sector agency that provides assistance to municipal governments throughout Nicaragua, is also obliged by law to support popular participation. Furthermore, a new municipal support organization called POPOL NA (apparently associated with the Sandinistas and operating primarily in the interior parts of the country) also advocates popular participation.

The initial outcome of this situation is not surprising given the political divisions in the country: Chamorro is on her way in supporting popular participation, with the one caveat that most of the participation is coming from the non-Sandinista sectors of the population. Those closely affiliated with the Sandinista party have largely refrained from involvement in the new Government programs. In some cases, even some non-Sandinista supporters have refrained from involvement for fear of animosity from the FSLN.

The minimal involvement of Sandinista supporters is particularly true of the new "Juntas Comunitarias de Obras y Progreso" (JCOP), which have been established by Managua's Mayor to begin building a parallel structure to the Sandinista's Movimiento Comunal and which is necessary to build their own "organizaciones de base," as the figure below illustrates. While the JCOP do not have any political affiliation and seek to ultimately incorporate all sectors (including the Sandinistas), the Sandinista supporters have avoided participation in the JCOP by the latter's inherent affiliation with the current Government.

ORGANIZACION DE JCOP
(ALCALDIA DE MANAGUA)

Distritos (7)	Responsable de JCOP al Nivel de Distrito
Barrios (15)	JCOP (15 o 1 por cada barrio)
	Juntas de JCOP (7 miembros en cada uno)

Interviews from both the public and private sectors (including the Movimiento Comunal) suggest that these political divisions were much less severe outside of Managua. Sandinistas and UNO supporters, be they Mayors or citizens, interact much more freely and more commonly in coordination with each other than in Managua. This is true in informal collaboration as well as in more formal assemblies (asambleas) and obligatory cabildos, where the citizens interact with the Mayor, auxiliary Mayor (known as the Delegado Comarcal, Delegado de Alcalde or Gestor Municipal) and/or the governing board (Junta Directiva) of individual neighborhoods or districts. Needless to say, these Juntas Directivas and auxiliary Mayors represent a form of local level organization on which the Chamorro Government may be able to build. In fact, there are plans to duplicate the JCOP established in Managua so as to eventually achieve a national network.

Currently, the JCOP is seeking "personería jurídica" and is developing its statutes. It is also engaging in seminars on social promotion, human relations, organization building, project development, self financing techniques and legal procedures. While these JCOP activities are promising, much remains to be seen, particularly with regard to community participation in the JCOP, especially given the political divisions in the country.

As mentioned previously, the participation of the Movimiento Comunal in the public sector remains limited. Despite this limitation, however, there are areas in which the Movimiento Comunal is participating in a rather significant way. For example, it does collaborate extensively with the Ministry of Health, probably due in part to the Minister's affiliation with the Sandinistas, in part due to the Sandinista experience in health, and in part to the Movement's transition into an "social service institution" (as it now defines itself) with particular emphasis on health and housing but also on employment and child survival. Apparently, through the Movement's extensive network of Popular Health Brigades (a critical grassroots entity left over from the Sandinista Government), it is successfully engaged in several projects related to basic community health, from nutrition and vaccination to the fight against cholera, the improvement of water systems and the building of latrines. These efforts have been supported not only by the Ministry but also by external donors such as UNICEF, the Organización Panamericana de la Salud (OPS), and others. Nevertheless, it recognizes the limitation of its Brigades and the importance of the new "Sistemas Locales De Atención Integral a la Salud" (SILAIS) that the Ministry has proposed in order to develop a nationwide health system. To support that system, the Movimiento seeks (actually demands) real and effective participation (in the form of Neighborhood Health Commissions) in the new structure and in the decisions that affect the health of the communities it serves. ("La Salud Comunitaria: Un Compromiso de Todos; Agosto, 1991). Needless to say, the Movimiento offers much experience and organization from which SILAIS could benefit.

Another area in which the Movimiento is playing an important role is in housing. As an advocate of the poor, it is assisting the poor in how to gain access to housing and basic services. In so doing, it maintains extensive documentation on the housing conditions of the population, at least in Managua, if not elsewhere. While the collaboration of the Movimiento with the public sector in the area of housing is uncertain, at least it does have its hand on the pulse of the population and could potentially serve as a conduit for housing programs.

It is important to mention that, in addition to the JCOP, Movimiento Comunal, and the NGOs existing in Nicaragua are a variety of other private sector entities, including the Centro de Promoción de Desarrollo Local y Superación de la Pobreza (CEPRODEL) and various service clubs and associations. CEPRODEL, for its part, is an organization of young professionals that provides TA and training in various aspects of integrated development directly to communities and not to municipal governments. The service clubs and associations include organizations such as the Lion's Club, Rotary Club, Fundaciones de Pro-Desarrollo, Chambers of Commerce, FUNDE, Asociación de Ganaderos, INDE, Amigos de Wisconsin, and the Movimiento Cívico de Unificación Democrática.

In addition to limitations on participation posed by political divisions as well as the inexperience of and still unstructured Chomorro Government, there also exist limitations with regard to knowledge and experience in both the public and private sectors. The public sector could benefit from more training in the role of the private sector and in participatory techniques. The private sector could benefit from a better understanding of the laws guiding the communities and of the responsibilities of the public sector. Both could benefit from training in conflict resolution and negotiation. Particularly useful would be opportunities for product-oriented "encuentros" and "collaborative projects" between groups from the Sandinista and non-Sandinista sectors of the population. Both the public sector and Movimiento Comunal communicated the importance of such opportunities for collaboration.

SUMMARY OF CASE STUDIES

The Nicaraguan case studies were not as fully elaborated as those for other countries, given the newness of the public sector structures and the limited history (since 1990) of community participation in this new public sector, political divisions and the resulting reticence to participate in or collaborate with groups of the opposing political party, and the relative isolation of both the Movimiento Comunal and the new NGOs. Nevertheless, the case studies of two communities (Leon and San Isidro) illustrated current realities. In both cases, the objectives of the communities were essentially the same, that is, to improve living conditions of the citizens, promote public/private collaboration and increase citizen participation in municipal development. However, participation took place in the form of: 1) public "listening to" (or information gathering on) citizen needs through assemblies and obligatory cabildos held two times per year; and 2) "manual labor" (to implement, for example, infrastructure projects). There was no evidence of participation, however, in municipal development planning. The biggest obstacles cited were the current political situation, difficulty in reaching public/private agreement in local development plans, lack of financial resources, and limited capacity to formulate projects. Despite the limitations, the participation that has

taken place has to some extent facilitated access to infrastructure and financing, from central government and external donors alike.

Municipio de Leon

Leon (in the Leon Department) is located on the Pacific Coast and has a population of 161,000, of which 138,000 live on the outskirts of the city, not including those that have invaded approximately 60 manzanas in the last four months. Since the last municipal elections (of 1990), the City Council has been comprised of 8 FSLN city councilmembers and 2 UNO City Councilmembers. According to the procedures established by law, a new mayor (who is also a Sandinista) was elected mayor. The City Council then formed work committees for different areas, including health, housing and markets.

The Municipality has several objectives, including: 1) to reduce the impact of social problems (i.e., unemployment, diseases, etc.); 2) increase service provision to the community; 3) improve municipal infrastructure; 4) support citizen participation in local development; and 5) promote public/private collaboration. To further support this process, there exist national government agencies including the only branch of the Nicaraguan Central Bank. In addition, other technical assistance is provided to the Municipality through INIFOM. Access to infrastructure projects has also been increased through the FISE (Fondo de Inversión Social de Emergencia) but is not significant compared to real needs. Despite the fact that many national agencies are represented locally, these are not well coordinated.

In the private sector, many NGOs are also present, including the Movimiento Comunal. In addition, there exist service clubs (such as the Lions' Club) and other social organizations, such as the Pro-Development Association. Since November 9th, 1991, however, none of these organizations—with the exception of the Movimiento Comunal—are working with the Mayor due to ideological differences.

In terms of citizen participation, the Municipality does comply with the legislative mandate to promote community participation by seeking manual labor of the community in project execution. However, participation does not exist in all phases of the development process. The Municipality does not utilize participatory techniques to ascertain public opinion. Citizens also do not exercise their right to solicit open town meetings to deal with issues of public concern. Instead, the Municipality holds only those open town meetings that are required by law: two per year, one of which is to inform citizens on the proposed budget, the other of which is to inform citizens on a post-facto assessment of how that budget was executed. While citizens may express their opinions during these open town meetings, the nature of the meetings are to inform not engage in joint public-private planning or decision-making.

Obstacles for participation are several. First, political polarization has resulted in many government sympathizers avoiding local organization in order to avoid violent actions by the armed forces. In addition, there exists very few resources to support basic needs of the municipality and even less for projects supporting participation. Third, there is inadequate technical training at the level of the Municipality and the citizenry on effective participatory mechanisms. Finally, the citizenry is virtually unaware of the municipal law by which the Municipality must abide.

Opportunities for participation do exist, however. In the first place, the citizenry has a high level of disposition towards organized work. Secondly, both the citizens and the government recognize that participatory projects have a greater "sale value" to external donors. Third, the Mayor has significant interest in increasing community participation even when that participation is not an area of Municipal competence. Finally, legislation concerning Municipalities establishes, as a right and obligation, that community participation in municipal development should be promoted and supported.

Municipio de San Isidro

The Municipality of San Isidro is one of the smallest (192 Km²) in the Matagalpa Department and only has a population of 21,620. The City Council is comprised of five members, two of which are FSLN members, and 3 of which are UNO members. These members unanimously elected Sr. Juan Ramon Gutierrez as Mayor (who supports the national government). This Mayor tries to keep the City Council free of political ideologies and religious creeds. He even has the Sandinista Councilmembers represent him in various community activities. The Mayor and the City Council maintains good relations and meet on a monthly basis.

The Municipality has several undocumented objectives including to: 1) improve living conditions in the community; 2) support technical and financial cooperative with the private sector; 3) improve citizen participation in the execution of municipal development projects; 4) improve access to national public and private resources; and 5) support the socio-economic development of the municipality. It is worthwhile to note that the Municipality has not considered community participation at any levels beyond project execution.

Open town meetings and small assemblies are convened by the Municipality and are the forms of "consultation" that do exist. Now that there is a Municipal development plan, the Mayor bases his decisions on project priorities. However, the Mayor has communicated that this situation would change as soon as a development plan was formulated, at which time the city would need technical and financial assistance. It is unclear whether this meant that the Mayor would consult more with the citizenry once a development plan was underway. In any event, community participation was engaged as a result of that participation being an external donor or government requirement.

The obstacles for participation were several. These included a lack of technical and financial resources to develop more projects, the lack of a development plan that takes into account citizen needs and municipal possibilities, the lack of collaboration and coordination with central government agencies, and the limited citizen knowledge regarding laws affecting Municipalities.

The opportunities fall into three categories. First, there does exist significant interest among the citizenry to become more directly involved in improving the municipality. Second, political polarization among citizens was not relevant to local development affairs. Third, there already exists a history of collaboration among the Mayor, NGOs and the community in local development.

RECOMMENDATIONS

The following are recommendations from representatives in the public and/or private sector.

1. Create "productive" opportunities for "encuentros" between public and private groups at the local and national level and from opposing parties. "Productive" in this sense means an event designed to achieve a specific product that transcends political differences, such as a development program or project that will help resolve specific local or national development problems.
2. Provide training to groups of both opposing parties in negotiation and conflict resolution (at least to obtain common objectives).
3. Investigate the possibilities of a nationwide JCOP and identify the needs of such an organization to support a broad participatory process. In addition, investigate the possibilities for a public/private partnership between, for example, the JCOP and the Movimiento Comunal. The Brigadistas may be a first possibility.
4. Provide TA and training to the public sector in the importance and techniques of community participation.
5. Provide education to the private sector in the laws and responsibilities of the public sector. Also, it may be helpful to provide them with examples of community organization in other countries.
6. Support the participation of Sandinista organizations in the public sector, such as the Brigadistas in a National Health System.
7. Assist INIFOM to improve its efficiency in funding to municipal governments so that they, in turn, can respond more expediently to the needs of their constituents. Also consider through INIFOM how to make the municipal projects more participatory (at the planning and decisionmaking stage).

ANNEX V

FINANCIAL MANAGEMENT

INTRODUCTION

This overview of municipal finance in five countries of Central America was prepared as part of a sectoral examination of municipal development in the region, conducted on behalf of the RHUDO/CA, USAID. It covers: Guatemala, El Salvador, Nicaragua, Honduras, and Costa Rica. Field work was carried out in November and December 1991, and the text reflects conditions as of that time. The survey process consisted primarily of review of prior studies and analyses, plus interviews with national and local government officials and other relevant informants.

Due to the short time available for the project, as well as the limited amount of data available on municipal finance in a number of Central American nations, this overview is more a sketch of the situation than an in-depth examination of the complex problems and issues affecting the national and local governments of Central America. It intended primarily to provide the RHUDO/CA with information relevant to developing possible regional approaches to strengthening municipal government.

A. GUATEMALA

1. AVAILABILITY OF INFORMATION

Data revealing both structure and trends in municipal finance are readily available in Guatemala. For a number of years, the National Institute of Statistics (INE) has published annual reports presenting detailed data on revenues and expenditures of the country's 330 municipalities. The INE data covers eight separate revenue categories and an equivalent number of expenditure classes. In addition, numerous analyses of the national revenue-sharing program, which distributes 8 percent of central government revenues to municipalities, have been published by INFOM (the autonomous national municipal organization), as well as being covered in USAID-sponsored reports by INCAE and The Urban Institute.

2. MUNICIPAL REVENUES

In 1986, following adoption of an amendment to the Constitution, the central government of Guatemala began distributing 8 percent of its total annual revenues among the nation's 330 municipal governments. This commitment means that to a degree unmatched elsewhere in Central America (pending the start-up in 1992 of Honduras' similar commitment of 5 percent of national revenues), the revenue streams of Guatemala's local governments are dominated by intergovernmental aid. The extent of this dominance can be seen in Table G1 which shows that by 1989 more than 70 percent of local revenue came

from intergovernmental transfers. It should be noted, however, that the data in the table excludes Guatemala City, whose finances are discussed separately below.

a. Recurrent Revenues

In terms of the levels of own-source revenues available to finance their recurrent or operating budgets, Guatemala's municipalities are even more constrained than are most other local governments in Central America. On a per capita basis, 1987 own-source revenues (excluding Guatemala City) came to only about 3.4 quetzales per person, or less than \$US1. "Current income", the single largest revenue category in Table G1, accounting for two-fifths of the total, includes income from many small local taxes. Cost recovery service charges for water, electricity and other local services account for most of the remainder of own-source revenue.

Also available to assist hard-pressed local governments in meeting their operating costs are several forms of intergovernmental aid. Of these, the most significant are (1) pay supplements for municipal employees, which add an average of about 12 percent to their wages, and (2) a share of the nationally-administered property tax. But even when these transfers are taken into account, Guatemalan local governments appear to be under severe pressures in addressing their operating budget needs.

TABLE G1 MUNICIPAL REVENUE IN GUATEMALA*, 1989 (in millions of quetzales)				
Categoría	Category	Amount	Percent of Total	Percent of Total Exclusive of Extraordinary Items
Ornato	Poll Tax	6.4	2	8
Servicios Cementerios	Cemetery Charge	0.4	---	---
Servicios Municipales	Service Charges	11.9	4	14
Ingresos Corrientes	Current Income	40.7	14	49
Agua	Water Charges	10.1	4	12
Electricidad	Electricity Charges	5.8	2	7
Ingresos Comerciales	Fees and Sales	7.2	3	9
SUBTOTAL		82.5	29	100
Ing. Extra-Ordinarios**	Extraordinary Items (Intergovernmental Aid**)	206.0	71	N/A
TOTAL		288.5	100	N/A
* Excluding Guatemala City ** Includes the 8 percent intergovernmental transfer SOURCE: INE				

b. Capital Revenues

In contrast to the under-financing of their recurrent budgets, Guatemala's municipalities benefit from a relative wealth of funds available for capital investment, solely as a result of the 8 percent program. In 1989, this intergovernmental transfer alone amounted to 140 million quetzales, or about 68 percent of all intergovernmental aid. The enormous impact of this program can be seen in Table G2, which tracks the trend in municipal revenues from 1981 to 1989 and shows the rapid rise in the years 1986 and 1987 when the 8 percent transfer first went into effect.

Year	Amount	Annual Change (percent)
1981	58.8	---
1982	66.7	+ 13.4
1983	71.9	+ 7.8
1984	73.7	+ 2.5
1985	70.1	- 4.9
1986	131.5	+ 87.5
1987	239.4	+ 82.0
1988	234.1	- 2.2
1989	288.5	+ 23.2

Only in 1986 and 1987, the years when the 8 percent transfer first went into effect, did municipal revenues increase by constant value amounts in excess of the rate of inflation. In fact, it was solely due to the substantial rise in the 8 percent transfer during the period 1985-89 that total municipal revenues avoided serious constant value declines. Over those four years, the real value of the 8 percent transfer funds rose by over 500 percent while the real value of municipal own-source revenues fell by 15 percent.

3. MUNICIPAL EXPENDITURES

The pattern of municipal spending in Guatemala (outside Guatemala City) largely reflects the sources of revenue. As shown in Table G3, construction of public works accounted for 39.5 percent, the single largest category in 1987 (and was even larger, at 56 percent of the total, in 1991). Wages and salaries, including fringe benefits, were the next largest category, accounting for a third of total local funds.

