

Technical Report No. 1

Assessment of Health Sector Decentralization in Paraguay

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Partnerships
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Reform

PHR

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Abstract

This report assesses Paraguay's current health sector decentralization effort and offers possibilities for the United States Agency for International Development (USAID) support. The assessment was carried out as part of a process to develop USAID/Asunción's five-year strategic plan. The objective was to assess the feasibility of continued support for decentralization of the health sector as part of the larger overall USAID strategic objective to strengthen democratic institutions, systems, and practices. This report outlines the challenges ahead for successful and sustainable decentralization. It serves as background to an in-depth analysis of the early experiences of departments and municipalities in implementing decentralization policies and to the design of a detailed technical assistance plan, which are published as separate Partnerships for Health Reform Technical Reports (Nos. 3 and 4, respectively).

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Acronyms

ANTELCO	National Electricity Administration and National Telecommunications Administration
FIU	Florida International University
INVEC	Inventory Control System
IPS	Social Security Institute (Instituto de Previsión Social)
MSPyBS	Ministry of Public Health and Social Welfare (Ministerios de Salud Pública y Bienestar Social)
NGO	Non-governmental Organization
OPS/OMS	Organización Panamericana de la Salud/Mundial de la Salud (Pan American Health Organization/World Health Organization)
PHR	Partnerships for Health Reform Project
RHUDO/SA	Regional House and Urban Development/South America of USAID
SENASA	National Environmental Sanitation Service
USAID	United States Agency for International Development
VAT	Value-added Tax

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Executive Summary

Paraguay's Ministry of Public Health and Social Welfare (Ministerio de Salud Pública y Bienestar Social [MSPyBS]), also referred to as the Ministry of Health, has taken preliminary steps to decentralize its health services. Decentralization, which is consistent with the intent of Article 69 of the National Constitution, aims to build a participatory society through newly established democratic institutions. The Ministry of Health has taken the lead by initiating a process to strengthen district-level health management. This effort has been greatly facilitated by earlier support from the United States Agency for International Development (USAID)/Asunción to the Ministry of Health to strengthen management skills at all levels and to install specific management systems (e.g., accounting, logistics), which form one cornerstone for decentralized management.

This year's effort by the Minister of Health to initiate decentralization of health services has stimulated interest and dialogue among ministry officials at the central, regional, and local levels. This process coincided with a definition of the responsibilities of these various levels by recently elected officials at the regional and local levels — the first time these have been clearly delineated. Democratically elected governors nominated departmental health secretaries (Secretarios de Salud), who in turn started to work with the municipalities and the elected town councils to begin the process of local involvement in health program management. These pilot activities center around establishing inter-sectoral and inter-institutional collaboration and working through local communities to search for new ways to plan and implement health programs in coordination with the Ministry of Health.

The decentralization process initiated by the Ministry of Health precedes adoption by Parliament of the necessary legal frameworks, including the enactment of the draft law creating the National Health System itself. Nevertheless, pilot activities are underway in ten districts, and these demonstrate that local governments are committed to assume increased responsibilities in health services management. However, decentralization depends on the management ability of those responsible for the administration of resources and on a commitment by the central level to transfer functions to the local level. The pace of devolution must be governed by the capacity of each level to effectively carry out new activities.

The long-term success of decentralization therefore depends on the provision of adequate support to all levels. In addition, there is uneven political commitment to decentralization in some sectors of the central government. Where there is clear commitment, as in the health sector, this should be sustained by publicizing the achievements of decentralization activities already underway, particularly improvements in access to health services and in services that provide the greatest overall benefit to the population.

USAID has supported the Ministry of Health's efforts to explore a range of decentralization options, thereby facilitating the process and helping to create a climate of trust. At the same time, these first steps in the decentralization process have been taken without a clear vision for how local and facility-based health program management should be fully implemented. Nor has the process benefitted from an understanding of how best to ensure the effective participation of local communities in the development and implementation of health programs. The challenge is to develop

such a vision and a resulting implementation plan that will be participatory and cost effective and that will lead to improved health status for the population.

This assessment was carried out in preparation for the development of USAID/Asunción's next five-year strategic plan. The report consists of five sections:

- ▲ Section I provides an introduction to the objectives of decentralization and how these match USAID's general objectives of strengthening democracy and governance.
- ▲ Section II assesses the options for USAID support and lays out the next steps in formulating a pilot program in selected districts.
- ▲ Section III outlines some key principles that undergird the health reform process in Paraguay.
- ▲ Section IV provides contains a technical assessment of the current state health sector decentralization.
- ▲ Section V outlines the political, legal, financial, administrative, and institutional challenges to decentralization in other governmental sectors.

