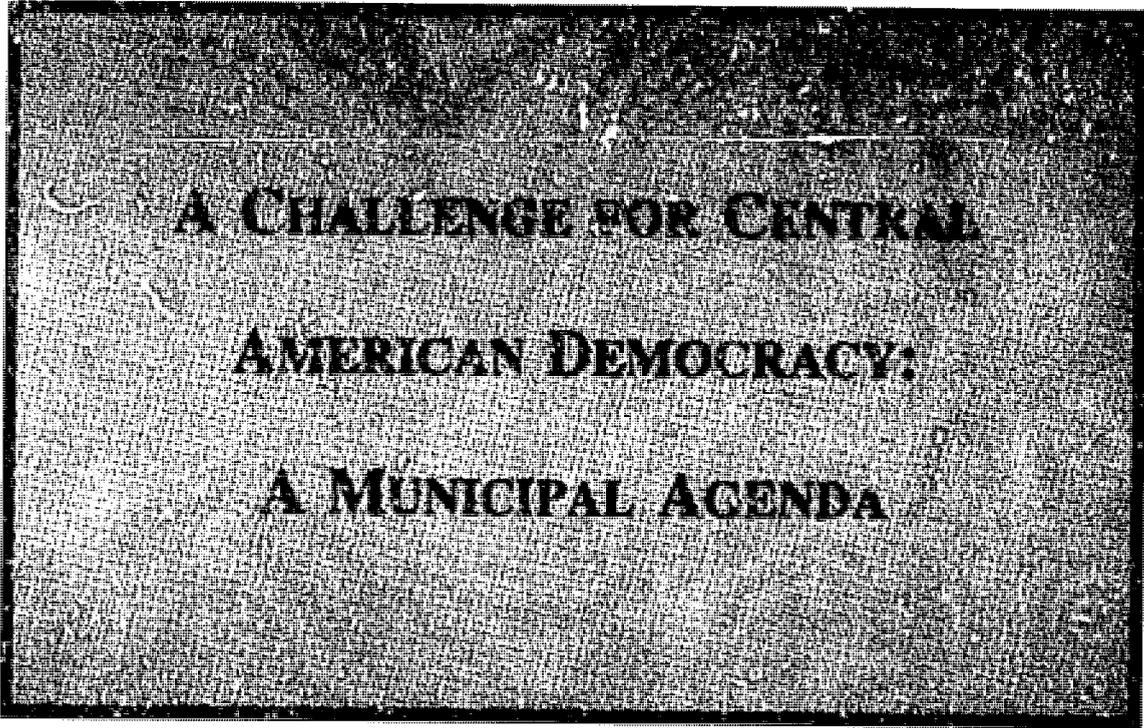


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Sponsored by:



*UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
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*REGIONAL HOUSING AND URBAN DEVELOPMENT OFFICE FOR
CENTRAL AMERICA (RHUDOICA)*

REGIONAL OFFICE FOR CENTRAL AMERICAN PROGRAMS (ROCAP)

AND THE

FEDERATION OF MUNICIPALITIES FROM THE CENTRAL AMERICAN ISTHMUS (FEMICA)



THEMES:

**A CHALLENGE FOR CENTRAL
AMERICAN DEMOCRACY:
A MUNICIPAL AGENDA**

Prepared by:

SANDRA H. WHEATON
PADCO, INC.

This document is based on the "Declaration of Proceedings from the Regional Seminar on the Role of the Municipality: The Essential Elements of Municipal Activity" (1991) and the "Regional Municipal Sector Assessment for Central America" (1992), sponsored by the Regional Housing and Urban Development Office for Central America (RHUDO/CA) of the United States Agency for International Development (USAID) and by the Federation of Municipalities from the Central American Isthmus (FEMICA).

The opinions expressed herein belong to the author and do not necessarily reflect those of the Regional Housing and Urban Development Office for Central America (RHUDO/CA) of the United States Agency for International Development (USAID) or of the Federation of Municipalities from the Central American Isthmus (FEMICA) .

Washington, DC, September 1992

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FEMICA Letter of Presentation

The Federation of Municipalities from the Central American Isthmus (FEMICA) advocates strengthening democracy and thereby promoting the decentralization process, given that such a process implies the transfer of authority, responsibilities and resources to that level of government on which the political system is founded: the municipality. In addition, it is expected that through FEMICA, decentralization will bring greater levels of efficiency, equity and democracy to Central American communities.

By **efficiency**, we mean promoting the transfer of functions to the local level and strengthening municipalities such that they can provide those services for which municipalities possess a comparative advantage. By **equity**, we mean encouraging the proportional transfer of public resources (both financial and human) according to the needs of different regions. Finally, we envision that decentralization will bring greater levels of **democracy** by transferring authority and functions closer to the "user" and will thus be able to better attend to the needs freely expressed by collective society.

In FEMICA, we are conscious that decentralizing State responsibilities constitutes neither an easy nor rapid task. It is difficult because decentralizing functions from the State is synonymous with distributing power and consequently

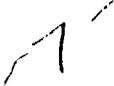
democratizing society. Some will oppose such a process because they will want to preserve their political privileges. It will not be a rapid process because the municipal institution has been at the margin of the development process for many decades and, as a result, possesses limited capabilities and responsibilities. To address this situation, a strong dose of technical assistance and a change of attitude will be required.

FEMICA, in less than a year from the date of its constitution, has achieved support for decentralization principles in the regional political forums at the highest levels. As a result, the Presidential Summit for Central America and Panama (December 1991) as well as the Central American Parliament "PARLACEN" (January 1992) have expressed support for strengthening local government and decentralization.

Decentralization is not a passing style. Rather, it is a necessity, compromise and mandate—all at the same time. We at FEMICA, as representatives of local government, are proud to be in charge of the popular local elections that serve as a critical component in the democratization of democracy.

This publication—which we jointly sponsor with the AID regional offices of RHUDO/ROCAP, from which we have received support for various activities—seeks to support both reflection and consensus with respect to the recent achievements of decentralization.

Prof. Alba Nora Gúnera de Melgar Castro
President, FEMICA
Mayor of Tegucigalpa M.D.C.



RHUDO Letter of Presentation

This fourth document in the THEMES series, presented by the USAID Regional Housing and Urban Development Office for Central America (RHUDO/CA), possesses a special significance for those who participate in local government, be they local authorities, researchers, government officials or development agency representatives.

First of all, part of its content is unpublished insofar as it captures only a part—albeit an important part—of the findings from a recent study of Central American municipal systems supervised by the RHUDO/CA. This study analyzed the advances, potentials and obstacles of Central American municipal governments related to various political, institutional, economic and administrative issues.

Second, this THEMES edition also contains the consensus and will of a representative portion of local authorities from the region on municipal development and decentralization issues, as they expressed in a meeting that took place in Tegucigalpa, Honduras in November 1991. Essentially, during this meeting, the Mayors of the region issued the "Declaration of Tegucigalpa." This declaration constituted a manifest or letter that, in highly elevated political and philosophical terms, expressed the will of local governments to take up the challenge of decen-

tralizing State responsibilities and at the same time transferring resources, authority and responsibilities to the local level in order to support the democratic process and advance the social and economic development of the communities they represent.

Third, this THEMES issue is sponsored jointly with the Federation of Municipalities from the Central American Isthmus (FEMICA), a recently constituted institution representing more than 1,000 municipalities in the region that has managed to elevate the municipal decentralization agenda for the consideration of regional political forums.

Finally, this THEMES edition as a whole combines a rich conceptual base concerning municipal development and decentralization, which we are certain will serve to direct the course of programs and activities that are supported in the future.

Dianne Tsitsos
Director
RHUDO/CA

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Executive Summary

The Federation of Municipalities from the Central American Isthmus (FEMICA) and the Regional Housing and Urban Development Office for Central America (RHUDO/CA) of USAID are together promoting and supporting the decentralization and municipal development process in the region, as a means to consolidate democracy and national development in each country.

FEMICA, as representative of Central American municipalities, offers the platform, voice, and conduit for this process, the basis of which is necessarily the region's citizens and the municipalities that represent them. The RHUDO/CA, which dedicates itself to housing and urban development, is supporting this process in technical as well as financial aspects. As part of the efforts of FEMICA and the RHUDO/CA, these institutions have jointly sponsored a series of seminars, studies and other activities, including the Regional Seminar on the Essential Elements of Municipal Activity (1991) and the Regional Municipal Sector Assessment (1992).

Through all these activities, Central American municipalities are beginning to define the essential elements of municipal systems, the obstacles they face, and the necessary conditions for effectively establishing municipal functions and responsibilities.

This document identifies and puts into context the strategies and actions that are considered urgent and indispensable in order to fully take advantage of this municipal potential.

The introduction presents the **basic premise** of the document, which emphasizes the importance that municipalities hold in the democratization and national development process. It also describes the **context** in which Central American municipalities operate. This context establishes the foundations for defining key policies, strategies and programs that are necessary to propel municipal development. Such a context, depending on the municipalities and their geographic location, can serve, in some cases, to promote municipal development, and in others, greatly limit their success—a situation that creates a marked heterogeneity among municipalities. Lastly, the introduction presents the **first significant steps** that municipalities have taken through FEMICA in order to respond to these conditions and to vital development needs.

The subsequent sections describe concisely and logically the fundamental elements for—as well as the existing situation related to—decentralization, democratization and resource mobilization.