The table reflects the severity of operating cost pressures being felt by most local governments due to the very low levels of revenues available to finance on-going costs. These pressures were vividly expressed by mayors interviewed in the municipalities visited during the survey. Due to these pressures, even sizeable local governments are unable to employ either engineers or lawyers, the professional capabilities most crucial to carrying out the substantial public works programs made possible by the 8 percent transfer.

The net effect is that municipalities take on very few operating functions, except those like retail markets that generate receipts that more than cover their direct costs. Solid waste services are limited, street repair is minimal, and only in rare cases is any assistance offered to the hard-pressed local schools or public health systems. However, local governments in Guatemala are responsible for two services which elsewhere in Central America are usually national functions: water supply and fire protection.

Most local service effort appears to be concentrated on or linked to provision of public works, virtually all of which are financed through the 8 percent transfer program. Table G4 shows how the local governments used their intergovernmental aid over the initial years of the 8 percent transfer. More than four-fifths of all funds available were allocated to basic infrastructure, the most serious problem recognized by the local authorities. Local priorities for public works focused on water and sewer systems and streets.

TABLE G3 MUNICIPAL EXPENDITURES IN GUATEMALA, 1987 (in millions of quetzales)			
Categoría	Category	Amount	Percent of Total
Sueldos y Salarios ¹	Wages and Salaries	79.1	27
Gastos Corrientes ²	Current Costs	11.1	4
Servicios Municipales ³	Service Delivery	20.1	7
Mob. y Herram.	Equipment	1.8	1
Vehiculos y Mag.	Vehicles	2.4	1
Mantenamiento	Maintenance	6.8	2
Obras Publicas	Public Works	130.0	44
Egresos Extraordinarios ⁴	Miscellaneous	18.1	6
TOTAL		269.6	100
¹ Includes fringe benefits and national pay subsidy. ² Expenditures that are not subject to reimbursement. ³ Expenditures for services that are subject to charges on a cost-reimbursement basis. ⁴ Includes debt service. NOTE: Data excludes Guatemala City. SOURCE: INE			

Most of the facilities built under the 8 percent aid program are still new and require little in the way of maintenance and repair, but this situation will change in future years. And even now the lack of recurrent funds to pay for operation of water systems, such as the introduction of chlorine to combat the spread of infection, is being felt.

Annex V, 6

Municipalities have also been unable (or unwilling) to use all of their available capital revenues. In 1990, total municipal expenditures (excluding Guatemala City) were 19 million quetzales, or 7 percent, below available municipal revenues.

Sector / Type of Project	Percent of Total Funds Invested
Road improvement, housing and other development activities	53.5
Water and sewer systems and other public health-related uses	28.0
School construction and other education-related uses	13.1
Other, including industry and commerce	5.4
TOTAL	100.0

SOURCE: Echegaray, *El Papel de Las Transferencias Fiscales*, 1991

4. THE SPECIAL CASE OF GUATEMALA CITY

Guatemala City, the national capital, has a population of about one million, more than a tenth of the national total, and is the center of a metropolitan area which contains at least an additional million inhabitants. It also has by far the largest local budget in the nation: the city itself budgeted 162 million quetzales in revenue in 1991, and the public enterprise responsible for its water and sewer systems had a budget of an additional 100 million quetzales. Together, these revenues are nearly equal to the total 1991 receipts of all of the other 329 municipalities in Guatemala.

Guatemala City also differs sharply from the other local governments because recurrent revenues account for two-thirds of its total budget. The single largest component of the city's recurrent revenue comes from its own-source taxes which account for 40 percent of the total. The next largest components are national government subsidies for the bus system (36 percent) and from the shared property tax (13 percent).

Capital revenues constitute only a third of the city's revenues, unlike the situation in the other localities where they account for more two-thirds. In part, this is because the distribution formula for the 8 percent transfer is heavily weighted against Guatemala City. As a result, out of the city's total of 55 million quetzales in capital revenues, the lion's share comes from loans (64 percent) while only 13 percent comes from intergovernmental aid, including the 8 percent transfer. The remainder is accounted for by unspent capital funds from prior years.

On a per capita basis, Guatemala City's recurrent revenues came to about 107 quetzales in 1991, or about \$US21. This far exceeds the per capita level of revenues in other Guatemalan municipalities and is of the order of magnitude found in other capital cities of Central America. By virtue of its larger revenues, Guatemala City has also been able to take on a somewhat broader range of public service responsibilities than the other local governments

in the country. Among the extra services the city provides, the most significant involves the municipal bus system. But the city also plays a role in such activities as operation of pharmacies in low-income areas, environmental health, and educational and preventive health services, in addition to performing the common municipal functions such as solid waste collection, street repair, and operation of public markets.

5. INTERGOVERNMENTAL FINANCE

Guatemala's principal aid program is the constitutionally-mandated distribution of 8 percent of all national government revenues among the 330 municipalities. The program was instituted on a phased-in basis in 1986 and 1987. Doing so, while also coping with a sharp rise in national spending at the same time, required the government to increase various charges including IVA, the national sales tax. As a result, total national receipts grew much more rapidly in 1986 and 1987 (by 33 and 49 percent, respectively) than in any other year during the 1981-89 period. In 1990, however, fiscal pressures on the national government became severe again. That year, the central government unilaterally suspended payment of the 8 percent transfer during three out of four quarters. The new national administration that took office in 1991 resumed the aid payments, but as yet no plan has been announced as to when—or even if—the missing aid payments will be provided to local governments.

The distribution formula for the 8 percent transfer has been changed several times since 1985. This can be done through an act of the national Congress because what is mandated under the Constitution is the amount of the 8 percent and the limits on its use to public works construction. Since 1988, the formula has been:

- 25 percent in proportion to the population of each municipality;
- 25 percent distributed in equal amounts to each of the 350 municipalities plus another 15 percent in proportion to the number of recognized sub-communities (aldeas and caserios) in each municipality;
- 25 percent in proportion to local own-source revenue (as an incentive to localities to increase their collection efforts); and
- 10 percent in inverse proportion to the per capita own-source income of each municipality (intended to assist the poorest localities, this factor apparently works in opposite fashion to the preceding item).

The net effect of the formula is to give most benefit to small localities with dispersed populations and least benefit to large urban centers. The effects on urbanized areas can be seen clearly in the case of the municipality of Villanueva, a rapidly growing suburb of Guatemala City. Today, Villanueva's mayor estimates that his municipality has between 400 and 500 thousand residents, but because the last census was taken in 1981, the population estimates used in the 8 percent transfer formula don't give Villanueva an equitable share even of the 25 percent of aid that is distributed in proportion to population. The city's situation is much worse, however, with respect to the other components. Villanueva gets very little aid (only about as much as the smallest, most rural community) from the 40 percent of total aid that is distributed equally among municipalities and in proportion to their number of sub-centers.

Annex V, 8

Finally, because Villanueva has not been able to expand its revenues in parallel with its rapid population growth, it does not even get much of a share of the 25 percent of funds allocated in proportion to own-source effort. The net result is that an important population concentration, in which much of the future character of the nation's major urban area is being defined, benefits from little if any more capital aid from the 8 percent transfer than do large numbers of isolated rural municipalities with little population or significance to national economic development patterns.

The innovative nature of Guatemala's 8 percent transfer program has resulted in its being given much attention, both by observers from other Latin American countries and in several substantial research efforts. Findings of this research to date suggest that:

- Most municipalities have moved rapidly to address a large list of postponed additions to their capital plants and infrastructure. Generally, their priorities for investment appear to have been sound, although observers have questioned some projects, such as sport facilities.
- There is little evidence that the transfer program has induced greater local tax effort, despite inclusion of an element in the distribution formula directed toward this end. In fact, an Urban Institute study concluded that local tax effort actually fell as a result of the increased aid.
- Some localities have either been unable or hesitant to expend the capital funds available to them. Total municipal revenues have exceeded expenditures by substantial amounts in recent years.

There are also indications that the 8 percent transfer has resulted in very poor contracting practices on the part of local governments, accompanied by increased local corruption. Most local governments are only minimally staffed and lack design, contracting, and supervising capabilities. Furthermore, few have competent financial management systems and, in the view of the national comptroller's office, most lack adequate control systems.

In addition to the 8 percent transfer, the national Ministry of Finance collects and shares with local governments part of the receipts from the real property tax. This share is generally distributed in proportion to revenues originating in each municipality; however, the Ministry of Finance retains for the national coffers all payments from properties with high values. The absence of adequate cadastral maps and ownership records has resulted in Guatemala's relying on self-evaluation of the property subject to this tax. Widespread under-evaluation, plus numerous exemptions and outright evasion, have resulted in generally low receipts from the property tax.

As a result of the shared property tax and the national wage subsidy paid to all local officials, intergovernmental aid accounted for 34 percent of the recurrent revenues of local governments in 1990. By contrast, national aid—primarily the 8 percent transfer—accounted for 99 percent of total local capital revenues in 1990.

Several national institutions play significant roles in municipal finance, most notably INFOM and the Contraloría de Cuentas.

INFOM is an autonomous national entity whose primary responsibility is to assist municipalities in economic development. INFOM, which began as a municipal bank, now offers training and technical assistance programs and administers the 8 percent transfer program. INFOM is also the instrument in Guatemala which administers international loans, such as those from the Interamerican Development Bank (IDB). INFOM on-lends IDB funds to municipal governments at below-market interest rates. Its losses are compensated for by national government subsidies.

The Contraloria de Cuentas is the national audit agency. As well as performing other functions, it does post-audits of local government finances. Contraloria auditors are both respected and feared by local officials, in part because of their power to levy substantial personal fines on local officials they find guilty of improper fiscal practices. The seriously inadequate financial management systems of most municipalities leave local officials at risk of such fines—but the threat has apparently not been effective in controlling municipal corruption. The Contraloria's limited staff has provided neither technical assistance nor written guides to localities and their often rigid interpretations of the law appear to have limited local discretion in use of intergovernmental capital aid. For example, some municipalities claim to have been told that they could not even pay for the cost of engineering design of public works with the 8 percent funds.

6. CURRENT DEVELOPMENTS

The most significant potential change being discussed at the national level in Guatemala is the possible decentralization of responsibility for the real property tax. Even if this is done, it would be likely to take considerable effort and time before local governments could take advantage of the shift, given the very poor state of the national cadastral system and the lack of any method to assess properties, apart from self-evaluation.

With regard to the 8 percent transfer, change in the Constitutional provisions—either to alter the level of shared resources or to relax the prohibition against use of funds for other than strictly capital purposes—appears unlikely. It would take votes by two successive sessions of Congress to make any change. Informed sources suggest that any effort by the national government to change the constitution to reduce the burden of the 8 percent program on its treasury could easily be resisted by the partisans of local areas. More likely changes regarding the 8 percent transfer would be the announcement by the national government of a decision on payment of the suspended three-quarters of funds from 1990 or shifts in the distribution formula (though none appears under active consideration).

At the time of our interviews with local mayors (December 1991), they were all very concerned that Congress appeared about to adjourn without acting on their "planes de arbitrio," the detailed schedule of tax rates and charges planned by each local government. Such approval is required under the Constitution before localities can collect even the minimal local taxes that are the mainstays of their hard-pressed recurrent budgets. There appears to be little or no prospect that the requirement for annual Congressional approval will be waived in the future.

B. EL SALVADOR

1. AVAILABILITY OF INFORMATION

At present, comprehensive information on municipal budgets is not available in El Salvador, although progress is being made on a centralized information bank on municipal revenues and expenditures. This is based on the fact that the nation's 262 municipal governments are required to present their annual budgets in a standardized format so that they can deliver monthly income and expense reports to the Corte de Cuentas, the national comptroller's office. ISDEM, the autonomous national agency for municipal affairs, has begun collecting the details of these municipal budgets in a central computerized information system. However, ISDEM's computer system still lacks information on many local governments, especially the larger ones, and thus the system cannot produce summary accounts. The annual reports of the Corte de Cuentas do present an overall view of municipal finance, but they do so only at a very aggregate level. Therefore, much of this analysis has been based on data obtained from only a few localities, thus giving an impressionistic rather than systematic picture.

Another factor to take into account is the violent conflict that has taken place in many areas of El Salvador during recent years. These disruptive effects are discussed in two Research Triangle Institute reports for USAID evaluating the national grant program for local public works, an effort which was initially concentrated in localities from which the Salvadoran army had just driven revolutionary forces.

2. MUNICIPAL REVENUES

A major constraint on municipal development in El Salvador—as in all other Central American countries—is the limited amount of revenue available to local governments. This shortage of revenue is due, in large part, to three factors. First, few local taxes are available to municipal governments and those taxes that are available must be annually renewed by national legislation. Second, there are few substantial programs of intergovernmental transfers (apart from the USAID-financed CONARA program for local public works). And, third, while there are efforts by most municipalities to levy charges for delivery of municipal services, there is also widespread evasion of the responsibility for payment and little enforcement effort is made by local officials. The net result is that local governments, starved for revenue, are able to provide only a limited range of public services.

In 1990, the total amount of revenue available to the nation's municipal governments was about 545 million colones, or about \$US 68 million (at the 1991 rate of exchange of 8 colones to the dollar). These local revenues were distributed approximately as follows (Table ES1):

TABLE ES1 CATEGORIES OF MUNICIPAL REVENUE IN EL SALVADOR, 1990	Millions of Colones
RECURRENT REVENUES	
Local Own-Source Revenues	205
ISDEM Operating Grants	12
Coffee Tax Distributions	3
Subtotal, Recurrent Revenues	220
CAPITAL REVENUES	
ISDEM Capital Grants	50
CONARA Capital Grants	275
Subtotal, Capital Revenues	325
TOTAL REVENUES	545
SOURCE: Corte de Cuentas and CONARA	

In all, the revenue available to local government comes to about 90 colones per person (based on a 1988 national population estimate of 6.1 million), or about \$US11 per person. As will be noted below, however, there are considerable variations among municipalities, with many having substantially less revenue per capita available for expenditure.

The local governments of El Salvador receive only a small fraction—between 2.5 and 5 per cent—of total governmental revenues in the country, with the remainder going to national government. The lower figure comes from estimates made by the Ministry of Hacienda, as reported by INCAE, while the higher figure was reported in a cross-country study of Central America published by the Spanish Cooperation agency. The variation may be explained by whether or not CONARA grants to local governments are counted as local revenue.

The considerable variations in sources of revenue among Salvadoran cities can be seen in Table ES2, below. In general, the table shows that service charges are the most significant source of local own-source revenue, followed by local tax receipts.

While revenues per capita vary, they are generally quite low. For the cities listed in the table, as well as others that were visited as part of the field work for this survey, total annual revenues per capita ranged from less than 10 colones to a high of about 125 colones, or from barely more than \$US1 to about \$US15 per capita.

Ingresos	Revenues	Apaneca 1988	Jujutla 1989	El Paraiso 1989	Sacacoyo 1989	Antiguo Cuscatlan 1988
Tributarios	Taxes	11.6	14.4	4.8	30.0	1,180.6
No Tributarios	Service Charges	65.3	22.6	28.1	19.2	709.8
Otros Corrientes	Other Revenues	3.1	1.6	1.3	2.1	90.1
Transferencias del Gobierno Central	Intergovernmental Revenues	30.1	38.5	13.9	19.5	18.5
Otros	Other Sources	---	0.8	1.0	3.7	30.1
Total Ingresos	Total	110.2	177.8	49.2	124.9	2,076.3
Poblacion (1987)	Population (000's)	11.3	26.4	2.8	6.9	16.4
	Revenues per Capita	9.75	6.73	17.57	18.10	126.6
	Revenues per Capita in US\$	1.22	0.94	2.20	2.26	15.8

SOURCE: ISDEM

a. Recurrent Revenues

The own-source share of revenues available to Salvadoran cities—which accounts for most of the funds available to finance their recurrent budgets—averaged only 22 colones per resident in 1987, or less than \$US3. Only in the metropolitan area of San Salvador do own-source recurrent revenues rise to as much as 90 colones per capita.

Local own-source revenues appear to have been growing rapidly in nominal amounts, but all of this growth is attributable to inflation. This is shown in the following data reported by the Corte de Cuentas which indicate that recurrent revenue change has been negative in most of the past five years. (Table ES3)

Year	Revenue (in millions of colones)	Annual Percentage Change	Constant Value Percentage Change
1986	99.2	---	---
1987	121.5	+ 22	- 2
1988	124.3	+ 2	- 14
1989	158.1	+ 27	- 7
1990	205.0	+ 30	+ 8

SOURCE: Corte de Cuentas, Annual Reports (as reported by INCAE for 1986-89); constant value factors from ISDEM.

205

Two factors place severe limits on the amount of recurrent revenue currently generated by Salvadoran cities:

- **Limited Legal Authority**

Pending final approval of a long-awaited new municipal law (Decreto 86, which has been approved by the National Assembly but was still pending final Presidential sign-off at the end of 1991), local governments are severely constrained in what they can charge either in the form of taxes or for services. Virtually the only taxes that can be levied locally apply to business and industry and many localities have few establishments subject to these forms of tax. Service charges seek only to obtain sufficient revenue to cover the direct cost of activities such as street lighting and refuse removal, and are often too low even to achieve this objective. Under the new decree, municipalities will be able to add 50 percent to direct cost in calculating service charges, a factor that may help them meet overhead costs and also address inflationary price increases. But even the new decree will not expand the narrow range of taxing authority available to local governments.