1. Introduction

The objective of decentralization is to give decision-making power to those at various administrative levels who are responsible for providing services and to the population being served. Specifically, this involves progressive devolution of authority to lower levels of government, i.e., to departments, districts, and municipalities. It may also involve increasing the autonomy of health facilities, particularly hospitals. This devolution of decision-making is expected to increase the accountability of program managers and health care providers.

Transferring accountability for the outcomes of programs to lower levels, both within the government and within the health system, implies changes to the incentive structures. Hierarchical decision-making structures must be transformed into structures that allow and reward decision-making and problem-solving at lower levels. In a centralized administrative structure, directives for improving programs and solving problems come from higher up. In decentralized management structures, the emphasis is on problem-solving by health providers and health managers themselves. The transfer of program responsibility, when accompanied by a transfer of resources or a redistribution of revenue-generating activities, further stimulates those who deliver health services to take initiative to provide optimal services to their clients.

Another expected benefit of decentralization is that local health programs will be more responsive to the people they are meant to serve. Decentralization creates opportunities for communities and health care providers to actively participate in designing public health programs and for patients to collaborate in efforts to improve the delivery of services.

A third benefit of decentralization is a synergy between national and local initiatives to improve the quality of health services and to better use available health care resources. This synergy, in turn, improves the sustainability of both the democratic decentralization process and any resulting improvements in health care delivery.

A draft law creating a National Health System was passed by the Chamber of Deputies in December 1995. This was an important first step toward defining the model of decentralization envisioned by the Ministry of Health. The law, when fully enacted and promulgated, will formally initiate decentralization through the creation of regional and local health councils. These regional and local health councils will be the means through which interested parties can participate in the design and implementation of health programs. To be successful, such health councils should include health care providers, as well as representatives from sectors other than health and from non-governmental organizations (NGOs). It is also important to ensure that these councils focus their activities on improving the quality of health care, particularly preventive and primary care. Local and regional health councils, as well as other local consultative and decision-making bodies, should seek to translate national public health objectives and national standards of care into locally appropriate programs, which can be implemented using locally controlled resources.

1.1 Factors That Enable and Constrain Decentralization

There is no general law that sets an overall framework for decentralization of governmental functions such as budget and taxation. With USAID support, the government and Congress of Paraguay have engaged in a debate about decentralization that has led to creation of a National Committee for Decentralization.

The draft law that creates the National Health System, when fully enacted, will result in the creation of regional and local health councils. One of the main activities supported by the Ministry of Health has been to create health counsels at various level in anticipation of enactment of this law. Such committees have been formed within some departments and municipalities, but they have not yet begun to undertake concrete activities in health care planning and oversight. The role of these councils, as defined in the law, will be to facilitate negotiation, coordination, and oversight. The law makes no provision for the councils to exercise executive powers in health care decision-making at the local level. In fact, the law does not actually decentralize responsibilities; instead, it creates enabling mechanisms through which future decentralization plans may be operationalized.

The Ministry of Health also has created departmental health secretaries, who are nominated by the department governors and are expected to work with both central and regional representatives of the Ministry of Health. This is an important first step in transferring decision-making power to elected officials. Responsibility for one key function, the purchase of drugs and medical supplies, has already been transferred to the departmental level. However, there has been some tension and confusion about the respective roles and responsibilities of the new health secretaries and departmental Ministry of Health representatives.

One essential prerequisite of successful decentralization is the presence of trained staff in those institutions that are directly affected by the transfer of responsibilities, including those at lower administrative levels such as municipalities and individual health clinics. The lack of appropriate skills is widely recognized as one main factor constraining decentralization, particularly in program and financial management, accounting, and team-based problem-solving to improve quality of care.

1.2 USAID's Strategic Objectives

Decentralization in the health sector supports the achievement of USAID/Asunción's Strategic Objective No. 1, "Strengthened democratic institutions, systems and practices." The activity of decentralization can also contribute to achievement of two program outcomes:

- ▲ Program Outcome No. 1.1: "Strengthened citizen participation in the decision making process"
- ▲ Program Outcome No. 1.3: "Improved public sector financial management and accountability"

Strengthening the process of decentralization is expected to improve citizen participation in defining and implementing health care programs. Increased autonomy at the local level is also

expected to make institutions and health facilities more responsive to the citizens' needs and to improve the quality of care.

Decentralizing the Ministry of Health's unified budgeting system, which has been successful at the central level of the Ministry of Health, will allow financial management systems to be implemented at the local and regional levels. These systems, in turn, will improve accountability over funds that will be increasingly managed at the regional and local levels and will improve the cost-effectiveness of health programs.

Expected results for program implementation and accompanying indicators will be refined once a detailed implementation plan for USAID support of health care decentralization has been developed.