With respect to **decentralization**, the document considers the extent to which existing municipal mandates permit decentralization as well as the necessary municipal functions that make it both possible and effective. This section highlights the decentralization policies that have already been developed. In this regard, it is important to note that in Central America consistency among decentralization mandates and clarification of municipal functions are still required, as are the resources and rational policies needed to execute them. Finally, of utmost importance is the establishment of the municipality as a development source or promoter, and not just a service provider.

Democratization is founded on citizen participation and representation. Only from this point of departure can municipal participation and representation be justified, since the municipality must be the legitimate representative of the community. For citizens just as for municipalities—as well as for the organizations that support them at the local, national and regional levels—improvements are required in participatory and representational forms and mechanisms. With respect to the relationship between municipality and community, the concepts of "co-development" and "co-responsibility" are essential for the sensible and effective participation of both in development as well as for their effective mobilization and use of resources.

Resource mobilization—financial as well as human—is key for strengthening and sustaining municipalities over the long term. Nevertheless, the financial funds required for decentralization and democratization are extremely deficient, and

fiscal independence is not yet a reality. Accordingly, changes and efforts are needed to strengthen municipal financial autonomy, augment and renovate the municipal fiscal base, and mobilize as well as channel resources to the local level through taxes, fees, and government transfers from the national level. At the same time, it is essential to improve local administrative and technical capacity to assure the successful planning, management and mobilization of such resources.

The last section of the document presents the **strategies** that have arisen as a result of the current reality as well as of the essential elements identified for decentralization and democratization. In other words, these strategies take into account the limits at the same time that they take advantage of the existing means to achieve decentralization and democratization at the municipal, national, and regional levels.

It is understood as a basic principle that a large part of the effort must originate with the municipalities themselves. In order for them to achieve their goals, it is important to tap the assistance of municipal support organizations—including associations and development institutes—as well as of national governments and international donors. In this sense, the regional FEMICA association constitutes the fundamental pillar for development of national associations and of the municipalities they represent.

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Introduction

Premise

Serious political, institutional, social and economic challenges confront the countries of the Central American Isthmus as they enter 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 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.

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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 as well as respond to constituent needs for land, basic infrastructure, services and employment; and
- integrate constituent participation within the process of local development management and decisionmaking.

The viability of the paradigm will depend on the promotion and effective implementation of a series of political, institutional and fiscal changes required to support the decentralization and municipal development process in each country.

Context for Development

The process mentioned above will take place at the same time that Central American 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 policies, objectives and programs. Equally important to consider are urban and regional development patterns as well as the geo-political and demographic characteristics of municipalities that maximize economic development potential. All of these conditions and possibilities constitute the basis for a realistic and effective decentralization process in the region.

Central American countries are gradually emerging from the problems of the last decade, as is represented in positive growth rates and successes in non-traditional exports. However, they continue to be subject to unfavorable international trade arrangements and deteriorating economic conditions. In response, Central American countries have embarked on a series of policy reforms designed to open up their economies, reassess regional integration movements, modernize

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.

their productive capacity through private sector development, and engage in public sector reforms that will dismantle the old statist and centralized order. Key among these are administrative reforms and decentralization efforts that will aid governments in the region to respond more effectively to the needs of their respective populations.

Nevertheless, such reforms are closely linked to—albeit circumscribed by—economic stabilization programs in each country. These programs necessarily require a reduction in public expenditures, which in turn reduces the resources available for those activities that are critical to the decentralization process. The most difficult challenge will be to balance the opposing demands of deficit and expenditure reduction, on the one hand, and to meet basic human needs, on the other. At the same time, the ability of Central American governments to respond is limited by scarce financial and technical resources. This limitation—in being able to balance such opposing demands—underscores the necessity of developing municipal authority and capacity in order to mobilize resources and provide basic services at the local level.

Municipalities are not only limited in their general ability to respond; they are also unequal in their ability to respond. This inequality results from differences in population size and density, resources, regional and urban structures, and from the implications of such differences. With respect to the latter, only 1.5% of 1,170 municipalities in the region have more than 100,000 inhabitants; the majority (72%) have populations of 20,000 or less. This implies a significant difference in terms of the capacity and resources among municipalities. In addition, such differences are to a large degree determined by the spheres of economic influence exerted by municipalities and to which municipalities are subject. Some capitals possess a sphere of influence that extends beyond their national borders (as in the case of Panama City and Guatemala City), while others—such as Tegucigalpa—cannot even count the whole country as their sphere of influence. In this particular case, the secondary city of San Pedro Sula possesses a sphere that dominates the rest of the country.

All capital cities are continuing to grow and extend their already dominant areas of influence. Meanwhile, secondary cities, which are also growing and represent future potential, are still controlled or limited by their proximity to capital cities and major transportation routes, such as the Pan-American Highway.

Central American countries have embarked on a series of policy reforms designed to open up their economies, reassess regional integration movements, modernize their productive capacity through private sector development, and engage in public sector reforms that will dismantle the old statist and centralized order. 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.

Many of these secondary cities also lack the financial and technical resources possessed by the capital cities, thereby further limiting their ability to grow and respond to local needs.

Municipalities are not only limited in their general ability to respond; they are also unequal in their ability to respond. This inequality results from differences in population size and density, resources, regional and urban structures, and from the implications of such differences.

Finally, many cities—capital as well as secondary ones—are facing the rapid growth of informal populations that impose great demands on the public service system but that do not possess the resources to pay for such services and related infrastructure investments. All these factors limit municipalities, in varying degrees and in different ways throughout the region, in their ability to respond to local requirements.

Municipal Response

The preceding section underscores the need for municipalities to play a greater role in development but, at the same time, to take into consideration the existing limitations in resources available at the local level. As a result, democratization, municipal development and decentralization should occur in a manner that not only transfers more authority, autonomy and accountability to municipalities but also—and equally important—the financial and technical resources required to make their new roles and responsibilities effective. Lastly, support for citizen participation is critical, given its key role in democratization and municipal development.

Central American municipalities have begun to organize themselves in order to better understand, plan and develop strategic programs and projects that promote decentralization, democratization and local resource mobilization. As a significant step towards such efforts, the Federation of Municipalities from the Central

Central American municipalities have begun to organize themselves in order to better understand, plan and develop strategic programs and projects that promote decentralization, democratization and local resource mobilization.

American Isthmus (FEMICA) and the USAID Regional Housing and Urban Development Office for Central America (RHUDO/CA), sponsored a regional seminar in November 1991 to promote discussions on decentralization and municipal development in Central America. The purpose of the seminar was to clearly identify the essential elements of municipal activity, focusing on four major

themes: 1) municipal functions; 2) local financial independence; 3) municipal representation; and 4) municipal associations.

The seminar witnessed the participation of 80 representatives from different local governments and municipal associations in the Central American region, USAID, and other international development agencies and technical specialists. These participants concluded that the municipality constitutes the essential base for consolidating democracy and national development in every country. They also recognized that in order to take advantage of and maximize municipal potential, it is necessary to support a series of actions that are considered to be urgent and indispensable. Accordingly, the participants addressed, debated and formulated concrete recommendations on the key elements of municipal activity. These were expressed in specific "Basic Conclusions" that identify the actions essential to achieve the democratic and decentralizing transformation of the Latin American State.

USAID, to continue elaborating these themes and promoting decentralization, sponsored a regional study on municipal development. This study, prepared by PADCO, analyzed the existing situation and developed recommendations on various elements related to municipal development: municipal mandates, local government structures, national, urban and regional structures, the municipal fiscal base, effective participation of the community in local government, and municipal associations. Based on the recommendations of the seminar and the study, a municipal development strategy was formulated within the context of decentralization, democratization and resource mobilization.

Document Purpose

This document, sponsored by FEMICA and USAID, describes concisely and coherently the existing situation, conclusions and strategy that have emerged from recent seminars, studies and other activities that are promoting municipal development. The basic purpose of the document is to provide FEMICA, national associations, and all the municipalities of the region with guidelines for raising Central American municipal development—through a process of decentralization, democratization and resource mobilization—to a new level of understanding and action.

1 Decentralization and Municipal Autonomy

1.1 Municipal Mandates: The Legal Base for Municipal Autonomy

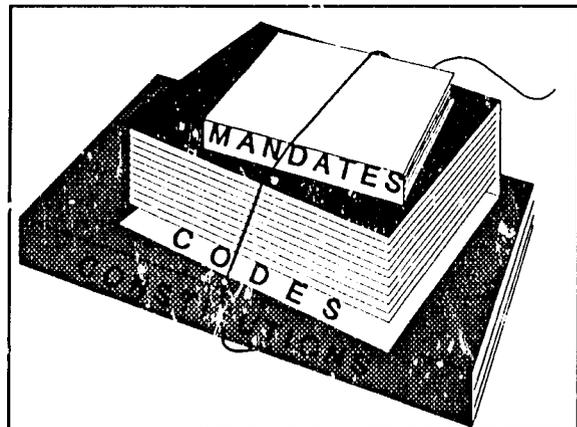
The political Constitutions of Guatemala (1985), El Salvador (1983), Honduras (1982), Nicaragua (1986), Panama (1970), and Costa Rica (1949) all make reference to the municipality as an autonomous entity. They define its authority, giving it autonomy and establishing its right to self-government and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

This view of the municipality is very similar to the one contained in the municipal codes or laws of 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 main-

tain 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.

...despite the fact that municipal codes establish municipal autonomy in the majority of Central American countries, [other] actions ignore constitutional mandates, producing internal inconsistencies, contradictions and a substantial reduction of municipal authority.