- **Poor Collection Practices**

The mayors and finance directors of the five Salvadoran cities visited during this survey estimated that their revenue collection efficiency ranged from a high of 60 percent to a low of only 20 percent. On this basis, it appears that tax and service charge evasion costs many municipalities half of the recurrent revenue to which they are entitled. Evasion, or simple refusal to pay either taxes or service charges, is acknowledged to be widespread and none of the mayors interviewed had a realistic plan to address the problem. Most expressed a desire to try to upgrade service quality first, so that subsequent efforts to improve payment practices would meet with less resistance.

b. Capital Revenues

Except for the two intergovernmental aid programs discussed in section D, below, there are virtually no capital revenues available to finance local public works in El Salvador. In theory, surplus recurrent revenues could be used to finance capital projects, but in practice it is rare that there are any such surpluses. Because this situation has prevailed for some time, serious infrastructure shortcomings could be noted in the municipalities visited, most of which are outside the recent conflict zone. Clearly, conditions appear likely to be even worse in communities heavily impacted by recent fighting.

The CONARA program, the larger of the two intergovernmental capital aid programs, has now been made available to a broader range of localities, in contrast to its initial nearly exclusive use in areas heavily impacted by fighting. Still, this internationally-financed effort appears unlikely to substitute over the long run for more permanent forms of capital finance. And the ISDEM program is too modest to meet most local infrastructure needs.

3. EXPENDITURE PATTERNS

As was the case with regard to revenues, expenditure information was available for only a fraction of Salvadoran cities. Table ES4 presents a sample of such data to provide some idea of spending patterns.

TABLE ES4 EXPENDITURES FOR SELECTED CITIES, 1988-89, EL SALVADOR (in thousands of colones)						
Egresos	Expenditures	Apaneca 1988	Jujutla 1989	El Paraiso 1989	Sanacoyo 1989	Antiguo Cuscatlan 1988
Servicios Personales	Personal Services	82.8	59.8	41.3	58.9	709.0
No Personales	Non-personal Services	11.6	7.1	4.9	13.0	261.7
Materiales, etc.	Goods and Supplies	1.4	5.0	2.4	1.5	231.2
Transferencias	Transfers	17.6	3.0	---	---	76.4
Capital Inversiones	Construction	2.2	---	---	13.0	634.2
Total Egresos	Total	116.6	147.5	67.0	93.5	1,930.8
SOURCE: ISDEM						

The only significant form of intergovernmental aid that is available for recurrent budget purposes comes from the 20 percent of ISDEM's grants that can be used for operating purposes. The localities we talked to all take full advantage of this discretion to help meet the pressing costs of their operating establishments.

As might be expected, the principal use of recurrent expenditures is for salaries, which account for between 70 and 85 percent of the total available. Almost certainly, this heavy emphasis means continuing severe shortages of funds for materials, supplies and other non-personal purposes. Among other things, this clearly means that there is little if any attention paid to maintenance or upkeep of existing municipal capital plant equipment.

Virtually no summary data is available on the level of municipal spending by programs or responsibility centers. The principal functions performed by local government involve refuse collection and disposal; repair, cleaning and lighting of streets; operation of bus terminals, public markets, slaughter-houses and cemeteries; and civil functions such as issuance of licenses, registry of births and deaths, etc. Most of the nation's cities (177 out of the total of 262) obtain water and drainage service from ANDA, a national public entity, although 72 municipalities are reported as having their own system and 13 apparently have no public water supply at all. Some localities are served by a few municipal police, but most police and fire service and virtually all health, welfare and education services are national responsibilities.

4. INTERGOVERNMENTAL FINANCE

There are two principal forms of intergovernmental finance available to Salvadoran municipalities. The largest source for most cities is CONARA, a unit in the Office of the Presidency, which distributes funds provided to the national government by USAID for construction of local public works. These grants are very popular among the mayors interviewed for this survey both because of their substantial size (often equal to or greater than

the total of all own-source revenues in a given year) and because they are provided in a manner that is largely free of red tape.

Even the enforcement of the requirement that cities hold a "cabildo abierto" (roughly equivalent to a town meeting) to allow local residents to express their views on how CONARA funds should be used, appeared not to be an obstacle to the mayors interviewed. However, at least one mayor noted that he had no intention of applying the same public forum to decisions on other municipal revenues or expenditures (despite the fact that this is required by existing national law). CONARA funds are distributed according to a complex formula that takes population into account but also has varied in terms of the national government's concern with countering insurgent actions. CONARA funds can only be used for capital construction purposes.

The other main source of intergovernmental support is ISDEM, which distributes funds provided from the national budget. Up to 20 percent of the funds distributed by this agency can be used to help support local operating costs while the remainder must be used for capital investment.

The only other significant source of outside aid is through FISS, a national employment-generating agency whose projects often benefit local governments but over which they have virtually no control. FISS does not provide any funds directly to local governments.

The Corte de Cuentas is the national organization that performs audit and control functions with respect to local governments in El Salvador. It requires all local governments to keep their fiscal records in a standardized manner and to submit detailed monthly records of income and expenditures as well as both adopted and executed budgetary data for its scrutiny. The work of the Corte's auditors is apparently highly respected (if not feared), at least by local treasurers and accountants. However, they also recognize that because the examinations by the Corte's limited staff may be years behind, by the time it criticizes a local government it is likely that there will be a new mayor and council in place. Pending completion of ISDEM's efforts to computerize local budget information, the Corte de Cuentas's year-end summary of local revenues provides the only overall data on municipal finances in El Salvador.

5. CURRENT DEVELOPMENTS

The most significant recent development at the national level with respect to municipal finance is Decreto 86, the not-quite-issued new statement of municipal law. This decree will expand the authority of local governments to charge for local services at up to 150 percent of their cost. The decree also calls upon localities to take into account the benefits from service delivery and their socio-economic impact on the population in their calculations of service charges (although it is not at all clear how this can be done). The new decree will do little if anything to expand the range of local taxation. Approval by the National Assembly will still be required for any changes in local tax authority or rates.

203

With the recent peace agreement in El Salvador, major opportunities for municipal improvement will become feasible in areas of the country where conflict was most severe. At this time, however, it is not clear whether funds or other resources will be available to enable local government to participate effectively in the reconstruction process.

C. NICARAGUA

1. AVAILABILITY OF INFORMATION

Because of the traumatic events that Nicaragua has experienced in the recent past—including years of conflict, accompanied by hyper-inflation and sharp changes in currency values that preceded the shift from the Sandinista regime to the present coalition government—information on patterns and trends in municipal finance is generally not available.

The principal source of data on municipal finance for this report was INIFOM, the recently-established autonomous entity whose principal function is technical assistance and policy guidance to the nation's 140 municipal governments (whose jurisdictions together cover substantially the entire country). The major exception to INIFOM's coverage is Managua. The data for Managua used in this report is from the city's 1991 budget.

2. MUNICIPAL REVENUES

A significant feature of local government finance in Nicaragua is that it relies almost completely on own-source revenue. At least in the recent past, there have been virtually no fiscal transfers to municipalities from the national budget. INIFOM estimates the current level of transfers as equal to less than 1 percent of local revenues. Furthermore, there are no regular programs for capital loans or grants from either national government or the publicly-owned banks.

A second significant feature of local government in Nicaragua is the broad range of taxation which municipalities are authorized to collect. These taxes include a local sales tax on goods and services and a recently authorized property tax which is substantially entrusted to local governments. These taxes and other revenue sources are discussed at greater length below.

a. Recurrent Revenues

The most recent available data on local revenues (which in Nicaragua are equally available for recurrent and capital purposes) are shown below for local budgets of the year 1990.

The data in Table N1, on the recommendation of INIFOM staff, is shown only in percentage rather than absolute terms. Even in this form, they apparently have doubts about it: transfers from the national government and gifts (from unidentified sources) are especially suspect. The principal item of revenue, local taxes and charges, is probably dominated by the 2 percent sales tax described below.

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Revenue	Source	Percent of Total
Tributarios	Local taxes and charges	75.7
Transferencias	National grants	5.4
Patrimoniales	Sales of land, etc.	7.0
Financieros		2.8
Donaciones	Gifts	7.8
Recuperaciones	Prior year taxes and charges	0.6
Otros	Other	0.7
TOTAL		100.0
SOURCE: INIFOM		

The best estimate of the actual value of the revenues of local governments is that they apparently amounted to between \$US12 and 15 million in 1990, plus another \$US10 to 12 million for Managua. This would be equivalent to about \$US4.50 per capita for the municipalities outside Managua and about \$US11 per capita for the capital city. Based on an estimated value of \$US500 million for the central government's 1990 budget, this would indicate that Nicaraguan municipalities received about 4 percent of total government revenue. Exclusive of Managua, local revenues accounted for only about 2 percent of national revenues.

Due to the unsettled conditions in Nicaragua, there continue to be many serious difficulties in anticipating revenue as a basis for municipal budgets. As one example: for 1991, the municipalities together budgeted anticipated receipt of 3.6 million cordobas de oro in aid from the central government—but the government included only 1.7 million in its own budget proposal (and it is still not clear how much will actually be paid). For another, many municipalities continued to budget "donaciones" or gifts—but failed to specify any source from which they might come.

Despite these uncertainties, there are positive features to local finance in Nicaragua. For example, the country authorizes its cities to impose a range of local taxes and charges that is unusually broad in its extent, either for Central America or in the developing world as a whole. These include customary items, such as charges for the delivery of municipal services, and "matriculas," or license fees (also called "patentes" elsewhere). But most municipal "plans de arbitrios" (which define local revenue-raising authority) also include the three potentially productive taxes described below:

■ **Sales Tax on Goods and Services**

Every municipality can impose a tax of 2 percent on the gross revenue generated by the sale of most goods and services (1 percent on non-processed agricultural products). There are some exceptions such as the sale of tobacco and petroleum products at the wholesale level, apparently because these items are already heavily taxed at the national level, but the exemptions still leave a broad range of goods and services that is covered. The tax is not an easy one to collect in the still largely informal economy of Nicaragua in 1991 but its potential is quite great, especially since it is linked in the law to the issuance of a permit to operate a business (for which cities may also charge).

■ **Real Property Tax on Land and Structures**

Every municipality is now authorized—for 1991 only, subject to future national decision—to collect a tax of 1 percent on the assessed value of all land and structures within its jurisdiction. The drawbacks to this tax include not only the fact that it is temporary and new (as a local tax) but also that all cadastral records are still in the possession of national agencies: the Ministry of Finance holds the assessment records; INETER, an autonomous land planning entity, holds the cadastral maps and photographs; and the Supreme Court has possession of all property ownership records. For 1991, pending access to the cadastral records held by these national agencies, municipal governments will have to rely on owners' voluntary self-declarations of the taxable value of their properties. Nevertheless, allowing local governments access to this tax for the first time is seen by INIFOM as a major victory for local government. In the past, it was a widely-ignored national responsibility to collect both the local 1 percent and a higher national rate.

■ **Vehicle Tax (Rodamiento)**

A tax on automobiles and other vehicles has also been made available to local governments for the first time in 1991. This tax can be levied on vehicle owners in the city where they are domiciled. Taxes of this type have proven to be a productive and progressive source of revenue whenever national governments have allowed localities to have access to them. The greatest benefit, at least initially, will be to Managua, the site of most vehicle ownership at present.

b. Capital Revenues

There are no specific limitations on the use of local government revenues for capital or operating purposes. Thus, any of the taxes described above or other own-source revenues such as service charges can be used for investment purposes to the extent they are not required to meet recurrent costs of salaries and other expenses. The stringencies of local finance in recent years, however, have left little money available for investment by local government in Nicaragua.

In the absence of any specific form of municipal credit institution, local governments are allowed to approach the commercial banks—most of which are still governmentally-owned—for loans. Thus far, only in a few isolated cases has this proven to be a source of municipal credit, in large part because of the inability of municipalities to provide reliable collateral or to be able to pay the high (and fluctuating) rates of interest that would be involved.

An autonomous national development entity, FISE, utilizes USAID and other grant and loan funds to carry out capital projects to generate employment. Many FISE projects have been of benefit to local governments but FISE does not provide grants or other direct financial assistance to municipalities; instead, it contracts its projects through private sector construction firms or does the work directly with its own forces.

3. MUNICIPAL EXPENDITURES

The national laws governing municipalities in Nicaragua allow them to deliver a broad range of services but do not specify what services, if any, they must provide to their residents. By tradition, the common core services for which localities are responsible are the following:

- Solid waste collection and disposal
- Street cleaning
- Local parks and playgrounds
- Public cemeteries
- Public markets and slaughter-houses

In addition, most municipalities assume some degree of responsibility for construction and maintenance of local streets and for storm drainage.

Water supply and delivery and the collection and disposal of waste water are the responsibility of INAA, a national entity, everywhere in Nicaragua except Region VI, a broad area in the north central part of the country centered on the city of Matagalpa. Here, an experiment has begun in municipal responsibility for the water system. Local governments throughout Nicaragua are watching this experiment with considerable interest because of their high level of dissatisfaction with INAA's services.

Police and fire services are national responsibilities, as are education and virtually all of the social service and health care systems.

Table N2 presents what is known at present about local expenditures (outside Managua). Virtually no data is available on a functional or program basis, rather than in terms of the more traditional categories of objects of expenditure.

TABLE N2 EXPENDITURES BY LOCAL GOVERNMENT IN NICARAGUA, 1990 (excluding Managua)		
Category of Expenditure		Percent of Total
Personal	Personal Services	57.8
Services Mat. y Prod.	Goods and Supplies	26.9
Inversiones	Capital Investment	8.4
Transferencias Corrientes	Transfer of Recurrent Revenues	3.2
Desembolsos Financieros		3.4
Otros	Other	0.3
TOTAL		100.0
SOURCE: INIFOM		

4. THE SPECIAL CASE OF MANAGUA

Managua is both the national capital and by far Nicaragua's largest city, containing about one-fourth of the nation's estimated 4 million population. Until recently, Managua's finances were very different from those of other cities in Nicaragua. Under the Sandanista regime it was considered a national ministry and its budget was appropriated as part of the national budget. This has now changed and, starting in 1991, Managua is required to raise virtually all of its own revenue, relying largely on the same sales, real property and vehicle taxes available to other localities. Because Managua's approved Plan de Arbitrios in 1991 included all of these taxes, they are now considered permanent assets of the city, not requiring future submission to national entities for approval.

Managua's planned revenue budget for 1992, expressed both in cordobas de oro and dollars, is shown below (Table N3). In addition to the amounts shown in the table, Managua has budgeted

Managua estimates its actual receipts in 1991 as \$US 21 million. Of this amount, only \$US 6 million (28.5 percent) was collected in the first six months of the year, suggesting that the city's "learning curve" in collecting its own revenues may be rising. In addition, the city has budgeted an increase of 19 percent (in dollars) for 1992. If it achieves this target level, it will have performed an impressive feat; however, estimates in the budget document about what the city would receive if it can improve its collection performance and reduce tax evasion suggest that it could do even better than the budgeted levels projected loans amounting to 21 million

The city of Managua's budget provides considerable detail on the pattern of planned spending by programs or functions. Of the city's total budget of 125 million cordobas in 1992, 46 percent has been allocated to recurrent spending, another 25 percent to operation and maintenance of the capital plant and the remaining 29 percent to capital investment. cordobas.

Revenue Source	Cordobas de Oro (millions)	\$US (millions)	Percent of Total
Rentas (Leases, etc.)	0.31	0.06	0.2
Imp. S/Vtas (Sales Tax)	70.37	14.07	56.3
Imp. Various (Various Taxes)	20.8	0.42	1.7
Mat. y Lic (Fees)	0.84	0.17	0.7
Ing. por Multas (Fines)	0.54	0.11	0.4
Tasas por Servicios (Service Charges)	12.86	2.57	10.3
Admon. de Cement. (Cemetery Charges)	0.56	0.11	0.4
Otros Ingresos (Other Income)	37.43	7.49	29.9
TOTAL	125.00	25.00	100.0

SOURCE: City of Managua Budget, 1992.

Major categories of planned recurrent spending in Managua are shown in Table N4 below:

Category	Total (millions of Cordobas)	Percent of Total	
Servicios Administrativos	Service Delivery	4.8	8.3
Recaudaciones	Revenue Collection	4.5	7.8
Various	Central Administration	5.9	10.3
Distritos	Districts	17.8	31.1
Partida No Asig.	Unassigned	8.1	14.1
Otros	All Other	16.4	28.5
TOTAL	57.5	100.0	

SOURCE: City of Managua Budget, 1992.

5. INTERGOVERNMENTAL FINANCE

There is virtually nothing today that could be described as a system of intergovernmental finance with respect to any Nicaraguan city.

INFOM, a recently created autonomous agency, plays the major national government role in relating to local government, but it does not have funds to offer more than limited technical assistance and training. What guidance it does offer in the form of financial management manuals is clearly written and to the point, but whether local governments, most of whom are poorly staffed, are presently able to utilize this material is questionable.

There are two forms of pre-approval of municipal budgets in Nicaragua. One involves mandatory approval by the Ministry of the Presidency of the annual "Planes de Arbitrios" which authorize municipal taxes and establish their rates. This function is largely carried out for the Ministry by INIFOM. The other requirement is that each municipality must submit its budget in advance to the Ministry of Governance (Gobernacion).