2. Opportunities for USAID Support

There is a substantial level of support within Paraguay for the process of decentralization initiated by the Ministry of Health. This support appears to be based more on the anticipated results than on the actual implementation of decentralization to date. The long history of centralized government in Paraguay and the lack of national experience with decentralized decision-making lead to some uncertainty about the specific forms that decentralization will take. This translates into insecurity among many of the people and entities involved, particularly about their eventual roles and responsibilities.

It is clear that the choice is not whether, but how to decentralize. There is much less clarity, however, about the precise levels and functions of health services that will be decentralized or about the costs and financial implications of implementing effective program management at lower levels. In addition, the Ministry of Health is proceeding without the benefit of a sufficiently formulated and appropriate legal framework. Despite all these uncertainties, however, the Ministry of Health is continuing the process and welcomes support from USAID.

By strengthening the process of decentralization in the health sector, USAID/Asunción can significantly contribute to the achievement of specific program outcomes in its strategic plan. The health sector experience will provide lessons of value to the broader decentralization effort. To the extent that effective decentralization in the health sector will engage other ministries and local administrative governments, it will contribute to inter-sectoral collaboration and will complement other activities in the Mission's portfolio in a manner consistent with the overall goal of strengthening local participation in decision-making. The increasing involvement of the democratically elected governors and their staffs in health care planning and the creation of regional and local health councils is leading the way to increasing the involvement and effective participation of communities in planning health care programs and improving the quality of services.

2.1 Pilot Activities

In order to assist the government of Paraguay, and in particular the Ministry of Health, in the process of decentralization, USAID should develop pilot activities in a few, selected departments and localities. Such pilot activities will provide valuable experience and information that can inform the government's future strategy for and implementation of decentralizing health management. It must be recognized that these pilot projects would be a first step in a longer process of decentralization. Even in countries with a longer history of decentralization, the process is a gradual one, which requires significant resources, commitment, and time.

2.1.1 Technical Assistance

USAID support for decentralization in Paraguay has primarily been in the form of advocacy. Little or no technical assistance has been offered at the local or regional level to help develop effective institutions and programs to increase local participation and improve the quality of services. USAID can contribute to the decentralization process by providing technical assistance and support for capacity-building at the regional and local levels for the implementation of effective and broadly participatory health programs. It will be particularly important that the regional and local health councils include representatives of important community and civic groups, NGOs, and other stakeholders, particularly those working in the health sector. This includes representatives from other sectors whose activities have a direct impact on the health issues affecting various communities.

2.1.2 Overcoming Obstacles

The pilot programs will need to address the most important constraints to decentralization, which were described in the first section of this report. There must continue to be political willingness to transfer decision-making power. Legal challenges must be overcome. A new financial strategy must be developed that focuses both on generating resources at the local level and transferring funds from the national level. Perhaps most important, capacity must be created among individuals and institutions at all levels, but particularly at the local and regional levels, to enable them to assume the new responsibilities that will result from effective decentralization.

In addition, successful decentralization will require that the inter-relationships among various levels of government be strengthened and that new roles and responsibilities be clearly defined at all levels. One example is the need for a clearly defined role for the Ministry of Finance in devolving authority to generate local revenues and implementing the process of decentralizing financial resources.

2.2 Strategic Planning

The first steps in starting up a pilot program are to define the specific form that decentralization will take and to build consensus for the process at all political levels. While some transfers of responsibility are currently being considered, it will be necessary to develop a coherent vision for the medium and long term if the pilot programs are to be successful and if the results are to be applicable to the debate that will need to occur elsewhere in the country.

Building consensus around a common vision for decentralization in health can be achieved through a strategic planning process. The Ministry of Health now has no process for obtaining consensus among its senior staff at the central and regional levels (including the governors' representatives) about an organizational vision of how to decentralize. Such a strategic exercise would address such key issues as:

- ▲ which institutions will be part of a decentralized health system, including at the central and departmental levels

- ▲ inter-relationships among the different levels
- ▲ resource allocation and inter-regional equity
- ▲ a process for improving the quality of health services

Another benefit of supporting a strategic planning process for decentralization is to build recognition that the process by which decentralization is designed and implemented is nearly as important as the specific results. The principles of total quality management should be followed, in order to:

- ▲ allow consensus-building through a participatory and iterative process
- ▲ make the design more reflective of the conditions that will positively and negatively affect the process
- ▲ incorporate the real objectives of the participants
- ▲ result in greater ownership of and commitment to the ultimate results, which will be elements to the sustainability of the process

This same process of participatory planning could then be used within the regions and localities where the pilot projects are implemented, with the close collaboration of the regional and local health councils. It would run directly counter to the principles of local participation in decision-making if the details of a ready-made, centralized plan were imposed on institutions and communities at the regional or local level. The participatory approach is based on the premise that stakeholders and clients must be actively involved in the design and monitoring of programs developed for each region or locality.