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 providing 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 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.



1.2 Municipal Functions

1.2.1 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.

CHART I. MUNICIPAL ACTIVITIES

CATEGORY	GUATEMALA	EL SALVADOR	NICARAGUA	HONDURAS	COSTA RICA	PANAMA
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 responsibility; UNEPAR & INFOM for rural areas	Central government (ANDA) has responsibility; 27.5% of municipalities administer this service	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)	Companie Nacional de Fuerza y Luz, Cooperatives 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	Direccion General Urbano (GDU of SECOPT design and most labor	Central government; cities sell land for profit	Land zones at central, provincial, and municipal level
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

CHART I. MUNICIPAL ACTIVITIES, cont'd

CATEGORY	GUATEMALA	EL SALVADOR	NICARAGUA	HONDURAS	COSTA RICA	PANAMA
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

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

1.2.2 Urban Services

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 on behalf of municipalities* (Guatemala being the exception in several cases). The general tendency is for central authorities to receive recommendations for required services via sectoral planning offices at the regional and local level, Congressional requests, or direct appeals from the municipalities or lower level organizations, such as community boards. These requests, along with central government plans, provide the inputs into national, provincial and departmental investment plans.

Municipalities provide voluntary (manual) labor and contribute supplies. Only the largest municipalities exercise substantial influence and control over urban development planning and regulation within their jurisdictions. The two exceptions—garbage collection/disposal and street paving, maintenance and cleaning—are exclusively performed by municipalities. However, it is important to note that only large cities provide such services well and possess the capabilities to collect payment for such services.

1.2.3 Public Services

Public services include **parks and recreation areas, cemeteries, slaughterhouses, public markets, licensing, and transportation terminals**. In general, these services are performed by municipalities, although they could be managed by the private sector, as is sometimes the case. There is greater involvement by the municipalities in these services 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.

1.2.4 Social Services

Social services include **school construction, sports and culture, and health services**. Building maintenance and school rehabilitation are legally a municipal responsibility; however, the national ministries of education and health usually provide those services in conjunction with or instead of municipalities. Municipali-

ties do normally support national school construction efforts by providing voluntary labor and some local supplies. In addition, the construction of small and uncomplicated sports and cultural facilities as well as 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. Finally, tourism promotion and regulation in El Salvador and Nicaragua are municipal responsibilities, in accordance with legislation in these countries.

1.2.5 Public Security

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. With regard to the other countries, the responsibility can fall on the municipality (as in Guatemala), on the provincial government (as in Panama), or on the national government (as in Costa Rica).

1.2.6 Other Functions

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 existing laws in each country.

An important and final element, in terms of municipal mandates, is the **promotion of 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 decisionmaking such that channels are opened for full citizen participation. Democratic management supposes an open relation between officials and employees as well as an open government attitude in hearing the initiatives of the non-governmental and private institutions and organizations residing in the municipality. It is this type of democratic process that, in theory, the mandates embrace. In fact, however, this type of democratic process is severely limited at the local level throughout Central America.

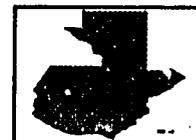
1.3 Decentralization Policies

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:

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. Finally, financial resource transfers have not been accompanied by any coherent policies or strategies to strengthen municipal financial management and the fiscal base.



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.



Nicaragua

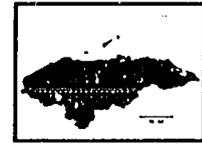
Nicaragua's national plan for social and economic development highlights the importance of municipal development, and accordingly the Ministry of the Presidency is preparing a statement of decentralization policies. An Inter-institutional Committee for Decentralization and Municipal Development (CIDMD) 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 authority areas, responsibilities and resources that will be required.



Honduras

Decentralization and municipal development are established as part of national policy. The 1990 Municipal Law contains the principal elements for initiating the decentralization process and strengthening municipalities. It includes

provisions for strengthening the local tax base, transferring authority and responsibility to the local level, and defining institutional roles. Under the Commission for State Modernization, which forms part of the Association of Honduran Municipalities (AMHON), a Sub-Commission on Decentralization exists that has as its mandate the formulation of policies and strategies for implementing the decentralization process. AMHON has played an important role in establishing the Sub-Commission and its activities.



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.



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 given current centralized tendencies.



1.4 Basic Conclusions on Decentralization

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., 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, and in accordance with the conclusions adopted by the Central American Mayors in the November 1991 Regional Seminar, it is necessary to:

Conclusion 1: Analyze, Define and Promote Decentralization

*As part of the redefinition of the State, it is urgent that we analyze decentralization, which is understood as the transfer of resources, authority and responsibilities from national to local government.**

In addition, decentralization policies should:

- a. **Coincide with and be supported by reforms in central government laws, policies and regulations that currently impede decentralization.**
- b. **Prioritize the channelling of scarce financial, technical and human resources to cities and regions of strategic economic importance as well as provide a basic level of resources to all municipalities. Consequently, such policies should 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.**
- c. **Clearly specify the authority, responsibilities and resources to be transferred from the national to the local level.**

Conclusion 2: Transfer the Appropriate Functions to the Local Level.

The Central American Mayors who participated in the Regional Seminar also considered it necessary to:

*From: Basic Conclusions, Regional Seminar on "The Municipal Role: the Essential Elements of Municipal Activity," Tegucigalpa, Honduras, November 1991.

a. Transfer functions to municipalities in accordance with their comparative advantage.

*It is necessary...to transfer to the municipal arena those public services and other functions that offer comparative advantage in terms of cost, proximity to the "users," and being able to promote viable methods of community participation in municipal development.**

The criteria for establishing a new State functional structure—including functions at the local level—should be directly juxtaposed with the State crisis. Such criteria are efficiency, equity and democratic development. In terms of **efficiency**, public functions should be carried out such that they achieve the greatest impact at the lowest cost. Accordingly, the local level should conduct those functions and provide those services for which it possesses comparative advantage. In terms of **equity**, geographic distribution of resources should be proportional to differing needs among regions, and the functions at every level of government administration should be proportional to their capacity. Last, in relation to **democratic development**, public functions should be established so as to maximize proximity between the provider and the user as well as best attend to the objectives expressed by the community.

b. Transfer functions in a gradual and selective manner.

*Considering the diversity of municipalities and their respective capacities, the transfer of services should be gradual and selective.**

While a key principle to decentralization is the devolution of authority and responsibility to local government at the operational level, the transfer of such authority and responsibility should take into account, as previously mentioned, size, institutional development, the fiscal base and technical capacity. As such, it should be gradual and selective. At the same time, the principles of gradualism and selectivity should not be viewed as "brakes" on the decentralization process.

*From: Basic Conclusions, Regional Seminar on "The Municipal Role: the Essential Elements of Municipal Activity," Tegucigalpa, Honduras, November 1991.

- c. Determine which functions should be transferred, in accordance with the conditions existing in each country.

*Determining which services and functions should be transferred is necessarily defined by the specific conditions in each country. However, as a general rule, the following areas can be identified as transferable: infrastructure, health, education, rural roads, natural resource protection, water and wastewater, among others.**

Any application of the above criteria should be appropriate to the characteristics of each country, given that no universal list for municipal functions exists. However, one such list has been established and reviewed by Central American Mayors, serving as a guide to those functions that correspond to the local and national levels.

In summary, the majority of functions are best suited, as described in the following illustrations, to the local level for reasons of efficiency, equity and democratic development. The exceptions relate to the need for general direction, supra-municipal coordination (in the case of roads), technical support, higher levels of service (such as post-secondary education in some cases and health issues that are necessarily regional and national concerns), equity in service provision (such as in electricity), and the need for large capacity and resources (as for phone systems), and other special functions that serve to prepare for or mitigate natural disasters.



Community Housing

Municipal
Municipalities can complement national programs with support in self-help construction through the provision of lands, supply centers, and technical assistance.
National
The national government should determine national housing policies and establish institutional structures.

*From: Basic Conclusions, Regional Seminar on "The Municipal Role: the Essential Elements of Municipal Activity," Tegucigalpa, Honduras, November 1991.



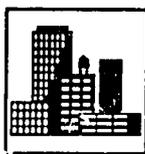
Public Services

Municipal
Local services, such as garbage collection, should be municipal functions but require environmental and technical support from the national level.
National
Inter-connected services, such as electricity and phone systems, demand a level of investment that exceeds the realm and financial capacity of most municipalities and implies a role at the national and regional levels. With regard to electricity, in order for equity to exist, a complex financial transfer and tariff system is required that can only be guaranteed by the central level—equity will simply not exist when municipalities make investments in small centers or in distribution. The majority of responsibilities for electric service rationalization falls on the central level and on those municipalities that own large systems. Telephone and telecommunications require technologies that make it not only undesirable but also impossible for most municipalities to participate in these functions. The key role for municipalities in this regard would be to assure that they receive equal treatment and service.



Public Works

Municipal
The construction and maintenance of community roads and urban streets are activities within the local realm, the planning for which reverts to the municipality, the building of which can revert to private construction companies, and the maintenance to local communities. Municipalities can take responsibility for port and airport development, which are still administered at the national level. Such local administration should take place when the transfer of this function does not imply passive accumulation, but rather when it can develop into business operations that allow for economic equilibrium, net incomes and further investment.
National
Highways are national level functions.



Urban Development

Municipal/National

This is a municipal responsibility that should be supported at the national level with technical assistance, co-financing and legal assistance to control property and land use, protect public space and natural resources, and maintain urban order.