The Contraloria of Nicaragua performs post-audit functions with respect to local governments. It has a small staff of auditors for this purpose.

As noted above, FISE provides some capital investments of utility to localities.

6. RECENT DEVELOPMENTS

There are several significant changes in process or in prospect for Nicaragua's cities. The Ministries of Gobernacion, Finance and the Presidency all have units looking into questions of direct concern to local governments.

Discussions with the Ministry of Finance (at the level of the Vice Minister) reveal a positive attitude toward assisting local governments in developing reliance on their own resources and a somewhat less firm position on direct financial assistance. The Vice Minister confirmed that it is the national government's intention to make permanent local control over the real property and vehicle taxes and also to assist localities in developing the cadastral capacity needed to implement these decisions. In addition, the Vice Minister said the government intends to phase into local control the national 2.5 percent property tax in addition to the local 1 percent. He was less definite about plans for a system of financial transfers although he said they are looking at the possibility of sharing up to 2 percent of national revenues with localities for capital investment purposes.

Another approach is being taken by a unit in the Ministry of the Presidency, which is preparing a broad policy on decentralization. Among its plans are efforts at strengthening local administrative capacity as well as up-grading and expanding the range of services delivered at the local level.

With respect to local tax and service charge systems, a principal immediate need is to improve collection practices, a matter now being studied by the Dutch assistance agency. Major targets in this respect could well include the sales tax and the two new municipal assets, the vehicle tax and the real property tax. Most work will be required on the property tax where the cadastral system needs improvement in quality and accessibility by local government. A UN/Habitat team is looking into this, including the prospect of helping finance development of a computerized cadaster.

D. HONDURAS

1. AVAILABILITY OF INFORMATION

No current information on municipal finance in Honduras is available on a comprehensive basis. Data on municipal revenues and expenditures for the years 1981-85 was prepared by the Central Bank of Honduras, however, and selected information on individual cities is available both from USAID documents and the Ministry of Gobernacion. The Ministry is supposed to receive copies of annual budgets from all localities but apparently many do not comply and the Ministry has not computerized the data that is available.

2. MUNICIPAL REVENUES

As of 1985, the 290 local governments in Honduras (including the major cities of Tegucigalpa and San Pedro Sula) received just over 7 percent of total governmental revenues. The remainder went to the central government and various autonomous national entities. Based on a sample of several cities, revenue in smaller localities is generally below US\$5 per capita in 1987, while the budget of Tegucigalpa, the national capital, came to about US\$15 in 1991. Property taxes are the single most important local tax source, followed by taxes on commercial establishments; together, these account for a third of all local revenues. Another significant source is charges for delivery of municipal services, which generate a quarter of local own-source revenue.

TABLE H1 REVENUES OF ALL HONDURAN MUNICIPALITIES, 1985 (in millions of Lempiras)		
Category of Revenues	Amount	Percent of Total
Property Taxes	13.8	18
Commercial Establishment Taxes	12.0	16
All Other Taxes	14.7	19
Service Charges	18.7	24
Loans	2.5	3
Rent and Sale of Property	6.1	8
All Other Sources	8.8	12
TOTALS	76.6	100
SOURCE: Central Bank of Honduras		
NOTE: Excludes water revenues of San Pedro Sula		

a. Recurrent Revenues

Honduran cities depend on a very limited range of revenue sources to cover their recurrent (operating) costs. The data shown in Table H2, drawn from a sample of three Honduran cities, indicate total recurrent revenues averaging only about 17 Lempiras per capita per year or about US\$3.50 per person. Part of the reason that recurrent revenues are low in these cities is that nonpayment of taxes and service fees is very high: only about half of the total levy is collected in the three sample cities.

Ingresos Corrientes	Recurrent Revenues	Choluteca	Juticalpa	Choloma
Bienes Inmuebles	Property Tax	155.7	46.1	76.9
Impuesto Vecinal	Income Tax	34.2	25.6	35.9
Est. Comerciales	Business Tax	295.0	106.1	134.8
Sobre Clasif. Mpal.		70.3	22.9	
Impuestos Fijos		122.9	71.4	
Bancarias y Seg.	Bank Tax	9.6	5.7	
Prest. de Serv.	Service Charges	155.4	85.8	
Arrend de Pyb	Leases	481.9	44.7	
Ingresos Eventuales	Past Due Payments	57.6	40.2	
Otros Ingresos Corrientes	Other recurrent revenue	-0-	3.8	409.0
Total Ingresos Corrientes	Total Recurrent Revenue	1,382.8	453.3	656.6
* Rentas de propiedades				
SOURCE: Annexes to USAID Program Document, based on data from the cities themselves.				

b. Capital Revenues

Capital revenues, based on the sample of the same three cities listed in Table H2, are more limited than recurrent revenues, amounting to less than 11 Lempiras or just over US\$2 per capita in 1987. The principal source of investment capital, for the sample cities, was loans, followed by funds not utilized in the prior year.

Loan funds for Honduran municipalities have come almost wholly from BANMA, the national municipal bank set up to provide capital investment loans to cities, largely by on-lending funds borrowed from international institutions such as IDB. This source is essentially exhausted at present, due to BANMA's overly generous credit policies and the inability—or unwillingness—of its local borrowers to repay their loans. In a recent comparative study of municipal credit institutions for the World Bank, The Urban Institute ranked BANMA close to the bottom of 12 case study institutions, due to such defects as:

- Poor credit policies, including failure to obtain any collateral to assure repayment of its loans and apparent willingness to go on lending to cities that were behind in making payments on prior loans.

- Lower-than-market interest rates, which would not have returned the value of the loan (due to inflation) even if the borrowers had met their obligations.

BANMA is now essentially out of business, having at least temporarily exhausted its supply of loan funds. As a result, there is no current significant source of investment funds for Honduran cities, pending future transfers that may be made under the new Municipal Law (see section 5, below).

3. EXPENDITURE PATTERNS

As is the case throughout Central America—and, indeed, for municipalities elsewhere, as well—the principal component of recurrent expenditures in Honduran localities is wages and salaries of municipal employees. In the case of Honduras, this factor accounts for just over half of all local annual costs, as shown in Table H3, below. Goods and services are the next most significant cost, amounting to one-fourth of all expenses.

TABLE H3 RECURRENT EXPENDITURES OF HONDURAN MUNICIPALITIES, 1985 (In millions of Lempiras)			
Category		Amount	Percent of Total
Remuneraciones	Wages and Salaries	35.2	54
Bienes y Servicios	Goods and Services	16.4	24
Intereses y Dividendos	Interests and Dividends	4.8	7
Otros	Other Expenditures	4.5	7
Transferecias	Transfers to the Private Sector	4.6	7
Total Recurrent Expenditures		65.5	100
SOURCE: Central Bank of Honduras			
NOTE: Excludes water enterprise of San Pedro Sula			

The amount of information available even from the three-city sample is too limited to provide much of a picture of more recent expenditure patterns in Honduran cities. However, the amounts spent on general administration, including revenue collection, as compared to direct service delivery (including the cost of capital investments) appears to be very high. As can be seen from Table H4, it ranged from 25 to 40 percent in the three sample cities in 1987.

TABLE H4 REVENUES AND EXPENDITURES OF THREE HONDURAN CITIES, 1987 (in thousands of Lempiras)				
Egresos	Expenditures	Choluteca	Juticalpa	Choloma
Gobernacion, etc.	General Administration	301.4	154.5	156.8
Hacienda, etc.	Finance and Revenue Collection	181.7	81.8	70.4
Servicios y Obras Publicas	Service Delivery and Public Works Construction	1,317.2	314.5	531.9
Deuda	Debt	N/A	9.2	164.1
Total		1,800.0	560.0	923.2
SOURCE: Annexes to USAID Program Document				

4. THE SPECIAL CASES OF TEGUCIGALPA AND SAN PEDRO SULA

Tegucigalpa's 1991 budget provides some additional information on how this largest Honduran city spends its money. The personal services category (largely wages and salaries) appears to be as significant as in the case of the three-city sample of smaller cities. Tegucigalpa's budget also provides information on capital spending, which accounted for about one-seventh of total annual expenditure in 1991; comparable data is not available for other Honduran cities.

TABLE H5 EXPENDITURES IN TEGUCIGALPA, 1991 (in millions of Lempiras)		
Object Categories	Amount	Percent of Total
Personal Services	25.6	49
Other than Personal Services	13.2	25
Transfers	5.1	10
Capital Investment	7.2	14
Other	1.1	2
Total	52.2	100
SOURCE: Budget, City of Tegucigalpa		

San Pedro Sula is the second largest city in Honduras, with an estimated population of about 315,000 in 1990. The city is at the center of the country's most rapidly developing region and is increasingly viewed as the economic center of the nation. Special legislative provisions make the budgetary situation of San Pedro Sula unique, but the city also shares features in common with other Honduran local governments: a draft report prepared by PADCO notes that, as of 1990, unpaid real property taxes amounted to half the entire annual levy.

San Pedro Sula's 1991 budget was based on total anticipated receipts of 67.5 million Lempiras in recurrent funds plus an additional 24 million Lempiras in capital revenues, or a total of 91.5 million Lempiras. This amounts to about 290 Lempiras per resident, or about US\$60.1. This is roughly four times as high as the comparable figure for Tegucigalpa. In part, the difference may be attributable to the broader range of public services for which San Pedro Sula is responsible, including the public water and sewer system, as well as a range of social welfare and cultural services.

5. INTERGOVERNMENTAL FINANCE

Up to now, there has been no regular program of financial aid to Honduran cities from the national government. Under a recently adopted law, however, the government plans to begin a major revenue-sharing program in 1992. When fully phased-in by 1994, the new program is scheduled to provide localities with 5 percent of all national revenues. The funds are to be used primarily for capital investment, although up to 10 percent will be available for recurrent budget purposes. No payments have yet been made under the new law; the first payments (equivalent to 2 percent of national revenues) are scheduled to be paid to cities in 1992.

Distribution of aid payments under the new law will be based on the following factors:

- Eighty percent is to be distributed in proportion to the number of inhabitants of each municipality.
- Twenty percent is to go in equal amounts to most of the nation's 290 municipalities (the exceptions are for cities already obtaining substantial amounts of national aid from taxes on coffee or other products).

The new law also provides for the establishment of a national municipal institute, roughly comparable to the organizations that exist in other Central American countries (such as IFAM in Costa Rica). Up to now, the potential roles that could be played by such an institution in fields such as training and technical assistance have been shared by BANMA and a unit in the Ministry of Gobernacion.

Current national oversight of municipal government in Honduras is largely limited to post-auditing by the Contraloria, the national audit and control agency, which has a staff of 80 auditors devoted to scrutiny of the budgets of local governments. In an interview, the Contraloria noted that the systems of internal control in Honduran cities are generally quite weak and that local professional staff is quite scarce, except in the two largest cities.

The Ministry of Gobernacion formerly carried out a pre-audit review of municipal budgets, but since 1989 it no longer does so. The new law on municipalities apparently relieved the Ministry of this requirement.

6. CURRENT DEVELOPMENTS

The major new development in Honduras has been passage by the Congress of the new Law on Municipalities. This statute redefines municipal powers and authorizes a major new program in revenue sharing of up to 5 percent of national revenue sources. It is still too early to see how this will work but there appears to be skepticism among some Honduran observers that such a substantial fraction of national funds will actually be distributed to the cities, given fiscal constraints on the central government and the fact that a Presidential election will occur before the new law becomes fully effective. (In Guatemala, where a similar distribution program was established as a constitutional mandate, distribution of funds was suspended for most of 1990 by unilateral decision of the government.)

On the international scene, the major current development in municipal affairs is the USAID country-wide project under which technical assistance and training is being provided to local government.

E. COSTA RICA

1. AVAILABILITY OF INFORMATION

Good information is available on municipal finance in Costa Rica. The principal sources of such information are IFAM (Instituto de Fomento y Asesoría Municipal), the national entity which provides both financial and management assistance to Costa Rican cities, and the Contraloría, the national agency which does both pre-audit and post-audit of municipal budgets and contracts.

2. MUNICIPAL REVENUES

Overall, the 81 municipalities in Costa Rica account for about 4 percent of total national revenues and expenditures (up from 3 percent a decade earlier). The remainder is allocated to: central government (36 percent); parastatal institutions (45 percent); and public enterprises (15 percent). Nominally, there are other levels of local government, such as the canton, but these are largely statistical units, rather than operating governments.

a. Recurrent Revenues

Recurrent revenues for local government are derived from four principal sources which together account for 73 percent of all local operating revenues, as shown in the following table.

TABLE CR1 MUNICIPAL RECURRENT REVENUES IN COSTA RICA, 1988 (in millions of colones)		
Revenue Source	Amount	Percent of Total
Impuesto Territorial (Property Tax)	809	31.2
Prestacion de Servicios (Service Charges)	593	22.8
Impuesto de Patentes (License Fees)	363	14.0
Impuesto de Construcciones (Building Permits)	121	4.7
Otros (All Other Sources)	709	27.3
TOTAL	2,596	100.0
SOURCE: IFAM		

The Impuesto Territorial, the real property tax, is administered by national government agencies, including IFAM which receives 10 percent of the receipts to support its operations. Nearly an equal amount goes to the other central agencies that help administer the tax (by assessing properties, sending out tax bills, collecting them, maintaining the cadaster, etc.). The remaining receipts go to municipalities generally in proportion to the amounts paid by their property owners. The tax rate, set by the National Assembly, seeks to achieve a significant amount of progressivity by virtue of four brackets of increasing rates in terms of the value of an owner's total property holdings, nationwide. There is a considerable amount both of evasion (through omission from the cadastre or under-assessment) and non-payment (because penalties are low in relation to market-level interest rates).

In many respects, the Impuesto Territorial is a national tax, most of whose revenues are transferred to localities in proportion to their assessed valuations. There is virtually no local role in the tax. In particular, localities are powerless to alter the rate so as to support more local services or respond to other local concerns.

The other major local revenue sources are service charges and license fees (patentes). These are subject to local decision, but local council increases can be over-ruled by national agencies if they are deemed too high. In the case of patentes charged to commercial and industrial enterprises, the amount of revenue a particular municipality can obtain obviously depends on its economic base. For example, in the case of the suburban city of Curridabat, the presence of a large Republic Tobacco Plant produces considerable revenue for the city; this is good for Curridabat but may not be the best approach to taxation in terms of the national economy.

Charges for recovery of the cost of service delivery (Prestacion de Servicios) are concentrated on four principal services in most cities. For the 81 municipalities as a whole, these charges in 1988 were as follows:

TABLE CR2 MUNICIPAL REVENUE FROM SERVICE CHARGES IN COSTA RICA, 1988		
Category of Service Charges	Amount (millions of colones)	Percent of Total
Recoleccion de Basura (Garbage Collection)	223	38
Limpieza de Calles (Street Cleaning)	113	19
Agua (Water Distribution)	102	17
Alumbrado Publico (Street Lighting)	66	11
Otros (All Other)	90	15
TOTAL	593	100
SOURCE: IFAM		

In recent years, the recurrent revenues of Costa Rica's municipalities have grown substantially, even in comparison to population growth and inflation. From 1982 to 1988, the amount of the Impuesto Territorial, the principal local revenue source, went up 500 percent. Its revenues more than kept pace with inflation, rising by 114 percent in constant (real) terms. Other revenue sources grew somewhat more slowly over the period, with total growth averaging about 400 percent, or about 90 percent in constant values.

Given the limited functions assigned to Costa Rican municipal governments, they apparently have sufficient revenues for present purposes: overall, the 81 municipalities ran a small surplus in their recurrent budgets in 1990.

b. Capital Revenues

Capital revenues for local government amounted to about 28 percent of total local revenues in 1989; however, all of these revenues were not available for expenditure in that year since some were allocated to future capital projects. Even on an expenditure basis, though, capital spending accounted for 27 percent of total spending in 1989. The principal sources of capital revenue are shown below.

TABLE CR3 MUNICIPAL CAPITAL REVENUES IN COSTA RICA, 1988 (in millions of colones)		
	Amount	Percent of Total
Endeudamiento (Debt)	208	19
Transferencias (Grants etc.)	265	24
Recursos de Vigencias Interior (Prior Year Surplus)	616	56
Otros (Other Sources)	18	2
TOTAL	1,107	100
SOURCE: IFAM		

In addition to its other functions, IFAM acts as a municipal bank by lending funds to local governments for capital investment. It charges interest at less than market rates (at present about 20 percent per year in comparison to about 40 percent in the private market). IFAM'S loan funds are obtained through international loans from IDB and the World Bank and from national appropriations, including its share of the Impuesto Territorial.

3. MUNICIPAL EXPENDITURES

Total expenditures of Costa Rican municipalities grew by 377 percent from 1982 to 1985, well ahead of inflation. On a per capita basis, 1988 expenditures averaged about 1,000 colones or about \$US 7.50. This modest amount suggests the very limited functions for which municipal governments are responsible. Expenditures by principal object categories for the 81 municipalities in 1990 were as shown below.