2.3 Defining Appropriate Roles and Responsibilities

Another component of the process of consensus-building involves the definition of the appropriate roles and responsibilities for institutions at each administrative level, as well as for the interaction among them and monitoring of each. Given the new responsibilities and increased autonomy that will flow to institutions at lower administrative levels, the role of the Ministry of Health will have to change from one of managing programs to one of providing assistance to lower-level institutions for program implementation. The role of the Ministry of Health at the central level will also include setting national standards and program objectives. A modified management information system will enable institutions at each level to track their performance in relation to established program objectives and to monitor performance at lower administrative levels.

These changes in roles and responsibilities will be essential to making decentralization effective in the long run. Training, assistance in developing new systems, and continuous consensus-building among the different actors are among the key activities of a decentralization pilot activity.

2.4 Institutional Capacity Building

Another essential component of USAID support must be to strengthen the institutional capacity of people and institutions involved in decentralization. Institutions at all levels will need to be strengthened, and interaction among institutions at the central, regional, and local levels must be facilitated.

This capacity-building will directly support the phased implementation of a decentralization plan in phases. Initially, transfers of decision-making in the pilot areas may be considered for the purchase of medicines (which has already occurred in many departments), control over hiring and firing of personnel, and a gradual transfer of financial resources.

2.5 Summary

To summarize, a USAID-supported program for decentralization in health care can be undertaken in selected pilot areas where the process of implementation can be tested and lessons can be learned to improve the broader, national process. USAID support should focus on the following areas:

- ▲ Strengthening capacity at local levels (municipalities, departmental governments, departmental and district councils, and individual communities) to conduct health programs based on criteria for improving quality and fostering active community participation
- ▲ Assisting in defining the normative, supervisory, and supporting role of the central Ministry of Health in a decentralized health system
- ▲ Promoting the formulation, preparation, and approval of laws that facilitate the framework and execution of decentralization in general and decentralization of the health sector in particular
- ▲ Developing a system of intergovernmental taxes and transfers that strengthens the executive capacity of departments and municipalities
- ▲ Developing and/or adapting the Ministry of Health's management information system
- ▲ Building appropriate systems for financial transfers and cost recovery

2.6 Next Steps

In order for USAID to determine where to implement pilot programs, a more in-depth diagnosis of the departments is necessary. Such a diagnosis should focus on progress to date in the creation of regional and local health councils, as well as the particular enabling and constraining factors that will affect the decentralization process.

It is important to note that interim support for those regions that have demonstrated a commitment to building effective, decentralized health programs will be essential for maintaining the momentum already generated by the Ministry of Health, with support from USAID's Regional Housing and Urban Development/South America (RHUDO/SA). Such support should be specifically targeted toward strengthening the departmental and local health councils that have been formed with support from Florida International University.

A detailed intervention proposal should be developed for assistance from the Partnerships for Health Reform (PHR) Project that includes the results of the departmental diagnostic review. Follow-up activities should focus on the development of pilot activities in selected districts to implement effective decentralization of health services. Such programs could contain support or assistance with the following activities:

- ▲ Strategic planning by representatives of the Ministry of Health and the departments and municipalities involved in health sector activities to develop consensus around a common vision for decentralization of the health sector. (This strategic planning exercise might take place in conjunction with the conference on decentralization that is to be organized in the spring of 1996 with help from USAID.)
- ▲ Participatory design of local and regional pilot programs for decentralization
- ▲ Development and implementation of a training plan for representatives from local, regional, and central institutions involved in the decentralization in the health sector
- ▲ Efforts by the Ministry of Health to define its normative, supervisory, and supporting role
- ▲ Strengthening of regional and district health communities
- ▲ Build capacity at the local level to improve the quality of health services
- ▲ Design and testing of a pilot program for cost recovery and resource allocation at the local level.

3. The Objectives of Health Sector Decentralization

This section outlines the overall purpose of decentralization of the health sector in Paraguay. Some definitions are provided as background, and the principles and objectives of the process are reviewed in more detail.

3.1 Some Definitions

Decentralization is defined as the transfer of authority or the reassignment of power in the areas of planning, management, and decision-making from national to subnational or local levels. This involves a permanent and irreversible legal act by which a lower-level or peripheral organization receives a responsibility and the resources to exercise it with political and managerial autonomy. There are two types of decentralization:

- ▲ Sectoral or institutional decentralization is when a public or social service is provided completely or partially by an agency decentralized with respect to the central level of the government. The Social Insurance Institute (Instituto de Previsión Social, IPS) is an example of sectoral decentralization.
- ▲ Geographic decentralization occurs when responsibilities and resources are transferred by the national level to lower-level departments or municipalities. Geographic decentralization is often considered a more authentic form of decentralization, and sectoral or institutional decentralization is often considered to be “deconcentration” (which is defined below).