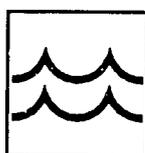
Productive Development

Municipal

The regulation of productive activities should be carried out by municipalities.

National

Support for private productive activities, training of the unemployed, micro-enterprise development and other related areas should correspond in general to the central level, because municipal administration does not possess a comparative advantage in these areas.



Water

Municipal

The administration of water and wastewater should be exclusively municipal. The experience in various countries demonstrates that "municipalization" is less costly and permits a more rapid rate of cost recovery. For these services, municipal-administered companies are required, provided that the businesses transferred to municipalities have been properly cleaned in advance, that the mechanisms exist for national technical assistance and co-financing, and that there exists a national tariff policy. Basic sanitation should be assumed by municipalities, with support from the community.

National

Existing national-level providers of water should change their role, dedicating themselves to technical assistance, training and water storage.



Health

Municipal

Primary health care should be provided by the public and private sectors at the local levels for reasons of equity, optimal scale, and the need to guarantee community participation.

National

Second-level health care is essentially regional and its development essentially supra-municipal. Health care service at the third level should be provincial or national. General health care direction corresponds to the central government and should guarantee inter-municipal equity and efficiency to avoid cost increases and user discrimination.



Nutrition and Family Well-Being

Municipal

Municipalities possess a comparative advantage for nutrition at the local level.

National

National plans for nutrition, infant protection and indigent care can be supported by national financing.



Environmental Management

Municipal

The management and direct control of forests, the promotion of local environmental organizations, the development of national parks, ecological reserves, and the management of small watershed areas should be the responsibility of municipalities. The exception is when, for example, that management exceeds the jurisdiction of a municipality.

National

Environmental development demands national systems, whose basic directives are the responsibility of central government and whose direct activities involve all levels of administration.



Disaster Prevention and Mitigation

National/Municipal

Disaster prevention and mitigation (as a result of floods, earthquakes volcanic eruptions and hurricanes) require a national system, which is fundamentally based on municipal organizations. This implies that municipalities possess the function of serving as a channel for training, elaborating and implementing plans and programs, relocating settlements from high-risk areas, organizing alert networks, and coordinating local disaster organizations.



Education

Municipal

Pre-school and primary education are local in character, from the point of view of their objectives as well as of the optimal scale of administration. Consequently, analysis of the demand for education, administration, school construction/maintenance/provision, text distribution and general control of primary education should be a municipal responsibility, along with community support. Secondary education belongs in the realm of basic education and should be gradually assumed by municipalities. Post-secondary education can be municipal, provincial or national, depending on the characteristics of each country. Ethnic community education should be developed by the communities themselves, in coordination with municipal governments.

National

General education direction should be a central government responsibility.



Culture, Recreation and Sports

Municipal/National

The municipality should be the basic scene for all such activities, directed under the joint responsibility of the municipality and the community, in the context of a national program.

Conclusion 3: Provide the resources and technical assistance required for decentralization and the transfer of functions.

a. Provide the required technical assistance and training.

*Such a process requires intensive programs for technical assistance and training to support the decentralization process.**

The relationship between municipalities and central government must be based on a delineation of responsibilities that translates into an effective transfer of functions and power. This transfer implies handing over to the municipality not only the responsibilities for which it possesses comparative advantage and is capable of executing, but also the resources and operational capacity necessary for their management. At the same time, these responsibilities must be suppressed in the central government.

b. Provide the necessary financial resources.

Parallel to the transfer of responsibilities, the process involves the provision of sufficient financial resources in three key areas:

i. Assign Proper Fiscal Authority;

As a fundamental element, municipalities require the authorization from central government to capture existing local resources. In five countries of the region the National Constitution proclaims the "autonomy" of municipal government and the right of local government to provide a broad spectrum of public services to its citizens. However, limited local resources and central government intervention in the provision of local services have contradicted and proven to be an obstacle in legitimizing that "autonomy."

Only a very limited percentage of taxes are accessible to and under the control of municipalities. In general, local governments only offer garbage collection, street and street lighting repair, and some productive functions such as slaughterhouses and bus terminals. Even when a municipality has the authority to impose a tax, such authority is subjected to the control and even veto of central government. Property taxes—the financial base in most developed countries—are, depending on the location, in a very fragile state or non-existent in Central America.

*From: Basic Conclusions, Regional Seminar on "The Municipal Role: the Essential Elements of Municipal Activity," Tegucigalpa, Honduras, November 1991.

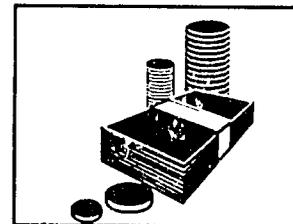
Worsening the situation is the fact that municipalities find it impossible or simply refuse to collect taxes and user fees, including those for which municipalities are authorized. It is very common for municipalities to have a back tax collection of 20 to 50%. Therefore, municipal governments require the ability and aptitude to impose efficient, equitable, and effective taxes, with the purpose of supporting the cost of essential services and reducing the debt.

- ii. Establish economic transfers from the national budget in a manner that is proportional to the transfer of functions and that benefits to the extent possible less-developed municipalities.***

Assigning transfers to municipalities is a central government responsibility that should respond to the transfer of functions at the local level, and the criteria for inter-municipal equity and efficiency. Accordingly, it is necessary to review and improve the base for the distribution system among municipalities. It is important to take into consideration the size, capacity, needs and potential of each municipality in order to have the greatest impact while maintaining a certain level of equity. In addition, municipalities must rely on their authority to administer resources received through transfers as an essential function of local autonomy.

- iii. Create financing mechanisms that support decentralization.***

It is necessary to create opportunities for financing local governments for the purpose of supporting the growing level of functions that municipalities will assume in the decentralization process. Nevertheless, municipalities must rationally use their debt capacity to multiply their resources. For this reason, it is indispensable to consider national and even international credit and co-financing opportunities.



See Section 3: "Financial and Human Resource Mobilization" for a more detailed elaboration of the human and financial resources required for decentralization.

*From: Basic Conclusions, Regional Seminar on "The Municipal Role: the Essential Elements of Municipal Activity," Tegucigalpa, Honduras, November 1991.

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 process of "co-development" and "co-responsibility".

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.

In the private sector, increased support for first, second and third tier community organizations 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, find ways to better coordinate with them, and help make more effective use of municipal and community resources.

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.

Not only are these local community organizations common in Central America but also, as previously mentioned, their respective second and third tier organizations. Any of the aforementioned local organizations can and do work at the broader regional and national levels in the form of associations or federations. In addition, domestic NGOs (and their associations) often act as representatives or

2 Democratization: Participation and Representation

The democratization process within the context of local government should manifest itself in two forms. First, democracy must be based on the electoral process and on the effective participation of citizens in local public decisions. Second, the municipality, sustained and legitimized by the citizenry and its participation, can then act as the representative and voice of the citizens before national government. Only on this basis can municipalities, on behalf of their citizens, legitimately obtain from national authorities improvements that make the decentralization process possible.

2.1 Community Representation and Participation

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.

advocates of community organizations at the broader regional and national levels. Consequently, 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 at any level.

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.

2.1.1 Municipal Government Legitimacy and Democratic Representation

Municipal government legitimacy and representation exists—and to a far greater extent than ever before—with almost universal municipal elections and with 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 between local and national elections. With regard to the latter, party candidate "slates" 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 municipal government.

2.1.2 Democratic and Participatory Government Systems and Processes

■ 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 town meetings. There also appears to exist a genuine interest in the public sector to support projects based on direct community participation.

However, in many cases, the public sector is not only disinterested in community participation but is often resistant to it since participation implies that

municipal governments must give up their power and control, which is already severely limited by central authorities. 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. Therefore, more education on and requirements for participation (i.e., more democratization) may be necessary in order for public officials to share their power.

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■ Knowledge, Capacity and Mechanisms for Participation

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 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, town meetings 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 and a means for cross-fertilization. In addition, the Costa Rican model is but one example among a variety of possible participatory structures.

Open town meetings 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. Town meetings are often used (to varying degrees of success) as a tool of "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.

Town meetings 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 town meetings 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 mayors' already limited power and resources. Not surprisingly, the citizenry often consider town meetings to be a political tool and that mayors generally try to maintain their own power rather than empower the community.

These town meetings 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 town meetings 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.

In addition to the fact that authority, 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 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, town meetings and manual labor).

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 levels—as a significant form of community participation. However, it merely consists of "cash and in-kind contributions" of the community for the "execution" of a project (i.e., 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 often do support the public works projects of their local governments, they seek more involvement in and more control over those projects.

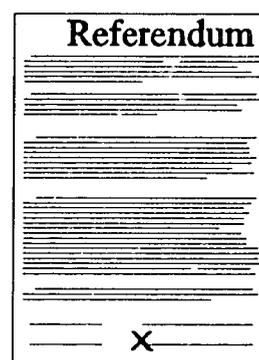
From the above, it can be concluded that participation in Central America only exists in the information gathering, prioritization and implementation stages, but not in the true planning and decision making stages. The reasons are clear: the last two stages, for which participation can become more meaningful, are

those that imply and involve ceding power and control in the development process. However, this participation also implies a process of co-development and co-responsibility in which local government can receive support and direction from the community as a whole.

There also exist other forms of participation that are generally not utilized in Central America. These include the referendum (electoral vote to support or protest legislative decisions), the "initiative" (electoral petitioning that a Council decision be subjected to vote), plebiscite (a positive and negative public answer or decision in response to a specific proposal), surveys, pilot projects and experiments.