TABLE CR4 MUNICIPAL EXPENDITURES IN COSTA RICA, 1990 (in millions of colones)		
Conceptos (Category)	Amount	Percent of Total
Servicios Personales (Personal Services)	2,120	48
Servicios No Personales (Non-Personal Services)	553	13
Mater. y Suministros (Materials and Supplies)	680	16
Mac. y Equipo (Machinery and Equipment)	180	4
Construccion (Construction)	175	4
Otros (All Other)	666	15
TOTAL EXPENDITURES	4,373	100
SOURCE: IFAM		

Interest on municipal debt amounted to less than one percent of total recurrent expenditures in 1990. This suggests that most Costa Rican municipalities still have considerable unutilized capacity to support additional capital investments if loan funds were available.

Total capital spending by local governments amounted to 900 million colones in 1990, or one-fifth of total expenditures. Capital revenues, on the other hand, were substantially larger, resulting in a significant "superavit" (or surplus) of funds available for future capital investment.

4. INTERGOVERNMENTAL FINANCE

There is no general system of revenue-sharing between national and municipal government in Costa Rica, except to the degree that the Impuesto Territorial can be considered such. There is, however, the equivalent of a municipal bank through the lending operations (both capital and short-term) of IFAM. Generally, repayment of IFAM loans is quite current, perhaps as a result of the fact that IFAM can withhold property tax receipts from delinquents.

Another significant form of intergovernmental fiscal relationship in Costa Rica is pre-audit of local budgets by the Contraloria, by means of which a highly-detailed level of control over municipal budgets and contracts is exercised. Pre-audit extends not only to the annual proposed budget of each municipality but also to any major modifications proposed during the year and to all substantial contracts. According to Contraloria officials, the review is done only to assure conformity to national law, but it is seen by local officials (and IFAM) as a far more intrusive process and one that is bitterly resented at the local level. The Contraloria's post-audit of local finances is accepted as an essential safeguard of local financial practices.

Another intergovernmental activity of interest in Costa Rica is the annual appropriation by the National Assembly of about \$US 10 million in the form of "Partidas Especificas". These are grants awarded at the direction of individual members of the national assembly, although generally only those members who are part of the government's majority get to designate the recipients of funds. Grants can be used either for capital projects or service programs. Most grants go to the thousand or so local development associations that operate under the overall supervision of DINADECA, a national entity.

Municipal executives see the practice of Partidas Especificas as weakening their control of service delivery and—because grants may cover only part of the cost of a project—also as creating pressure for municipal spending to complete projects. The amount of money involved is substantial, equivalent to a sizeable fraction (one-third to one-half) of total local receipts from the national property tax in any given year.

5. CURRENT DEVELOPMENTS

A recent national commission considered the introduction of a revenue sharing system in Costa Rica but its work has apparently been suspended. There is also reported to be a new report on this topic prepared by the Ministry of Planificacion, but copies are not yet available. The current fiscal difficulties being experienced by Costa Rica's central government suggests that it is unlikely that costly new programs will be adopted to benefit local governments.

The reputation of government in Costa Rica as highly centralized, carefully controlled and generally well-operated appears to be well founded. In addition, there does not appear to be much pressure to change the situation. None of the municipal chief executives interviewed during this survey expressed strong interest in getting more control over the property tax (for example, to be able to change the rate) or in obtaining a greater degree of "home rule" authority with respect to most other aspects of municipal finance. They also appeared to accept the practice of "Partidas Especificas" as politically necessary.

The only matter to which these executives (joined by the director of IFAM) expressed vigorous dissent was the pre-audit control exercised by the Contraloria. They felt that this represented both a serious constraint and delay to local decision-making and one that was not justified by any cost savings or other form of benefit. They noted that they were already subject to post-audit by the Contraloria and that they had no objection to this practice, which follows accepted norms in local government finance.

ANNEX VI

REGIONAL AND INTERNATIONAL INSTITUTIONS

1. REGIONAL INSTITUTIONS

ICAP

Instituto Centroamericano de Administración Pública (ICAP) in Costa Rica is perhaps the most widely known training institution in Central America and is considered the leading municipal training institution in the region today. It has been supported until recently by the Agencia Española de Cooperación Internacional (AECI), and has carried out a regional assessment of the municipal sector.

INCAE

INCAE, the Central American Institute for Business Administration focuses applied research and training on fundamental managerial and development problems. The INCAE Public Management Program conducts research and training on policy frameworks for decentralization and dialogue processes around national strategies for decentralization. Between 1986 and 1991, through its Cooperative Agreements with ROCAP/RHUDO, INCAE assessed municipal and local development needs and conducted municipal organizational development and training programs throughout the region.

2. INTERNATIONAL DONOR AGENCIES

External municipal development support comes from bilateral, multilateral, and private institutions. These include foreign governments, multi-lateral development banks, the United Nations, private foundations and international NGOs. These donor types are described below.

BILATERAL ASSISTANCE

United States Regional Housing and Urban Development Office (RHUDO), the sponsor of this study, has recently played a strong role in supporting regional municipal development programs in Honduras, Guatemala, El Salvador, Nicaragua and Costa Rica. In addition, *United States AID Missions* to Honduras, El Salvador, and Nicaragua have bilateral municipal development programs.

- **In Guatemala**, AID has just finalized a brief study on municipal development that will serve to define future collaboration in the sector. In addition, and with the assistance of INCAE, AID has conducted a series of seminars with Guatemalan mayors, in which the various aspects of decentralization have been carefully reviewed. Finally, AID has initiated a training program in the U.S. for 180 elected and non-elected officials.

Annex VI, 2

- **In El Salvador**, AID has important programs that provide both capital and technical assistance to municipalities (through CONARA, COMURES and ISDEM) as well as institution building assistance to the Salvadorean Institute for Municipal Development (ISDEM), to city councils throughout the Republic and to the Inter-Institutional Coordinating Committee for Municipal Development (CCDM).
- **In Nicaragua**, USAID/Nicaragua sponsored a Nicaragua Municipal Government Assessment in order to identify strategies for future interventions in the sector and is providing support to the recently founded Inter-Institutional Committee for Municipal Development (CIDMD).
- **In Honduras**, AID has been engaged for more than a year with an ambitious technical assistance program for municipal development, which is also being supported by some training activities in the country.

Finally, on the regional level, AID conducted a regional seminar on municipal development in late 1991 in which mayors throughout the region participated. This seminar culminated in the formulation of principles and action statements for municipalities, known as the "Declaration of Tegucigalpa" and consolidated support for the regional municipal association, "FEMICA" (the Federación Municipal del Istmo Centroamericano). In addition, AID makes a significant contribution to the municipal development process through the framework, information base and strategy plan provided through the document. Moreover, AID continually offers the regional municipal system specialized publications to promote the municipal development and decentralization process.

The Inter-American Foundation (IAF). The IAF, an independent U.S. foreign assistance agency founded in 1969, provides funding to community organizations and NGOs throughout Central America, South America and the Caribbean. While its focus is the *non-governmental* rather than governmental sector, it has been supporting the participation of grassroots (first-tier) organizations as well as second- and third-tier organizations in the development process, which is essential to the overall community empowerment and ultimately municipal representation and development process. It has also recently been engaged in research on NGO-local government interaction and, consequently, the role of community participation in government planning and development.

The Spanish Agency for International Cooperation (AECI) has played a major role in regional municipal development programs, studies, seminars and policy dialogue. They have bilateral programs of technical assistance and training in Costa Rica, Nicaragua and Guatemala.

The German Agency for Development (GTZ) has bilateral technical assistance missions in El Salvador, Nicaragua, Guatemala, Honduras and Costa Rica for upgrading local administration and planning skills.

MULTILATERAL ASSISTANCE

The Inter-American Development Bank (IADB) has capital investment programs in Honduras and Costa Rica. It is also planning future credit programs in Panama. The IADB has been the major international source for financing of municipal economic development programs.

The World Bank (IBRD) has not worked in municipal development directly but rather has focused on water and sanitation projects in secondary cities of Central America and particularly in Costa Rica. The World Bank has supported secondary city projects in Panama (1979-1983) and may design new projects there in the future.

The United Nations Development Program (UNDP) has several bilateral projects for administrative reform at the national level, especially Honduras, that affect municipal development in indirect ways. They also administer a refugee program in El Salvador that assists in placing displaced persons within safe secondary cities.

PRIVATE ASSISTANCE

Three German foundations have supported municipal development in the region as follows:

The Neumann Foundation supports studies and seminars in Costa Rica.

The Ebert Foundation supports studies and seminars in Costa Rica and Nicaragua.

The Adenauer Foundation supports a new municipal development organization in Panama and ISAM in El Salvador.

CONSULTING FIRMS

United States consulting firms—such as PADCO, Research Triangle Institute (RTI), The Urban Institute, and others—have worked for many years in Central America in municipal development under AID, IADB, or World Bank contracts. Louis Berger International has also done considerable work in feeder roads and other technical assistance. The International City Management Association (ICMA) has also provided technical assistance support in Honduras since 1991.

NON-GOVERNMENTAL ORGANIZATIONS (NGOs)

Numerous international NGOs are operating in Central America to support the overall community development process, which in turn contributes to the community empowerment and municipal development process. These NGOs include well-known US-based groups such as Oxfam America, World Vision, Save The Children, CARE, and Private Agencies Collaborating Together (PACT). In addition, European NGOs play a key role in supporting many NGOs and community groups, such as NOVIB (a Dutch NGO) and CEBEMO (a German NGO). Apparently, church and religious organizations also play a substantial role in financing and assisting community projects.

INDIVIDUAL COUNTRY STUDIES

GUATEMALA

BILATERAL ASSISTANCE

In Guatemala, AID has just finalized a brief study on municipal development that will serve to define future collaboration in the sector. In addition, and with the assistance of INCAE, AID has conducted a series of seminars with Guatemalan mayors, in which the various aspects of decentralization have been carefully reviewed. Finally, AID will initiate in the next few months a training program in the U.S. for 180 elected and non-elected officials.

The Spanish Agency for International Cooperation (AECI). The AECI provides support, along with the Latin American Social Sciences Faculty or "FLASCO," to Guatemalan municipalities through a Municipal Development Support Program (PADAM). The purpose of the program is to assist municipalities through the practical training of city councilmembers, treasurers and secretaries. This training covers various areas of municipal administration (including legal, financial and strictly administrative functions) and project evaluation activities. Since 1989, it has trained more than 1,400 municipal officials and employees. For 1991 and 1992, the AECI plans to provide training in urban planning, garbage collection and sewage treatment, tourism promotion, management skills and other areas. These programs are apparently coordinated with the National Institute of Public Administration (INAP).

Canadian International Cooperation Agency (CIDA). Since 1983, CIDA has financed projects in Guatemala to support local development committees in small public works projects, particularly in the Guatemalan *altiplano*. Under these projects, the development committees propose their project requests to CIDA, which then evaluates them according to specific criteria. The projects, which cannot exceed US\$10,000 each, comprise three main categories. The first encompasses health, sanitation and water and involves substantial community participation. The second covers infrastructure projects that facilitate communication and transportation (including roads and bridges) as well as agricultural development and education. The third covers areas of special interest to the Canadian embassy. During 1990, CIDA financed more than 60 projects in the amount of \$350,000, in addition to \$70,000 for administrative support.

MULTILATERAL ASSISTANCE

The IADB is planning future credit program for municipalities in Panama. The World Bank has also (in the past, 1979-1983) supported secondary city projects in Panama and may design new projects there in the future.

NICARAGUA

BILATERAL ASSISTANCE

USAID/Managua is currently supporting a Nicaragua Municipal Government Assessment in order to identify strategies for future interventions in the sector.

The Spanish Agency for International Cooperation (AECI). Since 1985, the AECI has supported Nicaraguan municipal development activities. Specifically, it has provided basic technical assistance in two areas: service provision (such as in garbage collection and in wastewater and solid waste treatment); and urban planning, especially in relation to marginal settlements. In addition, it has provided some limited support for housing projects. Finally, it has provided support for restoring historic monuments and colonial urban centers.

The German Development Agency (GTZ). The GTZ will soon initiate (in the Summer of 1992) a municipal development program in Nicaragua which will cover several areas. These include municipal finance, administration, institutional development, policymaking, planning and development, and socio-cultural development.

PRIVATE ASSISTANCE

The Ebert Foundation. The Ebert Foundation has promoted dialogue on the theme of decentralization through a series of seminars, in which sectors and levels of government have participated (including municipalities, municipal support institutions, and central government). In conducting these seminars, the Ebert Foundation has helped to develop a consensus on decentralization policy guidelines and concrete action plans that will promote municipal development. In the future, it plans to continue promoting this dialogue on several areas relevant to municipal development and particularly on municipal finance and areas of functional authority and competence.

EL SALVADOR

BILATERAL ASSISTANCE

USAID/El Salvador. USAID plays an important role in providing both technical assistance and financing to El Salvador's municipalities. In particular, the CONARA programs, which are funded by USAID, plays a key role in supporting municipal development. In addition, USAID provides support to COMURES and ISDEM.

The German Development Agency (GTZ). The GTZ has supported El Salvadorean municipalities for several years. Currently, it has an institution-building project to support ISDEM. Under pilot projects, it also works directly with a few municipalities (Juayúa, Nahuizalco, Salcoatitán and Santa Catarina Masahuat). It also manages a revolving fund (390,000 Marks) and loans that are channeled through ISDEM. Finally, it provided technical assistance in preparing the project on municipal law and COMURES statutes.

PRIVATE ASSISTANCE

The Adenauer Foundation. It provides assistance to municipalities through ISAM.

HONDURAS

BILATERAL ASSISTANCE

The USAID/RHUDO for Central America is engaged in a Municipal Development Project. Under this project, ICMA is providing technical assistance and training over a seven-year period (1991-1998).

MULTILATERAL ASSISTANCE

The IADB has supported a Municipal Development Program (820/SF-HO) that has the objective to provide assistance to 89 municipalities with populations between 10,000 and 80,000. In this capacity, it supports the Banco Municipal Autónomo (BANMA) under a four-year program with US\$13.5 million in financing, 90% of which is a loan (US\$12.1 million) and 10% of which is a non-reimbursable grant of in the amount of \$1.4 million. The grant funds are used to strengthen both BANMA and municipalities and to assist municipalities in preparing projects in collaboration with the Fondo Hondureño de Preinversión (FOHPREI). The loan funds are for physical infrastructure investments (such as roads and water systems), and carry a 2% annual interest rate with 10-year grace period and 40-year repayment plan.

The IADB is supporting a new \$50 million municipal development program with the Municipality of San Pedro Sula. US\$2.0 million is for institutional development, with the remainder to finance stormwater drainage, a bus terminal construction, sanitary sewers, and street construction and repair. The IADB is also planning to soon finance the updating of San Pedro's city plan, which is timely since it follows and complements the recent AID-financed San Pedro Sula assessment and strategy plan.

The United Nations Development Program (UNDP), along with IADB financing, is in the process of designing a new municipal development project to take effect in 1992. It is a global decentralization project that stresses the relationships of municipalities with central government. This is part of a larger ten-component Government Restructuring Project sponsored by the UNDP.

COSTA RICA

BILATERAL ASSISTANCE

USAID/Costa Rica. USAID has made major contributions over the past 15 to 20 years in municipal development. In that capacity, it has provided heavy support for IFAM in its work with municipalities even though current support from IFAM is diminishing. It is important to note that PL-480 credit money is channelled through IFAM.

The German Development Agency (GTZ). The German Government has provided strong municipal support in Costa Rica for many years. It supports the Union de Municipios Locales as well as conducts annual tours to Germany for municipal leaders.

Spanish Cooperation International (AECI). The Spanish Government program, through its Agencia Española de Cooperación Internacional (AECI), must be considered one of major leaders in municipal development in Central America. The AECI has made major contributions for several years in Costa Rica. In addition, it uses Costa Rica as its base for a municipal development program in Central America.

MULTILATERAL ASSISTANCE

Inter-American Development Bank. The IADB presently provides credit support to IFAM for its municipal development credit program. Specifically, it supports water and sewage treatment projects with as well as those related to municipal markets.

The World Bank. The Bank has several development projects in irrigation, water and sanitation that will be coordinated with municipalities. IFAM has also held discussions with the Bank regarding project design.

PRIVATE ASSISTANCE

The Neumann Foundation. It has sponsored several municipal and urban development studies and seminars. In Costa Rica, it works with the Asociación Nacional de Fomento Económico (ANFE), which provides workshops on administrative reform that are tangentially related to municipal development.

The Ebert Foundation. It has supported some recent municipal studies as well as provided forums for discussion on decentralization, urbanization, and administrative reforms in central government. In addition, it supports the Centro de Estudios Democráticos en América Latina (CEDAL), which provides seminars in municipal development.

PANAMA

BILATERAL ASSISTANCE

USAID/Panama. USAID previously carried out a Rural Municipal Development Project from 1976 to 1981 through a loan to the National Bank of Panama (Banco Nacional de Panama or "BNF") and its Fund for Municipal Development (Fondo para Desarrollo Municipal or "FODEM"). This project provided funds for a wide range of activities including wholesale and retail markets, water supply, transport facilities and electric power generation and distribution. It also conducted a municipal evaluation in 1982 in which USAID concluded that the impact of the aforementioned project on rural municipalities was enormous and that sub-projects resulted in the construction of slaughterhouses as well as service provision in garbage collection, water supply and sewage—all of which directly benefitted their populations.

MULTILATERAL ASSISTANCE

Inter-American Development Bank (IADB). The IADB worked with FODEM in 1979 to provide credit for municipal projects. However, the project was not very successful because of weak municipal administrative and technical expertise in designing and implementing municipal projects.

The World Bank. The World Bank provided a US\$15.0 million loan to invest in infrastructure for secondary cities from 1978 to 1983.