It is important to distinguish between degrees of decentralization:

- ▲ Deconcentration is the transfer of administrative responsibilities to regional units of the central government. Deconcentration is primarily a technical reorganization of services. It rarely involves legal acts but instead is carried out through relatively simple administrative measures. Examples of deconcentration in the Ministry of Health are the administrative directives permitting the purchase of drugs and medical supplies by individual departments.
- ▲ Delegation is an administrative act through which responsibilities are assigned to lower or more peripheral levels of the organization to accomplish certain functions. Delegation is often temporary and reversible.
- ▲ Devolution is the creation or strengthening of subnational levels of government with varying degrees of political and financial autonomy.

3.2 Three Principles for Health Sector Reform

The process of health sector reform in Paraguay is based upon three principles, which together are the cornerstone of the government's health care policy:

- ▲ decentralization (both sectoral and geographic)
- ▲ self-management
- ▲ social participation

3.2.1 Decentralization

Decentralizing the management of human, material, and financial resources optimizes the use of resources by improving their efficiency and productivity and by lowering operational costs. Decentralization is considered an alternative to using large, bureaucratic national agencies to manage public and social services. Decentralized systems are considered more effective in allocating scarce resources to priority needs.

Decentralization, both sectoral and geographic, is a common objective of health sector reform in Latin America and serves the broader objectives of improving the quality, equity, and efficiency of public and social services. Decentralization also serves to improve governance and to increase democratization and social participation.

One objective of decentralization of the health sector in Paraguay is to improve equity in allocating resources. The goal is to distribute financial, human, and material resources throughout the country, ensuring that state subsidies are targeted to the poorest and most vulnerable social groups. Decentralization enables decision makers at the local level to exercise more control over how resources are used.

Another objective of decentralization is to improve the quality of health services at the local level and, ultimately, to improve the overall health status of the population. This is achieved in a number of ways, including:

- ▲ increasing access to services for all segments of the population
- ▲ optimizing the use of available resources
- ▲ using appropriate interventions to reach optimum results
- ▲ permitting local-level health care providers to assume responsibility for improving the quality of their services
- ▲ improving patient satisfaction

3.2.2 Self-Management

Self-management is one form of deconcentrated or decentralized management for institutions or service-providing units. Complete self-management, or institutional decentralization, exists when a service-providing unit maintains its own legal status and financial, patrimonial, and administrative autonomy, even though it may still be controlled by the central level.

Self-management is aimed at empowering service-providing units as autonomous centers to make decisions and take responsibility for fulfilling objectives and administering resources. Self-management, which is particularly relevant to hospitals, should include a strengthening of the managerial capacity of staff members to enable them to assume more responsibility. It is often accompanied by an incentive structure aimed at increasing productivity.

3.2.3 Social or Community Participation

Social or community participation in health care is manifested in various forms, including through volunteer work, health promotion activities within the community, or community involvement in the planning, management, and control of investments in health. Citizens can participate in such activities as volunteers, as representatives to local health councils, or as part of broader efforts to improve conditions for efficacy and supervision.

Community participation in the supervision of services results in more timely delivery of health services, greater coverage, and improved quality of care. Community participation should include the development of community control and political representation of minority or emerging forces.

4. The Status of Health Sector Decentralization

Decentralization of government functions began in Paraguay following the institution of a democratically elected government six years ago. Departments were created (through the Constitution of 1992 and Law 426/94), and municipalities were reorganized (through Law 1/90). Democratic elections were held for superintendents at the municipal level and governors at the departmental level (in May 1991 and May 1993, respectively). In both financial and administrative terms, however, decentralization remains in its infancy.

The management and operation of health services has traditionally been the responsibility of the central-level Ministry of Health and Social Welfare. In the past, the local and regional organization of health services were did necessarily parallel that of the government's political or administrative bodies. Moreover, public sector health care facilities were always considered a subsector of the broader health care system, alongside the Social Insurance Institute and the private sector.

Resolution 368 (1992) and Resolution 49 (1993) fixed the geographic boundaries of the health regions to be coterminous with the country's political and administrative divisions. This allowed better coordination of the health sector activities with those undertaken by governors and municipal superintendents.