2.1.3 Accountability: Assuring that Responsibility Is Taken

Accountability of the public sector can be supported and assured through, as an extreme measure, the power of recall and, as a more reformist measure, through continual evaluations or review of the actions and decisions of the public sector.



In general, the community is not 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 that involve communities, even though in theory community participation would be essential to assure the accountability of the public sector. While an evaluation alone is not as useful as evaluations that are connected to accountability systems, an evaluation can still highlight project shortcomings and result in community pressure for change in the public sector.

The above participation and accountability relate to the existence and quality of the interface between local governments and their communities. If a municipality does not have that interface or if such interface is limited in scope, quality or quantity, the municipality cannot effectively engage the community. In essence, the impact of that interface determines its effectiveness.

2.1.4 Citizen Mobilization and Influence

Many structures, processes and mechanisms are at play in the private sector in Central America that support 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, 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.

2.1.5 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. The existing reality in Central America is that participation through these key forms is, in general, very limited. The traditional forms of participation include 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. The one aspect of community participation that is not limited is community mobilization, which is relatively advanced in the region. The limitations that do exist lie in the municipal electoral, planning, decisionmaking, implementation and evaluation processes. Accordingly, the following reforms are essential:

Conclusion 1: Strengthen the legitimacy, representativeness, and potential of the municipality as a democratic institution.*

Decentralization of power, resources and functions signifies that municipal governments, as elected and representative institutions, are closest to the people and for this reason can be more responsible for basic needs insofar as they can increase citizen participation in development. Municipalities have the basic political function of contributing to the strengthening of democracy, for which the following are indispensable: independent popular municipal elections, community participation in the local planning and control of development, and municipal interlocution between the community and national government.

Nevertheless, democratic processes can only be strengthened locally when municipal governments can implement and carry out the responsibilities of providing local political representation, organizing and managing local development, responding to the needs of the population (with respect to land, infrastructure, services and employment), and integrating community participation into the development process. Therefore, the municipality can only be strengthened as a democratic institution if its ability, obligation and capacity to execute these responsibilities are strengthened.

Municipalities have the basic political function of contributing to the strengthening of democracy, for which are indispensable: independent popular municipal elections, community participation in the local planning and control of development, and municipal interlocution between the community and national government...These objectives can only be achieved if, in turn, the principles of "co-development" and "co-responsibility" are pursued.

These objectives can only be achieved if, in turn, the principles of "co-development" and "co-responsibility" are pursued. It is necessary to support decentralization with participation because it simultaneously strengthens the power and responsibility of both the municipality and citizenry. Only by achieving these goals will it be possible to pursue democratization and decentralization.

- a. **Establish municipal election systems and processes that are separate in date from national elections, based on program platforms, and with periods equal to that of the presidency but not coinciding in date.***

The role of municipalities in Central American democratization and representation is key, given that the municipal level is the only level (other than the

*From: Basic Conclusions, Regional Seminar on "The Municipal Role: the Essential Elements of Municipal Activity," Tegucigalpa, Honduras, November 1991.

national one) in which political representatives are popularly elected—with the exception of Panama where the President of the Republic still appoints mayors. The municipal electoral process and local government structure are critical elements of democratization. With respect to elections, the most important aspects are the universal mayoral elections, local direct vote, reducing the influence of national parties and elections through, for example, separate elections and the elimination of party candidate slates.

The results of a survey conducted in Costa Rica in 1982 demonstrates that the large influence of national political parties on the selection of local candidates generates electoral apathy. The electorate believes that local authorities respond to party—not local—criteria and that the national political agenda consumes local elections. As a result, it is necessary that the local agenda prevail in local elections and that they be separated from national elections.

With respect to government organization and administration, the general type of structure (for example, "Strong Mayor-Weak Council") is not important, given that each style has its respective advantages and disadvantages. More important is the existing local knowledge and capacity to help government implement effectively its policies and programs and to collaborate with the private sector. If these aspects are deficient, they reduce the possibility for democracy.

b. Support proportional municipal government representation in accordance with the electoral vote.*

Although minorities can achieve (as in Costa Rica and Panama) a certain level of representation through proportional systems, its participation continues to be very limited. As a result, it is necessary to allow political groups comprised of various types of organizations—and including individuals from parties different from the national party—to participate and discuss local elections as well as form part of government.

c. Promote an opening of the electoral process towards participation of groups outside the national political party system.*

In the electoral process, the fact that candidates in some countries can only be proposed by political parties limits the level of citizen choice and participation, with respect to both those citizens represented by parties and those that are at the margin of the political system.

*From: Basic Conclusions, Regional Seminar on "The Municipal Role: the Essential Elements of Municipal Activity," Tegucigalpa, Honduras, November 1991.

- d. Promote mechanisms of participation in and control over municipal development, such as town meetings, auxiliary mayors, popularly elected community boards, and other forms that systematize popular participation.***

To this end, mechanisms of community control through active participation should be promoted in the stages of project planning, decisionmaking, implementation, supervision and evaluation. Among these mechanisms, there exist at least five types of direct popular control, as follow: 1) the referendum; 2) the initiative; 3) the plebiscite; 4) the town meeting; and 5) recall (a means possessed by the electorate to remove an elected official from office). Ways to improve use of these mechanisms should be considered, where such mechanisms already exist, as in the case of town meetings, which can offer a good opportunity for participation. In addition, the use of other mechanisms should be considered, such as surveys, experiments and pilot projects.

Conclusion 2: Provide technical assistance and training to support the municipality as a democratic institution.

- a. Offer technical assistance and training on the theme of community participation to various parts of the municipal system.**
- b. Provide technical assistance and training to community organizations and NGOs on issues of municipal concern such as legislation, responsibilities, and obstacles impacting the public sector, for the purpose of increasing such organizations' awareness of municipal reality, thereby helping them to play a more effective role in the development process.**

2.2 Municipal Representation and Participation

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 "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

*From: Basic Conclusions, Regional Seminar on "The Municipal Role: the Essential Elements of Municipal Activity," Tegucigalpa, Honduras, November 1991.

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*.

2.2.1 Municipal Associations

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

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 Federation of Municipalities from Central America and Panama (FEMUCAP) in 1978 and the Union of Municipalities from the Central American Isthmus (UMICA) in early 1991. However, a recent attempt in late 1991—with the Federation of Municipalities from the Central American Isthmus (FEMICA)—appears much more promising, particularly in light of the support both 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 were 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.

FEMICA has the potential to successfully achieve its 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

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 "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.

maintain its support from its members—a problem that is common with associations at the national level.

The purpose of FEMICA is:

To support mechanisms that strengthen municipal institutions and the processes of decentralization in the Central American Region and Panama.

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.*
-

National Level

At the national level, in four countries of 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* (COMUREFS). 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 perceived by municipalities as not offering 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.

2.2.2 Municipal Development 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 technical assistance, training and policymaking; 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 technical assistance and training). While a real development institute does not exist in Honduras, Honduras's 1991 Municipal Code calls for the founding of such an institute. A Honduran municipal development "bank", the Banco Municipal Autónomo (BANMA) does exist, providing financing as well as technical assistance and training, but it is not highly successful due to considerable financial problems and credit arrears by municipalities.

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 reasons of democracy and effectiveness. 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 of 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.

2.2.3 Conclusions

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 can 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.

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Conclusion 1: Municipal associations should support decentralization.

*Municipal associations and other "spokesmen" of local governments should, as their representatives, mainly advocate support for and perfecting of decentralization processes, as well as incorporating the municipality in the national social and economic development process.**

Municipal associations are essential for decentralization and democratization, assuming a coordinating role for the municipalities that they represent. By offering a mechanism for municipalities to effectively participate in development, municipal associations serve various key functions, including organization, representation, resource mobilization, leverage, scale economies, and access to technical assistance and training.

Consequently, through such associations, municipalities can jointly overcome common problems through: 1) assistance in coordinating local activities; 2) obtaining greater political and financial support for regional, national and sub-national municipal associations; 3) assistance in mobilizing resources for their members; 4) acting as a "pressure" group; 5) taking advantage of scale economies and obtaining, for example, services or equipment at lower cost; and 6) providing training and technical assistance to local officials and government staff, as well as developing a local civil service. In these ways, municipal associations can overcome some of the most difficult obstacles and assist their members to better participate in and benefit from development.

a. Organize under the basic principles of voluntary participation, equal representation and autonomy from central government.*

With the purpose of obtaining complete legitimacy, associations should organize under the principles of autonomy, the freedom to associate, equal representation of all members, and the possibility to jointly address common problems. With these fundamental characteristics, associations emerge as the product of their own dynamic, seeking to introduce changes that allow for the effective functioning of municipalities by assuring municipal autonomy, basic responsibilities and key attributes. In order to guarantee a permanent presence, national municipal associations should obtain legal recognition, as declared by a special law or the Municipal Code. This recognition is important not only for political reasons but also in order to have the legitimacy often required to obtain financial and technical assistance from national, regional and international donors.

*From: Basic Conclusions, Regional Seminar on "The Municipal Role: the Essential Elements of Municipal Activity," Tegucigalpa, Honduras, November 1991.

By being generally composed of popularly elected municipal representatives, associations should be careful to maintain a certain level of ideological independence, which will thereby preserve the broad political representation required of such associations. At the same time, that representation should be based on equity and not on, as exists in some associations, only the input from capital cities, which have greater voice and power. The purpose is to enable all municipalities to have a voice and therefore the opportunity to participate in all aspects of municipal associations and development institutes.