PRIVATE ASSISTANCE

The Adenauer Foundation. The Adenauer Foundation just provided a grant of approximately US\$300,000 to found the Instituto Panameño para la Democracia Municipal (IPDEM) for a period of one year.

ANNEX VII

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253

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LIST OF PERSONS INTERVIEWED

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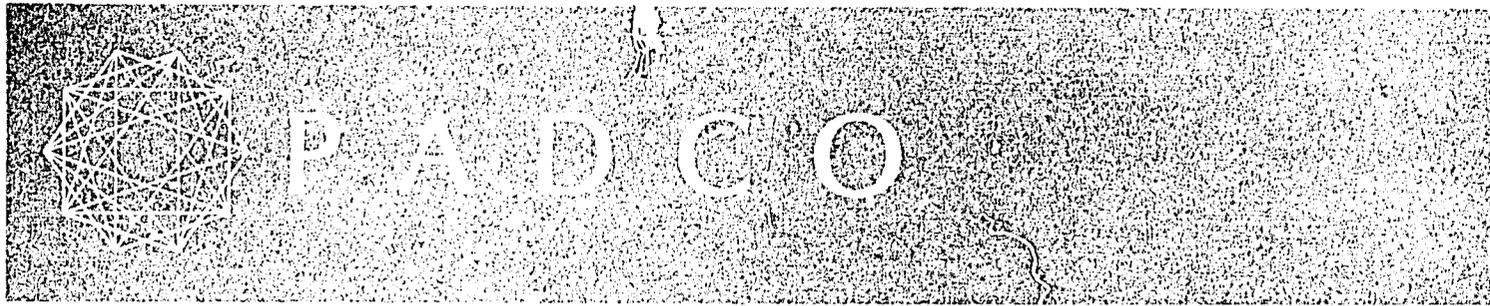
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PLANNING AND DEVELOPMENT CO-OPERATIVE INTERNATIONAL, INC.

REGIONAL MUNICIPAL SECTOR ASSESSMENT

FOR

CENTRAL AMERICA

FINAL REPORT

VOLUME II: PROPOSED STRATEGY

JUNE 1992

PROVIDES GOVERNMENTS AND PRIVATE CLIENTS IN DEVELOPING COUNTRIES WITH SERVICES IN PLANNING, MANAGEMENT, FINANCE, ECONOMICS AND TRAINING FOR URBAN, RURAL AND REGIONAL DEVELOPMENT

267

**REGIONAL MUNICIPAL SECTOR ASSESSMENT
FOR
CENTRAL AMERICA**

FINAL REPORT

VOLUME II: PROPOSED STRATEGY

**Prepared for
Regional Housing and Urban Programs Office (RHUDO/CA)
United States Agency for International Development (USAID)
Tegucigalpa, Honduras**

**Prepared by
Planning and Development Collaborative (PADCO, Inc.)
1012 N Street, NW
Washington, DC 20001**

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267

TABLE OF CONTENTS

I.	BACKGROUND	1
A.	US Policy Framework for Central America, 1991-2000	1
1.	AID'S Global Strategy and Targets	2
2.	AID'S Strategy Objectives: Relationship to Municipal Development	2
3.	Mission Decentralization and Municipal Development Initiatives	6
B.	Basic Characteristics of Decentralization and Municipal Development in Central America	7
1.	Democratic: Mandates, Government Structure and Participation	8
2.	Economic: Resource Mobilization and Utilization	10
3.	Regional Cooperation for Decentralization and Municipal Development	12
II.	PROPOSED REGIONAL STRATEGY FOR SUPPORTING DECENTRALIZATION AND MUNICIPAL DEVELOPMENT	13
A.	Basic Framework	13
1.	Major Goal and Strategic Objectives	13
2.	Proposed Strategies and Approaches	13
B.	Strategic Targets for Project Assistance	18
1.	Decentralization and Municipal Autonomy	18
2.	Local Participation and Representation	19
3.	Municipal and Community Empowerment	19
4.	Resource Mobilization and Utilization	20
C.	Project Implementation Strategy/Organization	21
1.	Regional Activities and Support through and for FEMICA	21
2.	Regional/Country Activities and Support through and for National Municipal Associations	23
3.	Specialized National Level Activities in Support of Bilateral Mission Programs	24

VOLUME II: PROPOSED STRATEGY

I. BACKGROUND

A. US POLICY FRAMEWORK FOR CENTRAL AMERICA, 1991-2000¹

Introduction: A New Central America, a New Challenge

Recent changes in Central America require a new U.S. economic assistance policy for the 1990s. Gradual but increased democratization in the region—symbolized in part by the fact that for the first time in history all countries in the region have democratically elected government—is but one of these recent changes. The renewed commitment among Central American Presidents for peace and democracy, sustainable economic growth and regional cooperation—as signified by the Esquipulas Accord and the 1990 Declarations of Antigua and Puntarenas—is another important change. Finally, economic improvements in the region, including improved GNP since 1987 and a growth in non-traditional exports, signify positive trends that can contribute to sustained growth.

To support these recent changes and the Declarations made by Central American Presidents, AID will focus on enhancing democracy, stimulating sustainable economic growth, and fostering regional cooperation. With respect to the democratization process, AID plans to increase its support for broader and deeper citizen participation in this process, for stronger local governments, and for improved judicial, legislative and electoral systems, as well as better managed public finance systems. With respect to growth, AID seeks to assist countries in the region in eliminating obstacles to and supporting improvements in private investment, trade and employment generation while seeking to protect the natural resource base and improve citizen participation in that growth. Finally, with respect to regional cooperation, AID plans to develop a regional framework that will encourage reforms to liberalize trade within the region as well as support regional institutions so as to achieve greater regional collaboration and self-sufficiency.

The U.S. has already begun to support these changes through its Enterprise for the Americas Initiative (EAI) and its complementary Partnership for Democracy and Development (PDD). The EAI is designed to bolster the democratic and market-oriented transition throughout Latin America by focusing on trade, investment and debt reduction. Meanwhile, the PDD encourages broad support from the international community for regional democratization and development. However, the new realities and opportunities require an entirely new framework and strategy to guide the overall process.

¹Source: "Economic Assistance Strategy for Central America: 1991-2000," AID: Washington, DC, January 1991.

265

In light of diminishing U.S. assistance levels, the challenge will be to sustain with limited funds these positive yet extremely fragile trends. This management challenge can be overcome only through more effective and efficient use of foreign assistance funds. To achieve this goal, AID will require a clearly defined regional framework and focused strategy.

1. AID'S GLOBAL STRATEGY AND TARGETS

AID's strategy for supporting a deepening of democratic processes and the achievement of rapid, broad-based, and sustainable economic growth is based on four basic premises. These include the previously highlighted shared vision for development, a need to link trade and investment with aid, a need to "realign" public (central vs. local government) and public-private sector responsibilities (e.g., with regard to infrastructure and service provision), and a future decline in U.S. foreign assistance in the region. Based on these premises, AID has formulated several basic principles—as outlined in the introduction—that will guide AID's development strategy in Central America during the 1990s.

Within this context, AID considers several democratic and socio-economic targets to be attainable. Among the democratic targets are two key ones related to municipal development and decentralization. These are: 1) increased administrative and financial authority of local governments (including the power to generate resources) while that of central bureaucracies will be decreased; and, 2) increased civic participation in the democratic process. Separate but related socio-economic targets include an annual regional economic growth rate of 5% by the year 2000, an increased private investment/GDP ratio from 13% to 19%, a growth of non-traditional exports, a decline in infant mortality rates to 37/1000, a virtual elimination of communicable diseases, and an increase in regional primary school completion to over 70%

2. AID'S STRATEGY OBJECTIVES: RELATIONSHIP TO MUNICIPAL DEVELOPMENT

Within this broad context, AID has identified strategy objectives or sub-strategies that constitute a three-part "democracy-growth-regional cooperation" strategy for the region. More specifically, these strategies are: 1) the development of stable democratic societies; 2) the achievement of broad-based, sustainable economic growth; and, 3) the attainment of effective regional cooperation. Each one of these strategies relate directly and indirectly to municipal development and decentralization, since these are key to the success of all these strategies.

a. Strategy for the Development of Stable Democratic Societies

Support for and development of stable democratic societies in Central America constitutes the leading edge of AID's three-part "democracy-growth-regional cooperation" strategy for the region. This strategy envisions a significantly expanded role in this area of field missions, including the Regional Office for Central America Programs (ROCAP). Working within the context of the USG country team, AID will work closely with other USG agencies to support nonpartisan efforts to deepen and consolidate indigenous

democratic institutions. AID will focus on technical assistance and training, investing in human resources and the strengthening of local institutions, and will include democratic initiatives in its policy agenda. As a result, this lead strategy is directly related to the strengthening of municipalities, communities and the decentralization process. While AID financial resources to support this strategy will also be complemented by those from other members of the donor community, the ultimate success will depend on the political will and popular expectations of Central Americans themselves.

AID's program strategy follows two broad areas of focus:

- Strengthening government institutions to be more responsive to citizens and more democratic in operation; and
- Promoting democratic values among citizens through greater participation and influence on non-governmental and educational institutions and a free and professional media.

Under these two broad areas, AID has identified a "ten-point" program for its strategy. This program covers several areas that are directly related to municipal development and decentralization, including electoral and administrative processes, government accountability and efficiency, and civic participation. It also covers areas that are indirectly related, such as those pertaining to the political party system, judicial and legislative systems, civilian vs. military control, and civil and human rights (including freedom of speech and of the press). With regard to the former directly related areas, AID's specific plans for promoting decentralization and municipal development are to:

Strengthen electoral processes and institutions

The objective is to support and strengthen national electoral management bodies to assure that they are independent and professional. In the 1990s, AID will continue to help foster free and open elections through the support for Center for Electoral Assistance and Promotion (CAPEL), which conducts research, widely distributes information about the electoral process, and provides networking activities and technical assistance to electoral courts and other institutions. Missions will seek to assist national electoral management bodies, including electoral boards and tribunals. Finally, policy dialogue will focus on the status of each national electoral process and its fair and non-partisan management.

Strengthen elected local and municipal governments through decentralization of authority and control over financial and human resources

Most Central American leaders now realize that centralized national bureaucracies limit the ability to deliver services. There is also a growing recognition that centralized bureaucratic power is often anti-democratic since it limits citizen participation in the development process and encourages paternalism. Central American countries are working to create more responsive locally-elected governments which provide greater opportunities for citizens to participate in and more directly influence the development process.

In this context, the program will foster the empowerment of local governments through support for: 1) revenue-sharing legislation; 2) electoral process reform; 3) development of

sound, equitable local tax bases and other local revenue sources; 4) strengthening local government capacity to respond to local priorities and deliver basic services; and, 5) other forms of municipal management training and technical assistance. AID will also explore ways to help Central Americans by strengthening local government decision-making processes, encouraging financial and administrative decentralization, strengthening local service delivery and maintenance capabilities, and enhancing local revenue generation and cost recovery capabilities. In developing, these programs, AID will foster complementary and/or co-financing proposals with the Inter-American Development Bank (IDB) and the World Bank (IBRD) to provide the required capital financing, with AID financing technical assistance and training.

Promote honesty and efficiency in government through transparency of decision-making processes and heightened accountability of civil service structures

This program will assist cooperating governments to assess their anti-corruption practices and procedures and support the design and implementation of financial management systems which improve the quality, reliability, timeliness and credibility of financial information in the decision-making process. Working with other donors, AID will also undertake broader sectoral administrative and policy interventions to help improve host government development administration.

Promote and strengthen pluralism and civic participation through non-governmental organizations and leadership training

The US has a long tradition of supporting non-governmental organizations (NGOs) in the region. Support has been provided to technical NGOs working in specific sectors, humanitarian organizations, research institutes, labor unions and employee associations, community and municipal associations, business groups, cooperative organizations, and other groups. The continued sponsorship of a broad range of NGO activities will remain an important area for AID financing during the 1990s. Of special note is the need to give attention to those civic groups and institutions working to assure citizen access to electoral, legislative, and judicial systems and helping people to acquire the knowledge, skills, and confidence needed for full participation in the democratic process. Accordingly, special consideration will be given to financing NGOs active in civic and voter education programs and programs to strengthen judicial systems. The NGO programs will also focus on civic education curricula in the primary schools in order to teach basic citizen participation skills in a democratic context.

b. Strategy for the Achievement of Broad-Based, Sustainable Economic Growth

The second AID "strategy objective" addresses several broad areas of focus. These areas underscore the interrelationship of macroeconomic policies, trade and investment initiatives, the promotion of access to jobs and social services for the disadvantaged, and the conservation and proper management of the environment. Municipal/community development and decentralization are key to this strategy because they are becoming

increasingly necessary in light of, on the one hand, an extremely competitive global economy that requires greater local economic strategizing and marketing, and on the other, the shortcomings of centralized governments to adequately respond to local needs (economic, financial, physical and environmental) or to promote local citizen participation.

Municipal and community development are thus critical to mobilize resources, strategically plan for local economic development, adequately provide for local service and infrastructure needs, provide citizens with the means to participate in government and economic growth, and provide the local involvement and oversight needed for environment and natural resource management and protection. While central governments will continue to possess greater competencies for certain types of development programs, coordination and supervision (particularly at the regional and national levels), municipalities will need to play an increasingly important role for all of the reasons stated above.

The specific AID programs under this strategy that most directly relate to municipal development and decentralization are those pertaining to fiscal system reform, infrastructure investment programming, social service provision (including health and education), environmental protection and urban pollution control, and employment generation programs for disadvantaged groups. With greater local financial autonomy, increased governmental transfers to the local government, and greater community-wide resource mobilization, municipal governments will be better equipped to address all of these man-made, environmental and economic needs. Clearly, improved human and technological resources—through training, technical assistance, and technology transfers—will have to accompany these increased financial resources for municipalities to be able to effectively provide for their communities. In addition, municipalities will need to recognize the importance of trade and investment for their strategic economic planning, given that in both developed and developing countries, it is becoming increasingly necessary for cities to formulate incentive packages that attract the increasingly "footloose" and "far-flung" operations of foreign investors. They will also need to recognize the importance of promoting greater linkages of those foreign investors with their local economy for that investment to have long-term positive impacts. All of these factors, in which municipalities and communities play a key role, will be necessary for a *sustainable and broad-based* economic growth strategy.

c. Strategy for the Attainment of Effective Regional Cooperation

The third and final AID strategy objective pertains to effective regional cooperation that directly relates to the first two objectives of the development of democratic societies and the achievement of sustainable and broad-based economic growth. The key word in this strategy is *effective*, which implies three critical phases of that cooperation: 1) "information-sharing" with education of the actors involved; 2) coordination of policies and activities; and, 3) implementation of that learning process and coordination in the forms of programs and projects, given that without tangible results, any such regional cooperative could not be considered *effective*.

To achieve such effective cooperation and ultimately well-coordinated programs, AID seeks to strengthen regional institutions, which constitute the *vehicles* through which Central

American countries will engage in that process and ultimately achieve effective cooperation. The question remains, however, what are those vehicles? While a plethora of regional institutions exist in every sector, what is required are inter-sectoral or coordinated regional institutions that, at the same time, can be sustainable and are broad-based. These characteristics highlight the very role that both municipalities and communities are increasingly playing—at a regional and institutional level. The vehicles are regional municipal associations and development institutes, on the one hand, and regionally based community organizations and NGOs, on the other. The Federación Municipal del Istmo Centroamericano (FEMICA), while a young municipal association, can serve in this capacity as can regionally based community and NGO organizations. While other regional institutions can and will need to play a role, the participation of such regionally based municipal and community organizations will be critical to achieve a sustainable, broad-based and democratic development.

At the same time, AID Missions play a key role in this process since agenda building and the formulation of specialized programs will to a large extent accrue to them. They will require a well-coordinated regional strategy for the context in which they will design and implement programs so that AID programs will not only be coherent but cost effective. To that end, AID missions will require technical assistance in the implications of both the broader strategy and their specific programs. The Missions will then, in turn, be able to develop well-coordinated programs within their respective countries.

3. MISSION DECENTRALIZATION AND MUNICIPAL DEVELOPMENT INITIATIVES

United States Regional Housing and Urban Development Office (RHUDO), the sponsor of this study, has recently played a strong role in supporting regional municipal development programs in Honduras, Guatemala, and El Salvador, Nicaragua and Costa Rica. In addition, *United States AID Missions* to Honduras, El Salvador, and Nicaragua have bilateral municipal development programs.

- **In Guatemala**, AID has just finalized a brief study on municipal development that will serve to define future collaboration in the sector. In addition, and with the assistance of INCAE, AID has conducted a series of seminars with Guatemalan mayors, in which the various aspects of decentralization have been carefully reviewed. Finally, AID has initiated a training program in the U.S. for 180 elected and non-elected officials.
- **In El Salvador**, AID has important programs that provide direct capital assistance to municipalities, institution building assistance to the Salvadorean Institute for Municipal Development (ISDEM), to city councils throughout the Republic and to the Inter-Institutional Coordinating Committee for Municipal Development (CCDM).
- **In Nicaragua**, AID sponsored a study on municipal development to help identify the areas in which AID could assist Nicaraguan municipalities and is providing support to the Inter-Institutional Committee for Municipal Development and Decentralization (CIDMD).
- **In Honduras**, AID has been engaged for more than a year with an ambitious technical assistance program for municipal development, which is also being supported by some training activities in the country.