After the new constitutional government was inaugurated (to serve between 1993 and 1998) and after the governors were elected in 1993 (but before the latter took office), decisions were made to further deconcentrate health services. Overall reform of the health sector began in 1994 and included:

- ▲ reorganization of the National Health Council
- ▲ proposals to create a National Health System and National Medical Insurance
- ▲ reaffirmation of the commitment to decentralization, specifically to the municipal level
- ▲ a strengthened the role for the Ministry of Health as the overall leader of the health sector

Major steps have recently been taken to deconcentrate decision-making and to establish coordination between the central-level and departmental governments. In particular, regional health directors can now allocate and disburse financial resources intended for the purchase of medicines and supplies. Also, a computerized inventory control system (INVEC) was installed at all the central medical stores in the Ministry of Health, which prompted several regions to request the installation of such systems at the departmental level.

Furthermore, the establishment of department-level governments, which include health secretariats, has made it necessary to organize bodies for coordination between the Ministry of

Health and the departments. Special meetings have been held among the Minister of Health, the governors, and the health secretaries. Some departments have formed their own health councils.

To combine the various health care services and subsectors into a coherent system and to meet the need for coordination among the departments and municipalities, the Chamber of Deputies began to consider a bill to create a National Health System. This draft law was approved by the Chamber of Deputies in December 1995, and was scheduled for discussion by the Senate in the spring of 1996.

4.1 The National Health System Law

The draft law establishing a National Health System guarantees a universal right to health care. In creating a National Health System, the law (through Article 3) aims to integrate the different subsectors of the health sector: public agencies and offices; private agencies; and the Social Insurance Institute. The law classifies the various agencies that provide health services as “integrated” or “incorporated” if they are public agencies or if more than 50 percent of their resources come from the public sector; private health care facilities are classified as “attached” or “coordinated” agencies.

The health care “system” (as defined in Article 4) is comprised of a public and private “service network” for preventing disease, promoting health, and treating and rehabilitating patients. The law also refers to the system as an inter-sectoral area in which biological, social, economic, and cultural factors influencing health and disease are at work (Article 5).

The state’s responsibility for maintaining the equality of duties and rights of citizens is reaffirmed (in Article 6). The role of the system as “integrator and regulator of service institutions” is emphasized, particularly in establishing comprehensive health care coverage and guaranteeing universal access to such coverage.

The law legitimizes the process of administrative deconcentration under the regional health directorates and formally creates three units of inter-sectoral coordination: the National Health Council, regional health councils, and local health councils. The law reaffirms the governing and leading function of the Ministry of Public Health and Social Welfare (Article 10) by continuing its administrative functions of contracting, selling, procuring, and transferring services, and arranging and supplementing physical, financial, equipment, and material service and physical resources.

The law does not divest the Ministry of Health of its operational functions. Nor does it decentralize responsibilities and resources to the departments and from the departments to the municipalities. It does create negotiation mechanisms, and it leaves open the possibility that the various governmental entities may enter into agreements and contracts to promote decentralization (Article 12). It also leaves open the possibility that local health systems will be developed and strengthened and that financial and operational decentralization will be implemented through them (Article 8G).

Perhaps the most significant aspect of the law with respect to decentralization is the creation of regional and local health councils (Articles 23 and 24). These councils are to include all institutions that comprise the health sector in various municipalities and departments and are to be headed by

departmental and local health secretariats. Although the regional and local councils are not given executive responsibilities, they are responsible for negotiation, coordination, evaluation, and oversight functions, and they may create processes that in the end require real decentralization of responsibilities and resources to subnational agencies.

The law creates a National Health Council (Article 19) whose only functions are coordination, consensus, and participation. An Executive Committee (Article 27) is also created to lead, guide, make decisions, set standards, and oversee the operation of the system and the execution of the National Health Plan. The Executive Committee is empowered (Article 31) to organize three directorates:

- ▲ National Medical Directorate, responsible for service management
- ▲ National Health Fund Directorate, responsible for financing policy and national medical insurance
- ▲ Health Superintendency Directorate, for accreditation and control of service quality

The Executive Committee is also empowered to establish “administrative, operational, and executive” decentralization based on different levels of care in the case of the public subsector (Article 41).

The law does not define the health sector’s financial resources nor create new sources of revenue. However, the law does mention a National Health Fund (Article 38), which is “the executive financial organism of the National Health System and is supposed to develop and execute the annual budget for each subsector.” The law does not specify the legal status of the Fund or whether it is a centralized revenue-raising system for various subsectors. Nor does the law specify what amount of resources or under what conditions and criteria financial resources can be transferred to the departments and municipalities. However, the law does give the Executive Committee the power to regulate “mechanisms for transferring resources to the regions, public subsector establishments, and professionals providing services to the sector” (Article 40A).

The National Health System as defined by the draft law fails to provide a guide for fully decentralizing the health sector. A modification or new law ought to be proposed that confers political responsibility for the municipal health systems on municipalities; confers coordination and advisory functions and services of greater complexity to departments; and reserves to the Ministry of Health responsibility for setting the overall direction of public health policy, defining national standards for health services, providing technical advice and support to local agencies, monitoring local and regional health systems.