It is also important to preserve association autonomy with respect to central government. Although it will be more difficult to preserve the autonomy of municipal development institutes, as they are generally funded by central government, municipal associations are generally not subject to central government control and have the ability to preserve that autonomy. Finally, and as previously mentioned, associations need to maintain their independence from national political parties, so that they do not become simply a political party instrument.

b. Organize and mobilize municipalities so that municipal associations and development institutes are representative and stable.

This institutional and economic mobilization must originate in the municipalities themselves, given that it is a question of "ownership," participation and self-determination; they must be and feel like they are in charge of their own development. However, such self-development should also be accompanied by support at the national, regional and international levels—support that should be channelled through associations and development institutes. Finally, the strengthening of associations and development institutes must take place within the context of a strategic and financial plan such that municipalities can be successful in their efforts.

c. Guarantee the financial functioning of associations.

*Financial resources necessary to guarantee the adequate functioning of municipalities should come from the municipalities themselves.**

The goals, objectives and functions that are defined for each municipal association should also provide sufficient resources so that those objectives can be achieved. In addition, the base of those resources should originate from the fees

*From: Basic Conclusions, Regional Seminar on "The Municipal Role: the Essential Elements of Municipal Activity," Tegucigalpa, Honduras, November 1991.

or contributions of the member municipalities, a situation which allows them to legitimately act as a representative "pressure group."

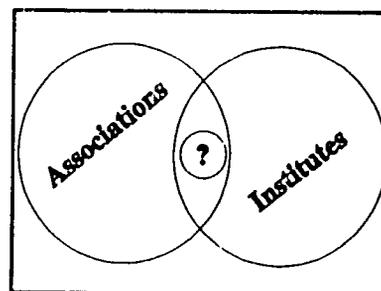
d. Support the Federation of Municipalities from the Central American Isthmus (FEMICA).

*At the regional level, associations should support the Federation of Municipalities from the Central American Isthmus (FEMICA), as the representative entity of municipal interests and concerns and as part of the Central American integration process.**

The above implies the need to ascertain the ability of all municipalities in a country to belong to a national association and, through this organization, achieve municipal agreement on the initiatives and activities of that national organization as well as to achieve agreement with any larger-scale regional association. Assuming that such agreement can be reached, the existing regional association—FEMICA—offers the possibility of horizontal information exchange and coordination among national associations, a means for municipal promotion (i.e., in technical assistance and training), and as a source of credits. The most important aspect of such a regional association, however, is that it has the trust and support of the mayors and municipalities that it represents as well as that of international donor agencies.

Conclusion 2: Clearly define and coordinate the respective roles of associations and institutes, particularly where training, technical assistance and financing mechanisms are concerned.

The reality in Central America contrasts with the ideal, given that the functions of municipal associations are very limited. These functions are limited in part by municipal associations themselves and in part by municipal development institutes. Associations, where they exist, are very weak and have experienced repeated failures throughout the region. This continual failure has made it difficult for associations to assume an important role, and even less to assume a role in training that is traditionally reserved for the development institutes.



*From: Basic Conclusions, Regional Seminar on "The Municipal Role: the Essential Elements of Municipal Activity," Tegucigalpa, Honduras, November 1991.

The municipal development institutes, as previously mentioned, provide relatively good support in the areas of technical assistance, training and finance. Nevertheless, they do so 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 are often controlled and financed by central authorities, limiting municipal self-determination and participation in the financial and technical 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 provide, insofar as representation and a wide variety of other functions are concerned.

Conclusion 3: Provide technical assistance and training to support associations.

This education and training are necessary to help promote coherent decentralization and democratization strategies. The most important aspect is that municipalities have an understanding of the importance of municipal support organizations, including both associations and development institutes.

- a. Identify, obtain, and effectively utilize technical and financial assistance that is available from entities at the national, regional and international levels.**

This assistance should be managed through associations and institutes—the means through which municipalities realistically achieve their goals. At the same time, the very associations and institutes that provide technical assistance and training also require such technical and financial assistance for themselves.

b. Design and provide technical assistance and training through Associations.

*In addition to promoting decentralization, associations should design policies and strategies for technical assistance and training as well as for carrying out their implementation. At the same time, they should support departmental, provincial and regional associations that can further stimulate cooperation and the provision of services.**

As previously noted, in the case of Central America, development institutes—not the associations—generally provide technical assistance and training to municipalities, mayors, municipal corporations, and municipal staff. Some institutes also have the additional function of supervising relations between municipal and central government officials. In this capacity, they act as representatives and pressure groups in the formulation of national policies, conduct research that supports their provision of technical assistance and training, and, lastly, serve as a forum for coordination and information exchange among municipalities.

Associations should assume an important role in designing policies and strategies for various reasons. First, development institutes do not, as previously noted, have full autonomy, and in some cases, lack all autonomy from central government. Second, associations offer a relatively autonomous institution for the formulation of those policies and strategies. In addition, institutes provide their assistance without clear frameworks or strategic plans. Although institutes can come to provide their assistance with such frameworks or plans, associations should at least play an important role in those policies and strategies under which institutes operate. If municipalities can obtain and maintain majority representation in the development institutes, then this representation can serve as a channel for the policies and programs promoted by associations. At the same time, associations themselves can begin to provide a certain level of technical assistance that falls under a strategic development plan.

*From: Basic Conclusions, Regional Seminar on "The Municipal Role: the Essential Elements of Municipal Activity," Tegucigalpa, Honduras, November 1991.

3 Financial and Human Resource Mobilization

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 studied* and the more than one thousand municipal governments in the region, ranging from major metropolitan cities to geographically isolated rural communities. The following section reviews the factors most common to the region's local governments, including those difficult problems to which a common response appears most appropriate.

3.1 The Deficit in Basic Human Services

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,

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

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.

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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.

3.2 Low Municipal Income 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:

- 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.

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

as well as 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 public infrastructure.

Everywhere in Central America, municipal governments have access to few revenues to support their recurrent budgets...The revenue constraints on recurrent spending result in few employees, sparse services, and little or no maintenance or repair of the public capital.

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.

3.3 Lack of Municipal Resource Mobilization and Improvements

3.3.1 Financial Resources

Central American municipalities have at their disposal a very small group of taxes, whose rates and other conditions (such as the tax base) are usually outdated or disallowed by national authorities. Real estate taxes, which constitute the local finance base in industrialized countries, are weak or non-existent in Central America.

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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 non-payment between 20 and 50 percent are common. As such, it is this failure

in resource mobilization that constitutes the principal cause of the municipal revenue shortages in Central America.

3.3.2 Human Resources

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. Two regional institutions, ICAP and INCAE, have been providing training to municipalities in recent years.

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.

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. As such, the training and technical assistance that are necessary to achieve the required changes should be detailed and accompanied by specific objectives.

In a recent investigation conducted by INCAE in Honduras, the municipalities consulted in each country identified financial administration and management as the highest priority including budgeting, revenue and tax plans, and related improvements in cadastre systems in support of revenue generation and development planning.

In a recent investigation conducted by INCAE in Honduras, as **Table II** illustrates, the municipalities consulted in each country identified financial

administration and management as the highest priority including budgeting, revenue and tax plans, and related improvements in cadastre systems in support of revenue generation and development planning.

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 ■ Improvement in service provision ■ Billing system ■ Collection plan
3. Approval of Plans	<ul style="list-style-type: none"> ■ Cadastre updating ■ Institutional Assessment
B. MUNICIPAL DEVELOPMENT PLANNING	
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
2. Urban Development Plan	<ul style="list-style-type: none"> ■ Urban assessment and strategy development ■ Urban development regulations ■ Cadastre updating/modernization ■ 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)

TABLE II	
PRIORITY AREAS FOR MUNICIPAL TRAINING AND TECHNICAL ASSISTANCE	
Principal Area/Basic Actions	Basic Requirements for Success
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
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 (<i>Plan de Arbitrios</i>)	<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
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 <i>Patronatos</i> and Special Purpose Organizations	<ul style="list-style-type: none"> ■ Community dialogue and promotion ■ Leadership training ■ Organizational strengthening and role definition/development (<i>patronatos</i>, 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

TABLE II	
PRIORITY AREAS FOR MUNICIPAL TRAINING AND TECHNICAL ASSISTANCE	
Principal Area/Basic Actions	Basic Requirements for Success
3. Coordination	<ul style="list-style-type: none"> ■ Supervision and control ■ Evaluation and adjustment
4. Promotion of Inter-Municipal Associations and Support Systems	
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: <i>Investigación Participativa de Necesidades de Capacitación y Asistencia Técnica de las Municipalidades en Honduras</i> , INCAE (1989)	

3.4 Limited Government Transfers

Inter-governmental transfers vary widely among the five countries. At one extreme are Guatemala and Honduras, where substantial fractions of all national revenues (8 percent and—starting in 1994—5 percent, respectively) 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 30 percent 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.

3.5 Effect of National and Municipal Responsibilities on the Provision of Public Services

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, and as previously noted, 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). 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. In addition, the failure to obtain citizen input is viewed by some observers as a major obstacle to strengthening democracy in Central America.

3.6 Conclusions

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 presented above, the following conclusions emerge, in order of priority:

Conclusion 1: Strengthen the Fiscal Basis of Decentralization

a. Promote policies and strategies directed at participation, suitability, and financial autonomy.