Finally, on the regional level, AID conducted a regional seminar on municipal development in late 1991 in which mayors throughout the region participated. This seminar culminated in the formulation of principles and action statements for municipalities, known as the "Declaration of Tegucigalpa" and consolidated support for the regional municipal association, "FEMICA" (the Federación Municipal del Istmo Centroamericana). In addition, AID makes a significant contribution to the municipal development process through the framework, information base, and strategy plan provided through this document. Moreover, AID continually offers the regional municipal system specialized publications to promote the municipal development and decentralization process.

B. BASIC CHARACTERISTICS OF DECENTRALIZATION AND MUNICIPAL DEVELOPMENT IN CENTRAL AMERICA

Context

Central American countries are gradually emerging from the problems of the last decade, as represented by positive growth rates and increases in non-traditional exports, but still continue to be challenged by unfavorable trade arrangement and difficult economic conditions. In response, Central American Countries have embarked on a series of policy reforms designed to open up their economies, reassess integration movements to modernize their productive capacity through private sector development, and to engage in public sector reforms that will dismantle the old statist and centralized framework. Key among these reforms are administrative reforms and decentralization efforts that will aid governments in the region to respond more effectively to the needs of their respective populations. However, such reforms are linked to and circumscribed by economic and stabilization programs in each country, which necessarily reduce government expenditures on the very programs that such reforms and decentralization efforts advocate. The ultimate challenge is to balance the opposing demands of expenditure and deficit reduction, on the one hand, and meeting basic human needs on the other. The limitation of national governments in balancing these opposing demands underscores the need for resource mobilization and service provision at the local level. However, at the same time, local governments are limited, by both financial and human resources, in their ability to respond.

Not only are municipalities limited in their ability to respond; they are not all equal in terms of their ability to respond, either. This is due to different population sizes and hence resources as well as to where these municipalities are geographically situated in terms of the larger urban and regional structures. With regard to the former, only 1.5% of the 1,170 municipalities in the region have more than 100,000 inhabitants; the vast majority (or 72%) have populations of 20,000 or less. With regard to the latter, some capital cities possess a sphere of influence that extends beyond their national borders (such as Panama City and Guatemala City), while others—such as Tegucigalpa—do not even count their whole country within their sphere of influence. All capital cities in the region are continuing to expand and broaden their already dominant spheres of influence. Meanwhile, secondary cities, which are growing and hold potential for the future, are still largely dependent on their proximity to capital cities or major roads, such as the Pan-American Highway. They also do not possess either the financial and technical resources that larger cities possess, limiting their ability

to respond to local needs. Finally, many cities—particularly primary and secondary cities—are increasingly faced with growing informal populations that impose increased demands of the public service systems but which do not have the resources to pay for those services or infrastructure investments. All of these factors limit municipalities, to varying degrees and in varying manners throughout the region, in their ability to respond to local needs.

The above underscores the increased need for municipalities to play a larger role in development yet, at the same time, the resource limitations among municipalities to do so. As a result, democratization, municipal development and decentralization must be focused not only on granting and assigning municipalities greater authority, responsibility and autonomy, but—equally important—the resources with which to carry out their new roles and responsibilities. Moreover, these resource needs are not only financial but also technical and institutional as well. Finally, since citizen participation is essential to democratization and municipal development, support is needed simultaneously for supporting public as well as private institutions.

Characteristics

Municipal characteristics can be easily understood in the terms laid out by AID's Strategy for the 1990s. With respect to supporting the development of stable democratic societies, the characteristics related to municipal mandates, elections, government structure and participation are all critical. With respect to sustainable and broad-based economic growth, financial and human resource mobilization are key. Finally, with respect to regional cooperation, a regional municipal and community support organizations are essential.

1. DEMOCRATIC: MANDATES, GOVERNMENT STRUCTURE AND PARTICIPATION

a. Mandates

The concentration of powers in the central governments of the region is quite strong despite some recent and promising possibilities for decentralization. Although the constitution and municipal codes in five of the countries mandate municipal autonomy and self-government (with Panama being the exception), a series of specific laws and decrees contradict and actually reduce municipal government powers. To make matters worse, national decentralization policies directed to remedy this situation are generally limited in scope and coherency. Finally, the heterogeneity among municipalities make common policies, planning and program difficult to formulate and implement. These realities require national decentralization policies, laws and decrees that together clearly specify the authority, competencies and resources to be transferred from the national to the local level.

b. Elections and Government Structure

The role of municipalities in Central American democratization and political representation is key, given that the municipal level is the only level (other than the national one) where political representatives are elected, with the exception of Panama where the

President still appoints mayors. As a result, both the municipal election process and subsequent government structure, including participatory mechanisms (as further described below) are critical. With regard to elections, some of the most pressing needs are the universal election of mayors, direct local vote, and reduced influence from national politics and elections (through, for example, separate local elections). With regard to government structure, the forms of government are not so critical since all have their advantages and disadvantages, but rather the technical, financial and administrative capacity of those governments as well as meaningful and effective methods for community participation in the public planning, decisionmaking, implementation and evaluation processes. In other words, local government needs better knowledge and resources as well as to become more aware of and responsive to local needs.

c. Participation

True democratization requires that participation and empowerment must be understood on two levels. First, municipalities must be able to effectively participate in government at the national level and, as such, have access to the representation, leverage and resources required to do so. Second, communities (i.e., citizens) must similarly be able to effectively participate in government at the municipal level, but also at the national level. Essentially, both groups require representation, voice and power at the local and national levels.

Municipal Participation

Municipal participation, representation and support takes the form of two different types of institutions: municipal associations and municipal development institutes. The reality in Central America is that these institutions provide these needed functions in a very limited fashion. Municipal associations, where they do exist, are extremely weak or have had repeated failures throughout the region. This is due to the difficulty they have in sustaining themselves over the long term due to a lack of resources or limited support from municipalities, national government and external donors. While municipal development institutes provide relatively good support in technical assistance, training and financing, they often do so without a clear framework or strategic municipal development plan. In addition, these institutes are often controlled and financed by central authorities, limiting municipal self-determination and participation in their own development process. Finally, the activities of these institutes are not well coordinated with the complementary and sometimes duplicated role of associations. As a result, an education process is required so that municipalities, national governments and external donors alike become more aware of the support system that municipalities need. Second, more coherent democratization and decentralization strategies are needed. Finally, municipal mobilization and institution building will be required to assure the long-term viability of these organizations.

Community Participation

Community participation can and does occur in two separate arenas. First, communities can in theory participate in government assessments, planning, decisionmaking, project implementation and evaluations. Second, communities can participate in their own self-help activities that are entirely or relatively independent from government-funded or directed programs. As a result, community participation can and must be supported from two sides. On the one hand, communities must organize themselves in order to be able to meaningfully participate. On the other hand, governments must learn how, encourage and/or be required to engage in community participation.

In reality, traditional forms of community participation in the public sector of Central America are substantially more limited than participation in self-help community activities. The traditional forms of participation include the electoral process, open town meetings (cabildos abiertos), citizen in-kind contributions to (manual labor for) public works projects, and Ministry-community projects. Alternatively, participation in self-help community activities is extensive and more "meaningful" since it generally involves community participation in all the stages of the development process, not just in "information gathering" and project execution. Particularly important in this process are, not just local community organizations but also their second and third-tier representatives (i.e., associations, federations and networks) as well as representative/supporting domestic NGOs and their respective second and third-tier representatives. These broader-scale supporting organizations, along with the myriad of public and private international donors funding them, are an integral component to the community participation and empowerment process, both for self-help activities as well as towards ultimately enhancing that participation in the public sector.

The existing situation in the region suggests that community participation and empowerment must be encouraged in both the public and private sectors. In the public sector, more democratization, openness, and community involvement are required to better allow and support community empowerment, representation and participation in those decisions and actions that directly impact the community. The ultimate legitimization of local government will require them to define and utilize participatory systems as well as mobilize their communities. In the private sector, increased support for and building upon community organizations as well as NGO and NGO federations is necessary to improve community leverage, organization access to resources, participation and, ultimately, empowerment. That support should be accompanied by programs and projects with economic ends given that leverage appears to be linked with or enhanced by economic gains. However, increased support for such organization strengthening should be preceded by more research on and a better understanding of such organizations on a country-by-country basis.

2. ECONOMIC: RESOURCE MOBILIZATION AND UTILIZATION

a. Fiscal Base and Financial Management

In each of the five countries of the region, the national constitution proclaims the "autonomy" of each municipal government and its right to provide a full range of public services to its residents. But the realities of constrained local resources and the intervention

of central government agencies and institutions to provide basic local services too often make a mockery of high-sounding constitutional provisions.

As a result, extreme scarcity of revenue available to support the recurrent budget is common throughout the region while capital revenue conditions vary widely. Only a very limited range of taxes is available to municipalities and, even when a municipality is allowed to levy a tax, its rate and most other features—such as the tax base—are often subject to delay or denial by national government. Real estate taxes—the basis for local finance in most industrialized countries—are weak or non-existent in Central America, with the principal exception of Costa Rica where the tax is levied on a national basis. Making the situation worse, most municipalities are unable or unwilling to collect even those limited taxes and service charges they are allowed to levy. Inter-governmental transfers, while substantial in Guatemala and Honduras, are extremely limited or non-existent in the other countries.

As a result, municipalities can finance only a restricted range of public services. For the most part, local governments provide only refuse collection, street repair and lighting, plus some revenue-producing functions, such as markets, slaughter-houses, and bus terminals. The major exception is in Guatemala, where water supply and sewerage are municipal functions. Also, there are specific exceptions in other countries, particularly in the capital cities.

The resulting needs are three-fold. First, local resource mobilization must be improved through, for example, upgrading of the tax collection and cost recovery systems, expanding local tax authority and credit availability, and fostering information exchanges among municipalities and countries on different financing mechanisms. Second, the fiscal base for decentralization must be improved by, for example, making revenue-raising authority permanent, altering and/or limiting the role of national fiscal "monitors," and upgrading municipal financial management capabilities. Finally, intergovernmental transfers need to be expanded and improved. This can be achieved by introducing national revenue-sharing where it does not now exist or improving it where it does exist (through revised distribution formulas and levels), conforming revenue-sharing to strategic economic objectives that are proportional to municipal size and growth potential, and removing unnecessary and inefficient rules for revenue-sharing.

b. Human Resource Development

The lack of municipal staff capacity throughout Central America is one of the major constraints to the efficiency and effectiveness of local development activities. The scale of technical assistance and training required is enormous, yet most of the countries do not have the institutional capacity in place to provide systematic, timely and relevant technical assistance and training to municipalities.

Central government ministries and autonomous institutions provide some informal, non-planned, direct technical assistance to municipal governments. Formal technical assistance is provided by the technical staff of national municipal institutes. However, for the most part, this assistance is paid for indirectly by the municipalities through commissions for

credit lines or loans. Municipal institutes sometimes contract for technical assistance with national consulting firms—mostly for feasibility studies. Larger municipalities have the technical and financial capacity to contract their own technical assistance and do so, sometimes, with international financing.

There are reasonable levels of municipal training in Guatemala, Honduras, Costa Rica and El Salvador; lower levels in Nicaragua; and very low levels in Panama. Most municipal development training is supported by international donor agencies. Some of this training focuses on local development policies and planning, but most is targeted to improve internal efficiency (i.e., public administration, accounting and budgeting, etc.) with less emphasis on external efficiency. Two regional institutions, ICAP and INCAE, have been providing training to municipalities in recent years.

In summary, the absence of national institutional technical assistance and training capacity as well as the lack of systematic policies and strategies to guide the effective and systematic utilization of limited resources are major constraints to the decentralization and municipal development process.

3. REGIONAL COOPERATION FOR DECENTRALIZATION AND MUNICIPAL DEVELOPMENT

With the possible exception of the recent (but limited) efforts of USAID/RHUDO and AECI and FEMICA, regional cooperation in support of the democratization, decentralization and municipal development is almost non-existent. Information sharing, the coordination of policies and activities and the implementation of a regional learning process coordinated in the form of programs and projects is thus far woefully ineffective.

II. PROPOSED REGIONAL STRATEGY FOR SUPPORTING DECENTRALIZATION AND MUNICIPAL DEVELOPMENT

The proposed regional strategy takes into account inputs from field research, preliminary ROCAP/RHUDO project design documents, inputs from USAID Missions in Central America and the consultants' assessment of these issues. These are put into a coherent strategy and indicative project implementation/organization strategy. The proposed regional strategy and project does not substitute nor compete with bilateral mission programs but rather complements and reinforces these or sets the basis for supporting democratization, decentralization and municipal development processes in those countries without programs.

A. BASIC FRAMEWORK

This section describes the Basic Framework proposed to guide the design and implementation of regional/strategies and program/project activities.

1. MAJOR GOAL AND STRATEGIC OBJECTIVES

The goal is to develop stable democratic societies in Central America through decentralization and the creation of local capability and commitment to respond democratically and effectively to development needs. The proposed strategic objectives are:

- To transfer authority, responsibilities and resources from central to local governments and to consolidate the political, administrative and financial autonomy of municipal governments.
- To strengthen citizen participation and representation in the municipal government and in local development activities.
- To strengthen municipal administrative, financial and technical capacity in support of decentralization and municipal development.
- To strengthen the capacity and effective participation of existing intermediary support institutions in the public and private sectors (i.e., municipal associations, municipal institutions, national inter-institutional committees and NGOs) in the decentralization and local development process.

2. PROPOSED STRATEGIES AND APPROACHES

The achievement of the above strategic objectives will be a difficult and complex undertaking and must be understood as a long-term process. While many commonalities characterize the situation of municipalists in Central America, each country faces particular policy and institution constraints which must be considered. This is equally true for the AID Missions in each country. In order to be effective, a regional program and strategy must address not only the substantive issues but also the "process" and "structures" through which democratization, decentralization and municipal development can and need take place. The latter is, quite simply, the institutional structures required to support the process in a coherent fashion at the regional level and to implement it at the national and local levels. Project support must be provided not only for regional/national consensus building and

agenda development but also for the design, organization and implementation of those priority actions which can provide tangible results and benefits.

The following strategies and approaches to implementation are proposed:

a. The Design and Utilization of a Conceptual Framework as a Planning and Managing Tool

At the regional level in Central America, a coherent framework and development strategy is required for well-coordinated and effective democratization, decentralization and municipal development programs. **Volume I** offers such a framework, the basic premise of which is that municipal governments, as permanent institutions with elected representatives, are closest to the people and can (ultimately) be more responsive to local needs while increasing citizen participation in development decision-making and providing better access for the redress of grievances. The foundation for this framework is 1) decentralization and municipal autonomy; 2) local participation and representation; 3) municipal capacity and fiscal base; and, 4) municipal and community empowerment. This preliminary framework provides the preliminary basis to ensure the coherence and clarity of both regional and country strategies.

This framework should be reviewed, further developed and utilized to assess existing conditions, to formulate and select action strategies and programs, and to monitor and evaluate implementation.

b. The Establishment of Functional Linkages and Networks Among Municipalities at the National, Regional and International Levels

The effective representation of municipal interests and perspectives in regional policy formulation and technical management and coordination is considered essential to the success of the project. For that reason, the Federación Municipal del Istmo Centroamericano (FEMICA) should be considered as a primary regional counterpart. Its objectives and activities reflect the clear intention to represent and strengthen national municipal associations and to lobby for and promote common municipal issues, channeling information and conducting research and studies that insert the municipal sector into the national policies, strategies and activities. FEMICA has the full support of national municipal associations and offers strong potential to support the establishment of functional linkages and networks at the national, regional and international levels in support of regional strategy and project implementation.

FEMICA, together with the national municipal associations, should participate actively in policy formulation and technical management and coordination of policy and institutional development dialogue and agenda development. The purpose is to progressively place these associations at the forefront of the decentralization and municipal development movement at the national and regional levels, while simultaneously strengthening their capacity to provide effective leadership and direction.

c. The Systematic Promotion of Decentralization Policy Dialogue and Agenda Development and Implementation at the Regional and National Levels

The systematic and integral use of research, publications, training and technical assistance will be required to promote and support decentralization and municipal development dialogue, agenda development and implementation.

An initial series of regional and national policy dialogue seminars and workshops should be used to network with and to build broad awareness, understanding and consensus among the principal municipal development actors (including the municipalities and their associations, national inter-institutional committees, NGOs and community organizations), related to the key elements and requirements of the democratization, decentralization and municipal development process. The conceptual framework can initially be used to foster such discussions.

Technical papers should be prepared that spell out the issues related to the key elements of the framework. This documentation and the findings of participants should be published and disseminated widely at the regional and national levels. Subsequent seminars and workshops would be used to coordinate policy development, to generate strategies and action plans to mobilize opinion and support. Both training and technical assistance should be utilized to support the implementation of the priority policy, strategy and institutional development agendas at both the regional and national levels. Mission policymakers and management should also be key participants in these efforts.