4.2 Decentralization Activities Supported by Florida International University

To aid the government of Paraguay in its efforts to promote decentralization, increase citizen participation, and strengthen local governments, Florida International University’s (FIU’s) Institute of Management and Community Service, has implemented a three-year project to promote the consolidation of democratic institutions in Paraguay. This effort was supported by USAID’s Regional Housing and Urban Development/South America (RHUDO/SA). The first phase, which

began in September 1993, focused on a diagnosis of the decentralization process and a proposal for intervention. In the second phase, technical support and training were directed at different levels of government.

At the national level, FIU provided legislative support to the Committee on Departmental and Municipal Affairs of the Chamber of Deputies in drawing up a new draft Municipal Organic Law. FIU co-sponsored two discussion colloquia on the bill with the same committee, one for community members and the other for municipal government experts. Both colloquia were held in Asunción. A few public hearings were also held in provincial cities.

FIU also provided assistance in organizing and conducting a colloquium for the Committee on Health Affairs of the Chamber of Deputies at which four bills pertaining to the National Health System Law were presented.

One of the first decentralization activities of the Ministry of Health was to organize and hold an international colloquium attended by the Minister of Health and the U.S. Under Secretary of Health and Human Services. This was followed by three workshops, one with participation of Colombia's former health minister, Juan Luis Londoño, who was instrumental in carrying out decentralization in Colombia. The workshops were aimed at central and departmental directors, hospital directors, and district health managers as representatives of departmental governments and municipalities.

Two workshops were organized at the departmental level. One was on "the role of departmental governments in the future of democracy in Paraguay," which included participation by external speakers. The other one, on "the role of political parties in decentralization," included leaders of the parties represented in the parliament as well as representatives of the president of the Republic of Paraguay. Three workshops on administrative methods were held for officials of the governments of Central, Cordillera, and Paraguari departments.

At the municipal level, FIU provided support for administrative modernization and budget formulation to the Municipality of Asunción. A study of citizen participation was conducted, and the experience gained by the Municipality of Asunción during the project was conveyed to provincial municipalities through workshops and seminars.

The following results were achieved:

- ▲ The draft Municipal Organic Law was brought to the verge of approval by the Chamber of Deputies
- ▲ The draft National Health System Law was partly approved
- ▲ Preparations were made for pilot health decentralization programs
- ▲ Governors were made more aware of their roles, and, as a result, the Council of Governors of Paraguay was strengthened. At that institution's request, the National Decentralization Council was formed with the participation of various national, departmental, and municipal institutions

- ▲ The activities received significant attention in the print media (including in front-page newspaper articles) and on radio and television

4.3 Perspectives of Different Actors

Since the establishment of a democratically elected government, the central (national) government has succeeded in strengthening the political and administrative structure of the departments and municipalities, as well as the democratic organization of their authorities, through direct elections. However, there is no basic administrative and financial decentralization law that mandates or governs a progressive decentralization efforts within all government sectors.

Queries to the Ministry of Finance and a review of tax laws indicate a need for broader decentralization. For example:

- ▲ The Ministry of Finance is considering transferring part of the resources in the national budget to municipalities and departments. However, there is no clear plan or legal framework for such a move.
- ▲ The departments' contribution to VAT (value-added tax) collections is inequitable, with poorest departments contributing proportionately more.
- ▲ Management of taxes and revenues from lotteries and games of chance is centralized, which hinders the development of the departments' own revenues.
- ▲ Municipalities have responsibility for collecting real estate taxes, and these revenues are then transferred to the departments and, in part, to the poorest municipalities. The issue of equitable distribution of resources and the responsibility of central government have not been resolved; it is unclear when such responsibilities should be financed from national revenues.

Congress has supported the Ministry of Health's initiatives, especially by developing the draft law establishing a National Health System. As noted elsewhere, this proposed law includes mechanisms for joint activities with departments and municipalities. Nevertheless, one major constraint to broad, national decentralization is the lack of support among the national leadership of the traditional political parties for redistributing power to the regions. In the absence of stronger support within the central government itself, representatives from the provinces in Congress can hardly be expected to offer greater support for the process.