First, it is necessary to achieve the effective participation of municipalities in the distribution of financial resources for development. Second, it is necessary to assure municipal financial suitability and expenditure autonomy.

The low levels of resources constitute the main reason for the majority of municipal deficiencies. Local income received by municipalities in Central American countries is extremely limited, calculated in terms of a percentage of total central government income or in terms of the local capacity to pay for taxes

and user fees. It is for this reason that there is minimal municipal participation in the distribution or receipt of financial resources for development.

As a result of inadequate resources, the level of municipal expenditures is low and, consequently, so is the range of services provided by local governments. Municipalities do not exercise, in practical terms, any significant influence over vital systems, and as such, citizens perceive that municipalities are being irresponsible.

To change this situation, municipalities will need to participate more in the distribution of public resources and achieve greater autonomy in their use. At the same time, it is necessary to educate the public in the importance of tax payments and achieve greater citizen participation in the planning and budgeting process.

b. 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.

c. Support a Municipal Tax Code.

*The priority actions required are: to promote a Municipal Tax Code that defines the fees and taxes that are exclusively under municipal dominion as well as the setting, execution, administration and use of such fees and taxes.**

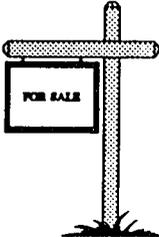
The possibility and feasibility for municipal financial autonomy depends on the improvement of the Municipal Code, which always constitutes the statutory framework for the majority of municipal actions, including financial ones.

As previously mentioned, municipalities rely on their very limited authority to impose taxes and fees required for the financial and service functioning of the

*From: Basic Conclusions, Regional Seminar on "The Municipal Role: the Essential Elements of Municipal Activity," Tegucigalpa, Honduras, November 1991.

municipality, due in part to the reality that Municipal Codes do not provide or specify such right.

There exist three areas in which the Municipal Code should define authority:

1	Real Property Tax
	<p>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 property tax needs three critical features: it requires an adequate cadastral base of maps and property records; it requires an effective system for assessing property values; and 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.</p>

2	Vehicle Tax
	<p>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.</p>

3	Sales Tax
	<p>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.</p>

In addition to transferring this specific authority, the Municipal Code and other legislation should assure the permanent character of that authority.

d. 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. Unfortunately, in many cases the central role is justified by the fear—on occasion well-founded—that local authorities will behave irresponsibly without close supervision by the Ministry of Government. In such cases, an autonomous body is set up to exercise oversight of local governments or it will be handled 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-audits and pre-approval of local budgets, such as is now done in several countries, is a serious handicap to effective decentralization.

e. Improve the Administrative, Financial and Technical Capacity of Municipalities.

*Support the adoption of policies, strategies, technical assistance and training programs that improve the administrative, financial and technical capacity of municipalities.**

Many of the arguments against financial autonomy relate to the obstacles that currently exist at the local level. Central governments resist increasing local financial autonomy because the local technical capacity to provide basic services as well as the financial and administrative capacity required to do so is limited. Given that the feasibility and convenience for municipal financial autonomy depends on the conditions and overall functioning of each local area, any increase in local financial autonomy would have to be accompanied by changes and improvements in not only the legal and policy arenas but also in the administrative and technical arenas. For this reason, the key local financial administrative systems—such as budgeting and accounting—must be improved. The numerous deficiencies that exist in many localities have become a pretext for central government officials to minimize decentralization. To overcome this lack of central government confidence in local capacity, it is necessary to strengthen local

*From: Basic Conclusions, Regional Seminar on "The Municipal Role: the Essential Elements of Municipal Activity," Tegucigalpa, Honduras, November 1991.

capacity. In addition, it is essential to increase the number as well as improve the knowledge of employees dedicated to financial administration.

Conclusion 2: Improve Financial Resource Mobilization (Support Policies that Increase the Fiscal Base)

a. Upgrade Tax Collection.

The 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 the local tax system so as to improve collection capability, there is also ample scope for mayors and councils to mount immediate efforts to improve revenue collection under their existing authority.

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. Require Recovery of Back Taxes.

To reduce the debt, municipalities need to improve their collection systems for taxes as well as impact and user fees. Not capturing these legitimate taxes and fees for the services provided and infrastructure investments made can have a negative impact on the capacity to provide such services and infrastructure in the future.

d. Expand Local Tax Authority.

Local governments need the authority to levy efficient as well as effective and equitable taxes if they are to support the cost of essential services. There are three principal choices, as previously outlined: the property tax, the vehicle tax and the sales tax.

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; it requires an effective system for assessing property values; and local government must have discretionary authority to vary the tax rate—at least sufficiently to keep pace with inflation.

e. Transfer Responsibilities to Municipal Government and the Resources Required for their Administration.*

As previously described, the criteria for establishing a new functional and financial structure are efficiency, equity and democratic development. Accordingly, financial autonomy is necessary in cases where: 1) services benefit and require the decision of the local population, as in the case of urban planning, roads, electricity, water and basic infrastructure (such as garbage collection, fire and police protection, and parks); 2) the benefits received correspond to the payments made for their use; and 3) the central government is unable to provide financial support to municipalities as a result of reductions in national expenditures (for example, in the case of structural adjustment programs). In such instances, municipalities require resources to provide the needed service functions. For this, the most common resources include property taxes, user fees, inter-governmental transfers and credit financing.

f. 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 large cities. Efforts to expand credit availability must, however, be based on realistic interest rates sufficient for loan repayment 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.

g. Introduce Financing and Co-Financing Mechanisms Under Conditions Appropriate to Different Classes of Municipalities.*

It is necessary to increase municipal government capacity (especially in the largest cities) in obtaining access to credit for financing long-term infrastructure investments. However, any efforts to achieve such a goal should be based on reasonable requirements and on real interest rates to assure debt recovery. Although access to this credit in the near future will originate from public entities, that from private entities will ultimately increase if local governments can obtain the assistance required to strengthen their financial administrative systems. Since financial capacity differs among municipalities, it is necessary to establish special opportunities for those municipalities that are disadvantaged. In every case, it is necessary to create conditions and financing opportunities that are appropriate to municipal ability in financing development.

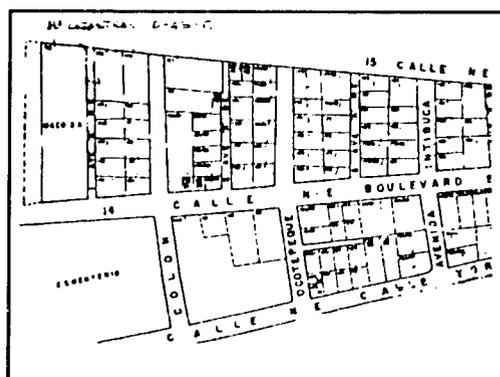
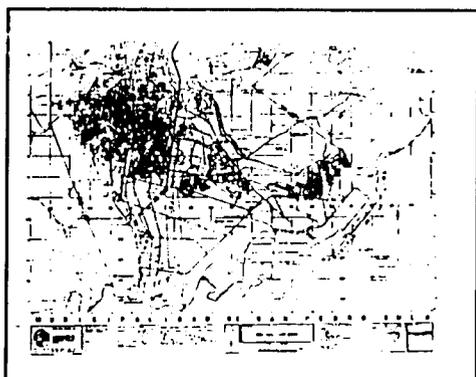
*From: Basic Conclusions, Regional Seminar on "The Municipal Role: the Essential Elements of Municipal Activity," Tegucigalpa, Honduras, November 1991.

h. Allow Municipal Bond Sales and Lottery Creation.*

It is necessary that municipalities have access to other sources of financing, such as through municipal bonds and lotteries. Bonds are essential for large public works projects including roads, airports and other investments. Lotteries, which can become a very lucrative source of funds, should also contribute to the financing of large public works projects, services and special municipal programs.

i. Improve Municipal Administration through Improved Cadastral Systems.*

In Central America, the majority of municipal income is based on fees, which reflects a lack of property tax development—an area generally dominated instead by central government. As such, it is necessary to transfer property taxing authority and capacity to municipalities as well as to formulate and implement urban plans and cadastral systems that can help expand that capacity. As part of this process, local government must obtain the power to establish and collect taxes as well as to enforce payments so as to assure that citizens comply with the taxing regulations.



j. 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.

*From: Basic Conclusions, Regional Seminar on "The Municipal Role: the Essential Elements of Municipal Activity," Tegucigalpa, Honduras, November 1991.

Conclusion 3: Expand and Improve Intergovernmental Transfers

a. Establish a Legal Base for Transfers.

*Establish the legal base for national resource transfers to municipalities in a systematic form under criteria of equity, efficiency and municipal capacity as well as in a form that offers incentives for those municipalities that generate the most resources.**

A legal base for transfers does not exist in all Central American countries (for example, not in Nicaragua or El Salvador). Where it does exist, it is subject to unequal and inefficient distribution systems. As a result, it is necessary to establish a legal base in all countries, improve distribution formulas and eliminate inefficient or inoperable conditions. For example, there exist distribution formulas that give equal weight to all municipalities regardless of differences in population or growth potential. With regard to inefficient conditions, there are cases such as Guatemala where there are laws against the use of funds for paying the engineers and lawyers who are necessary for implementing contracts, and such laws should be changed.

b. 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.

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 solely give equal weight to all municipalities—whatever their population or growth potential—are not consistent with this standard.