Research and publication is required to reiterate the same basic themes in their various aspects. Diffusion of technical papers is considered critical to an estimated 10,000 principal actors in the region. Their purpose is to expand coverage in order to change perceptions, values and to mobilize opinion and support. For this reason, the research-publication cycle must be continuous. (The continued effort needed to "move" national and regional leaders to adjust information, attitudes and finally practice on such concepts as structural adjustment, non-traditional export promotion and open economies is an important example.)

d. Promote and Provide Systematic Support for Community and NGO Participation

An effective regional and/or national strategy for supporting more meaningful community and NGO participation in development should target three key objectives: 1) to educate municipalities and hold them accountable for their actions insofar as community participation is concerned; 2) encourage and demonstrate productive public-private interface; and 3) strengthen the role of community organizations and NGOs in the participatory process through education, empowerment and assuming greater responsibility in development. As previously mentioned, typical community organizations include voluntary and primary groups (that usually are not legally recognized), development organizations, think tanks (research organizations), associations, cooperatives, unions (sindicatos), professional/trade associations (gremios) and businesses, societies, federations, and foundations. Also

common but more within the quasi-governmental spectrum are local and community boards (juntas locales or juntas comunales), development associations, patronatos and committees.

Municipal education should be commenced ***and municipal accountability*** should be instituted insofar as the importance, appropriate context (i.e., framework), timing (i.e., at all stages of the development process), and mechanisms for encouraging and engaging in meaningful community participation are concerned. The role of this two-part objective and related activities should always be directly tied to both democratic development and overall resource mobilization in order to assist municipalities in understanding the benefits of supporting such participation. This education should also assist municipalities in understanding the roles of community groups vs. NGOs as well as the significance of their respective second- and third-tier organizations. Such organizations include national "member" and "advocate" community organizations (e.g., ASINDES in Guatemala and regionally-based ones such as the "concertación Centroamericano de Organismos de Desarrollo" and its associated "networks." These organizations correspond to (and should also collaborate with) higher level municipal associations and development institutes. In terms of accountability, legislative/ regulatory changes as well as an independent monitoring system should be instituted in order to assure that this education is effective (i.e., actually implemented). A public-private board composed of higher level community, NGO and municipal organizations should also be considered to assist in this effort.

Meaningful ***public-private (municipality-community) interface*** should be immediately and continuously supported, beginning with improved dialogue at the national and local levels that is educational and product-oriented (i.e., resulting in specific development legislation, objectives and/or projects to address real and pressing problems that transcend political differences). This is particularly critical in countries where certain groups are not fully participating or feel alienated from the political and/or economic system. Again, at the national levels, this dialogue could and should occur among higher-level community, NGO and municipal organizations. Where the interface is between central government and the community such that it sometimes excludes the municipality (as in the case of Costa Rica), tri-partite discussions (among central government, the municipality and the community) are necessary. At the local level, such dialogue implies improved and more meaningful open town meetings (cabildos abiertos). Hence, steps should be taken to improve such town meetings. Since the frequency and meaningfulness of such town meetings may depend on local requirements for such meetings, these should be connected to the accountability system that is also needed for effective municipal education.

Finally, community groups and NGOs should be supported and strengthened through ***education, empowerment and increased responsibility in the development process***. Just as for municipalities, community and NGO education is critical insofar as the importance, context, timing and mechanisms for their participation in public sector activities. Community groups and NGOs should be educated on not only on how this participation will improve their conditions and address their concerns but also on how it will improve the municipality as a whole. Since empowerment implies greater responsibility, these private groups will need to become more aware of municipal realities and obstacles as well as assume greater responsibility for overall municipal development (including those related to municipal accountability). In other words, community groups and NGOs must engage in a process of

not only education and empowerment but also in "co-gestión" (co-development) and "co-responsabilidad" (co-responsibility).

To these ends, the regional project should support the efforts of AID Missions to provide support to communities and NGOs in order to help them build and strengthen their respective support organizations (first-, second- and third-tier) as well as to engage in their own development activities, whether these are service, infrastructure, housing, environmental or productive (i.e., income-generating) projects. Since communities and NGOs not only possess their own resources and ability to self-finance activities but also often have access to substantial resources from external donors, they should be supported in order to assist them in better utilizing those resources, both independently and in coordination with local government. The focus in supporting such community groups and NGOs should be on increasing and improving citizen participation in those groups as well as organizational representation (including legal status), political and economic leverage (including economies of scale), and access to resources (encompassing financing, TA and training), and public-private linkages or interface. Since the key to the long-term sustainment of such organizations is a sustainable economic base, support for such organizations should be connected, as much as possible, to productive activities.

e. The Formulation and Implementation of Technical Assistance and Training Strategies

Substantial improvements will be required in the formulation and implementation of technical assistance and training strategies in support of democratization, decentralization and municipal development. The Regional Municipal Development Project should seek to remedy this constraint by involving the national municipal development institutes and other relevant national and regional training institutions fully in the ongoing regional decentralization policy dialogue. The purpose is to promote the integral formulation of supportive policies and strategies and the financial and human technical resources required to meet needs.

A related effort should be targeted to the development of priority training programs and materials to meet some of the common generic training requirements in areas such as community participation, municipal financial management and annual planning and budgeting, etc. This effort should be carried out in conjunction with those national and regional institutions that are responsible for training in order to build upon and strengthen existing programs and materials. Trainers from these institutions would be trained in the use and adaptation of such generic training programs and materials.

f. Regional and International Networking and Resource Mobilization

The research, training and technical assistance capacity of regional institutions (i.e. INCAE, ICAP, NGOs, etc.) should be mobilized and utilized to support strategy and program development and implementation activities. The effective integration of such institutions will not only be cost effective but will set the firm basis for the provision of sustained support by such institutions over the longer term. Networks should be established with

individuals and institutions at the regional and international levels that can contribute experience and resources, These might include municipal associations, such as ICMA and IULA, and representatives of international donor agencies. The purpose is to build the consensus, commitment and support which will be required to support the process over the short-, medium- and longer-term. The identification of those permanent institutional mechanisms which will be required to support municipal development on a sustainable basis should be an integral part of these efforts.

g. The Active Participation of AID Missions in Policy Formulation and Technical Management and Coordination

AID Missions should play a key role in regional/national agenda formulation and in coordination of technical activities in their countries. This will ensure that regional strategies and activities reinforce and strengthen their bilateral activities. It will also provide the firm basis for the provision of research, technical assistance and training to the Missions to complement and support their specific policies and program agendas.

B. STRATEGIC TARGETS FOR PROJECT ASSISTANCE

The Regional Municipal Development Project will fund six discrete activities to achieve its objectives: 1) Analysis, research and design; 2) Seminars and workshops; 3) Training and publications; 4) Networking; 5) A communications program; and, 6) Work with regional institutions. The previous section proposed key strategies and approaches for integrating and systematically utilizing these inputs. This section concisely summarizes the findings from Volume One and simultaneously identifies the strategic substantive issues that should be targeted by project assistance.

1. DECENTRALIZATION AND MUNICIPAL AUTONOMY

The term "decentralization" can include a number of distinct and conflicting concepts since one can move away from "centralization" in a variety of different ways. In order to remedy the current limitations and lack of coherency of decentralization policies and programs, the project should promote the formulation and implementation of:

- The identification and revision of central government laws, policies and regulations that conflict with municipal mandates or impede decentralization efforts.
- Decentralization policies that explicitly specify the areas of authority, responsibilities and resources to be transferred from the national to local level. These must clarify the responsibilities that are strictly municipal, strictly national and shared, taking into account municipal size and capacity.
- Decentralization strategies that target scarce financial, technical and human resources on cities and regions of strategic importance to economic growth, and that are appropriate to the size and growth potential of the municipalities in which they are implemented. Supportive technical assistance and training strategies must be formulated and similarly targeted.

2. LOCAL PARTICIPATION AND REPRESENTATION

The quality of citizen representation in the municipal government and its participation in the development of the municipality is of paramount concern. The project should therefore promote and support:

- Electoral reforms which make municipal elections direct and universal, separate from national elections. These should: provide for proportional representation and permit the participation of groups not affiliated with political parties.
- Systems and processes of local governance that are transparent, ensure accountability and promote and incorporate community participation at all stages of local development planning and implementation.
- Increased support for and building upon community organizations as well as NGOs and their federations in order to leverage community organization and access to resources and participation.
- Support for civic and voter education programs and organizations actively promoting the same.

3. MUNICIPAL AND COMMUNITY EMPOWERMENT

It is important to support a larger institutional and policy framework that can sustain the decentralization and municipal development process over the long term. On the one hand, the framework and strategy must focus on the goals of "congestión" and "co-responsabilidad." On the other, the project implementation process will need to promote and support the integral participation and strengthening of *intermediary* support institutions in the public and private sectors, including:

- Municipal associations at the regional and national levels;
- National municipal development institutes;
- Community organizations, federations and NGOs at the national and regional levels.

These intermediary institutions provide a means for municipalities and communities to effectively participate in their own development through: increased and improved leverage, representation, resource mobilization, economies of scale, and access to technical assistance and training. To effectively support these institutions and their members' participation and empowerment, reforms are needed to:

- a. Define and coordinate the roles of associations and institutes.
- b. Assist municipalities in their efforts to organize and mobilize themselves through associations and institutes.
- c. Provide TA and training to municipalities and their respective support organizations (associations and institutes) so that coherent decentralization and democratization programs can be effected. This TA and training should focus on both how municipalities and communities can effectively participate in their own development. The former

includes municipal leverage and representation while the later includes improvements in the municipal electoral, planning, decisionmaking, implementation and evaluation process.

- d. Improve the capacity of municipalities to not only assume and more effectively execute responsibilities and to effectively involve and share those responsibilities with communities.
- e. Assist and train municipalities through their support organizations to effectively and efficiently mobilize technical and financial resources.
- f. Establish the means for on-going research and evaluation for communities:
 - 1) Provide TA and training to community organizations on how they can share responsibility for development, more effectively participate, be represented and hold government accountable for its actions.
 - 2) Support the "institution building" process of community organizations so that they can more effectively participate.
 - 3) Support and improve public-private collaboration and participation through product-oriented "encuentros" (that transcend political differences) and pilot or demonstration projects.

4. RESOURCE MOBILIZATION AND UTILIZATION

Existing limited municipal administrative, financial and technical capacity is, perhaps, the major constraint to effective decentralization and municipal development. Sufficient financial resources must be available to support municipal autonomy and the transfer of service responsibilities. Municipal administrative and technical capacity must be strengthened in order to effectively and efficiently carry out new responsibilities. The project must, therefore, promote and support the formulation and implementation of policies, strategies and programs that:

- Strengthen the fiscal basis for decentralization by making revenue authority permanent and altering the role of national monitors.
- Strengthen municipal financial capacity through: 1) improvements in local resource mobilization (tax collection and cost recovery); 2) expansion of local tax authority and credit availability; 3) municipal financial autonomy over income and expenditures; 4) improvements in municipal financial management capacity; and, 5) expansion and improvement of national revenue sharing systems, objectives and distribution formulas.
- Strengthen the institutional capacity for the provision of technical assistance and training as well as information exchange as an integral part of decentralization and municipal development implementation strategies.

C. PROJECT IMPLEMENTATION STRATEGY/ORGANIZATION

The proposed project implementation strategy emphasizes planning and implementing project activities in a manner which supports and strengthens the capacity of regional and national municipal associations to organize and manage the promotion of democratization, decentralization and municipal development in the region long-term. It is anticipated that the project will engage personnel and institutional contractors who will provide all or most of the long-term and short-term technical assistance and training services required to implement the project. Whatever contracting mechanisms are selected, it is recommended that such services be provided, primarily, through and for FEMICA and the national municipal associations. The exception to this implementation strategy would be specialized analysis, research and design activities carried out in direct support of the bilateral missions.

The project implementation/organization strategy operates at three levels: 1) Regional activities and support through and for FEMICA; 2) Regional/country activities and support through and for national municipal associations; and, 3) Specialized national level activities in support of bilateral mission programs.

1. REGIONAL ACTIVITIES AND SUPPORT THROUGH AND FOR FEMICA

The majority of project activities will be implemented through this component. The purpose is to have FEMICA sponsor and/or implement various project activities. This will allow this new institution to gain experience, prestige, and support project activities needed in the region. This is not an "institution building" *per se* but it will have this residual effect.

There is a need to establish FEMICA as a viable organization. This requires a permanent location and permanent regional staff, perhaps through staff seconded from national municipal associations or institutes in Central America. FEMICA could then begin to develop a series of activities as part of a regional strategy. FEMICA is used partially to strengthen it as an institution but, at the same time, to facilitate and promote regional level actions. Activities will have to be planned sequentially and within the scope of FEMICA's capability.

a. Research Studies at Regional Level

Regional studies are required in areas where they now do not exist and in areas of constraints identified in the assessment. These studies will be used for networking and seminars. Preliminary studies might include:

- Patterns and Contradictions in Decentralization Policies and Municipal Mandates in Central America;
- Participatory Systems of Local Governance and Representation;
- Fiscal and Resource Mobilization Approaches;
- In-depth Assessment of Community Participation Programs and Mechanisms;
- Support Potential of Community Organizations and NGOS; and,
- Public Choice, Decentralization, Contracting Out as Means for Municipal Development.

255

b. Publications at Regional Level

The research studies, technical papers, and other materials would be published. There are an estimated 10,000 principal actors in Central America involved with municipal development. It would be important to get the publications to these people.

c. Training

■ Development of Generic Training Programs and Materials

There are some common generic training requirements in each of the Central American countries. These might include: 1) Community Participation; 2) Municipal Development Planning; 3) Municipal Financial Management; and 4) Project Preparation and Management. FEMICA would sponsor the development of region-wide training programs and training manuals for Central American municipal leaders in these and other areas, in conjunction with regional institutions, such as INCAE and ICAP, and the national municipal development institutes. Training of Trainers courses would be planned and implemented for professional training personnel from national institutions in the use and adaptation of such training programs and materials.

■ Policy Dialogue and Training Seminars at Regional Level

FEMICA would develop an in-house capability for sponsoring or providing regional municipal training. They may be able to utilize the experiences and capacity of ICAP, IULA, INCAE and other training institutions for this purpose.

d. Communication Program

FEMICA would develop methodologies and programs to promote new political and cultural attitudes and roles necessary for a successful, democratic interaction among communities, citizens, locally elected and appointed officials, and central government/autonomous agencies. This is policy dialogue.

e. Networking with National Municipal Associations/Institutes

FEMICA would establish collegial relationships with the six national municipal associations and municipal development institutes. They will find mutually advantageous coordination for the project activities described herein. Indeed, it is expected that FEMICA would coordinate, contract out, and otherwise utilize the professional services of the national municipal associations/institutes.

f. Networking with Regional and International Institutions

FEMICA would have the responsibility to encourage and coordinate the activities of other regional and international organizations working in Central America in their support for municipal development in Central America.

2. REGIONAL/COUNTRY ACTIVITIES AND SUPPORT THROUGH AND FOR NATIONAL MUNICIPAL ASSOCIATIONS

The support of national municipal associations follows the same strategy as that for FEMICA, at a lesser scale, namely to carry out project activities that will have the residual effect of institution building. It would be expected that FEMICA would coordinate with the national associations for studies and would coordinate training programs and other activities.

The national municipal associations, as pointed out in the sector assessment, are at different stages of development. At this point, it is expected the project would work with ANAM (Guatemala), UNGL (Costa Rica), COMURES (El Salvador), AMHON (Honduras), and APCI (Panama). It should be noted that Nicaragua does not have a municipal association as yet. These associations would in turn establish functional working relationships with their respective municipal development institutes and national inter-institutional municipal development committees for the purpose of carrying out project activities.

a. Applied Research at National Level

Associations would sponsor or conduct selective research using common themes and methodologies based on regional common criteria. This would most likely be coordinated through FEMICA. The idea is for national associations and institutes to start doing common research using common methodologies. Studies would be focussed on policy concerns, legislative constraints and, in general, on national action strategies and programs which flow from policy dialogue at the regional level. Follow-on technical assistance would be provided to support the implementation of those priority actions and activities required to produce tangible benefits.

b. Publications

The research studies, technical papers, and other materials would be published. There are principal actors in each country involved with municipal development. It would be important to get the publications to these people.

c. Municipal Training Programs

National associations would sponsor municipal training programs along the same lines as stated above. Many training seminars would be coordinated with FEMICA and directed to develop leadership, strengthen the role of local governments, and provide training for mayors and representatives.

d. National Dialogue/Communication Program

Each association would develop methodologies and programs to promote new political and cultural attitudes and roles necessary for a successful, democratic interaction among communities, citizens, locally elected and appointed officials, and central govern-

257

ment/ autonomous agencies. This is policy dialogue. The purpose is to strengthen municipal leadership and intermunicipal cooperation to improve officials understanding of the potential role of municipal institutions in political, social and economic development and to increase the transfer of knowledge between institutions and among municipalities within the country.

e. Information Systems

The associations might also wish to improve information systems to raise the quality of information available to municipal officials and the public on such things as the costs, quantity and quality of public services; the use of municipal assets, such as lands; and the tax and user charge obligations of citizens and service recipients.

3. SPECIALIZED NATIONAL LEVEL ACTIVITIES IN SUPPORT OF BILATERAL MISSION PROGRAMS

There are certain specialized policy formulation and technical design assistance that will be required on a country-by-country basis. In most cases, the assistance required will be direct technical assistance to support the bilateral USAID Missions. Potential targets might include:

- Strengthening the Municipal Fiscal Base Program;
- Municipal Mandate Reform Program;
- Municipal Policies and Programs for Enterprise Development;
- Municipal Investment Programs;
- Municipal Personnel Systems;
- Democratic and Participatory Systems and Processes of Local Governance; and,
- Service Administration and Delivery.