*From: Basic Conclusions, Regional Seminar on "The Municipal Role: the Essential Elements of Municipal Activity," Tegucigalpa, Honduras, November 1991.

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 engineering and legal staff 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.

4 Regional Strategy

The following proposed regional strategy is based on the conclusions from the recent FEMICA and RHUDO/CA sponsored seminars, field research, interviews with local and national government officials and private sector representatives, preliminary documents prepared by ROCAP/RHUDO, and informal AID missions and consultancies in Central America. It seeks to support the democratization, decentralization and municipal development processes in the region. For that purpose, the following section describes the regional strategy framework as well as the guidelines for designing and implementing such a strategy and its associated programs and activities.

4.1 Principal Goal and Strategic Objectives

The main goal is to develop stable democratic societies in Central America through decentralization, local capacity building and a commitment to respond to development needs. The strategic objectives are as follow:

The main goal is to develop stable democratic societies in Central America through decentralization, local capacity building and a commitment to respond to development needs.

- Transfer power, responsibility and resources from central to local governments in order to consolidate municipal autonomy related to policy, administrative and financial issues.
- Strengthen citizen participation and representation in municipal government and development activities.
- Strengthen the administrative, financial and technical municipal capacity to support decentralization and municipal development.
- Strengthen the capacity and meaningful participation of existing intermediary support organizations in the public and private sectors (i.e., municipal associations and development institutes, community associations, civic groups and NGOs) in the process of decentralization and local development.

4.2 Means and Mechanisms

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 municipalities in Central America, each country faces particular policy and institutional 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 to 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.

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 to take place.

The following strategies and approaches to implementation are proposed:

a. The Design and Utilization of a Conceptual Framework as a Planning and Management Tool

The basic premise 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 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, formulate and select action strategies and programs, and 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 Federation of Municipalities from the Central American Isthmus (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 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.

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 as well as conducting seminars and workshops on national and regional policies are required to promote networking, awareness building, understanding and consensus among the principal municipal development actors, including community organizations and NGOs. In addition, it is essential to prepare and publish various technical papers related to key elements of the framework. 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. Lastly, it is important to support continuous research and publications to further develop the critical democratization and decentralization issues as well as to keep all the principal actors in the region up-to-date on these issues.

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) to encourage and implement a productive public-private interface that offers a means to "transcend" political differences; and 3) to strengthen the role of community organizations and NGOs in the participatory process through education, empowerment and assuming greater responsibility in development.

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. Regional municipal development programs and activities 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 provide 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. 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, and NGOs) 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 long term. The identification of those permanent institutional mechanisms which will be required to support municipal development on a sustainable basis and should be an integral part of these efforts.

4.3 Principal Focus Areas

Regional programs and activities for municipal development should finance six activities to achieve the above objectives. These activities are: 1) analysis, research and design; 2) seminars and workshops; 3) training and publications; 4) networking; 5) communication programs; and 6) work with regional institutions.

4.3.1 Decentralization and Regional Autonomy

This activity should promote the revision, formulation, and implementation of:

- Central government laws, policies and regulations such that they do not 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 of 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.

4.3.2 Local Participation and Representation

This activity should 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;" i.e., that 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.
-

- Support for productive exchanges between the public and private sectors so as to transcend political differences and implement programs and activities of common interest.

4.3.3 Resource Mobilization and Use

This activity should: 1) take into account the availability of financial resources required for the transfer of responsibilities and the establishment of municipal autonomy; and 2) strengthen the administrative and technical municipal capacity for making it possible to carry out these new responsibilities. Consequently, this activity should promote and support the formulation and implementation of policies, strategies and programs that:

- 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.

4.3.4 Municipal and Community Empowerment

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, scale economies, 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.
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- c. Provide technical assistance and training to municipalities and their respective support organizations (associations and institutes) so that coherent decentralization and democratization programs can be effected. This technical assistance 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 but also 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 to:
 - 1) Provide technical assistance 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 they can more effectively participate.
 - 3) Support and improve public-private collaboration and participation through product-oriented meetings (that transcend political differences) and pilot or demonstration projects.

4.4 Strategy for the Organization and Management of Activities

The project implementation/organization strategy operates at two levels: 1) regional activities and support through and for FEMICA; and 2) regional/country activities and support through and for national municipal associations.

4.4.1 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 the new institution to gain experience and prestige as well as

support project activities needed in the region. This is not "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 itself 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 the 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, and Contracting Out as Means for Municipal Development.

b. Publications at the Regional Level

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 produce and distribute 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 Programs

FEMICA would develop methodologies and programs to promote new political and cultural attitudes and roles necessary for successful democratic interaction among communities, citizens, locally elected and appointed officials, and central government/autonomous agencies. This would take place through 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 of municipal development in Central America.

4.4.2 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, on 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 as for training programs and other activities.

National municipal associations, as previously pointed out, are at different stages of development. At this point, it is expected that 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 the National Level

Associations would sponsor or conduct selective research using common themes and methodologies based on common regional criteria. This would most likely be coordinated through FEMICA. Studies would be focused 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

As noted above, research studies, technical papers, and other materials would be published and distributed to principal actors in each country involved with municipal development.

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

As also noted above, each association would develop methodologies and programs to promote policy dialogue among communities, citizens, locally elected and appointed officials, and central government/autonomous agencies. The purpose is to strengthen municipal leadership and inter-municipal 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 factors 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.

9.3

Annex: Declaration of Tegucigalpa

DECLARATION OF TEGUCIGALPA

The mayors and the representatives from municipal associations and development institutes supporting municipal development in Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica and Panama, gathered in the city of Tegucigalpa, M.D.C., for the Regional Seminar "The Role of the Municipality: The Essential Elements of Municipal Activity," November 19 through 21, 1991.

CONSIDERING

That municipalities are the natural scene for citizen life and constitute the basic cell of public administration and, for this reason, the government level at which the basic needs for life and collective well-being can be satisfied;

That the countries from the Central American isthmus confront the challenge of overcoming political, institutional, economic and social crisis through the restructuring of the State, which should assure economic growth and peace based on social justice and the full recognition of the rights of all citizens;

That the people of the Central American isthmus have expressed their will to confront these development challenges through democratic systems that guarantee full citizen representation and new opportunities for coordination;

That the development of democracy fundamentally depends on it being fully exercised at the local government level;

That it is critical to strengthen the integration process, which should be focused on jointly confronting some of the basic problems that our development demands,

WE DECLARE

1. The expressed will of mayors throughout the region and of the local communities that we represent to demand greater and better participation of local governments in the decisions and the development of our communities;
 2. The urgent need to entirely restructure the State in all of our countries such that the satisfaction of community needs takes place in an efficient, equitable, and democratic manner;
 3. Our expressed and manifested support for political, fiscal and institutional decentralization;
 4. That within the decentralization process, it is necessary to devolve to municipalities the functions that guarantee full attention to the fundamental needs of our communities, along with the transfer of technical and financial resources necessary to adequately attend to such needs. This transfer should guarantee a greater and fairer distribution of resources among the communities in our nations. We reclaim these functions as a fundamental attribute of local government;
 5. Our will to assume the exercise of these restored functions, which should be transferred gradually and selectively, as commonly agreed upon by the National Government and municipalities of each country and as a function of the needs, capacities and relative development level of each municipality.
 6. Our full commitment to confront the challenge of directly satisfying the vital needs of our communities under the conditions defined above. In this context, we commit the efforts of local government in supporting a more democratic and efficient administration for the collection and utilization of resources.
 7. Our conviction that municipalities possess important comparative advantages that make it possible to better and more directly attend to local demands.
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These comparative advantages include: proximity to the user, which implies a lower cost in the implementation of public works projects and in the provision of services; greater receptivity to the demands and particular needs of local communities; the possibility for "co-development" and "co-responsibility" with these communities; and the possibility of subjecting development to citizen control.

8. That municipal development requires greater legitimacy and political representation to guarantee the credibility and support of the citizenry for the municipal execution of mandates. Consequently, we demand that local leaders be made so through direct and universal elections that occur on dates different from that of national elections and that are based on the local debate of platforms proposed by candidates to support and carry out community interests. The formation of city councils should be based on the principle of proportional representation.
9. That, in order to achieve the above, we reiterate our will to strengthen national municipal associations under the principles of free association and political independence. To these associations we give the tasks of: developing and supporting municipal political will that the process of State restructuring and decentralization will demand; municipal representation in national discussions and decisions that affect municipal interests and responsibilities; and the management of support services that allow the technical and administrative strengthening of local governments such that they can fully and efficiently exercise their functions.
10. Our full support for the Federation of Municipalities from the Central American Isthmus (FEMICA) as the most appropriate entity for representing and supporting us for the basic purpose of politically and economically strengthening municipal governments and administrations. Specifically, we stand behind the work of FEMICA in its search for strategies and mechanisms that will mobilize political support as well as obtain support from actual national decentralization efforts. We expressly entrust FEMICA with the role of being our representative and speaker in regional integration efforts and request that FEMICA present this Declaration in the next Summit of Central American Presidents.

We entrust FEMICA and the national municipal associations with promoting and executing the conclusions of this Seminar and the plans set forth in this Declaration of Tegucigalpa.

Bibliography

This document is based principally on the following publications:

- The Declaration of Proceedings and Recommendations from the Regional Seminar on "The Role of the Municipality: The Essential Elements of Municipal Activity" (Tegucigalpa, Honduras, November 1991). Sponsored by FEMICA and RHUDO/CA of USAID. Washington DC: PADCO, Inc., December 1991.
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