The Ministry of Health has shown great political will, demonstrated leadership, and won the president's backing for the steps it has taken toward decentralization. The immediate expectations for decentralization have been expressed with great clarity in the document signed on December 20, 1995, between the Minister of Health, the departmental health secretaries, municipal intendents, municipalities, regional directors, and health center directors, which committed them to the following:

- ▲ Continuing to promote the cause of decentralization as a way to ensure sustained development for improving the quality of life of all residents of the departments and districts
- ▲ Stimulating the creation and strengthening of departmental and district health councils and ensuring the participation of all community leaders and representatives, including representatives of existing community organizations
- ▲ Seeking optimal use of available resources by coordinating the activities of units in the health area, and aiding them in the development of quality health services by signing agreements between such units
- ▲ Promoting the joint preparation of short- , medium- , and long-term district health plans to be included in district development plans to address the health care priorities of the population
- ▲ Urging national, departmental, and local institutions to contribute to health plans those resources they have allocated to the health sector in their areas in accordance with the provisions in effect (this does not involve committing resources outside their control)
- ▲ Providing the annual national health plan to communities for discussion, correction, and approval in order to make it transparent with regard to decisions affecting the community

Notwithstanding this progress, however, the Ministry of Health has not drawn up a medium- or long-term plan for decentralization, especially for the administrative and financial aspects of the process.

4.4 Progress to Date

The support and active pursuit by the Ministry of Health has launched the process of decentralization, community participation, and self-management to solve old problems created by government centralism. This has caused new tensions in the ongoing, national process of fundamental political change. The most important areas of progress include the following.

4.4.1 Creation of Departmental Health Secretariats

Perhaps the most important step to date in health sector decentralization — and one that will significantly affect the future course of the process — is the creation of departmental health secretariats, which report directly to the governors. Although the health secretariats' functions have been defined to be coordination and supervision, they coexist with the regional health directorates that also exist in each department and which report to the Ministry of Health. This creates ongoing conflict and tension because there is an overlap of responsibilities between these two entities and no clear definition of functions.

In coordination meetings between the Ministry of Health and the departmental secretaries held in February 1995, the secretaries agreed with the Minister of Health that they would take part in the

entire process of formulating, carrying out, and evaluating the budget of the health care institutions established in their departments and would serve as coordinators and overseers of health care in the departments. These meetings resulted in an initiative to request those governors who had not yet created health secretariats to do so.

More thought will have to be given to creating more stable and well-defined coordination agreements involving the regional health directorates. Such agreements are critical for making the transition toward truly decentralized systems in which the health secretariats are unified with the regional directorates and begin to carry out elective functions in health care administration.

4.4.2 Creation of Departmental and District Health Councils

Departmental and municipal health councils were created at the Minister of Health's initiative and through coordination meetings held between the Ministry of Health and the department secretaries. These health councils are headed by the departmental health secretariats and include representatives of the Ministry of Health's regional directorates. The objective is for them to coordinate, negotiate, and supervise health policies and services in the departments and municipalities. Through June 1995, such councils had been organized in the departments of Concepción, Central, Cordillera, and Misiones and in the district of San Lorenzo. By December 1995, a total of nine councils had been created.

Although these councils have no executive power, they can play a very important transitional role in facilitating genuinely decentralized ways of managing health care. As the Minister of Health said, "the evidence is clear that progress was made in decentralization...and that...there was a conviction that this Ministry should continue gradually transferring those responsibilities which it is known can be better administered at the departmental and/or municipal level." He also noted that "There is a conviction that the transfer of roles cannot be accomplished overnight because everything depends on the training of human resources and the entire social structure which should accompany this process at the departmental and/or municipal level" (June 1995).

4.4.3 Pilot Plan to Devolve Basic Health Services to the Municipalities

In carrying out decentralization policies, the Ministry of Health and the municipal superintendents have signed specific agreements with some districts. Such initiatives are in the early stages, and, although some municipalities have created health councils, they have not yet started to coordinate local health activities. The agreements commit the municipalities to the measures outlined in Section 4.3 above.

4.4.4 Departmental Government Agreements with SENASA

The National Environmental Sanitation Service (SENASA), a component of the Ministry of Public Health and Social Welfare, is promoting a cooperation program in the basic sanitation area. Annual agreements are being carried out which include compacts to co-finance activities. This experiment will lay the groundwork for future decentralization of such services.

4.4.5 Self-Management in Procurement and Managing Pay-Back Fees

The first steps the Ministry of Health took to deconcentrate management were to delegate purchases of medicines and supplies to the health regions. Regions have replaced centralized systems, which can create all kinds of inefficiencies, including corruption.

This process of promoting self-management has still not reached the service-providing units (health posts and centers and hospitals), however. These facilities require autonomy for managing their own resources, at a minimum, so that they can meet urgent needs and demands in a more timely and flexible manner.

Pay-back fees should be handed over to the Ministry of Finance and subjected to a reprogramming process that should last about two months. Currently, units that generate resources do not receive them all; some are “redistributed” to other, poorer units. The result is to discourage revenue-collection efforts, which is one objective of self-management. In the end, the future direction of institutional decentralization of the provision of services will depend on self-management by the service-providing units.

4.5 Current Tensions

What follows is a summary of the tensions created by the current phase of health sector decentralization.

- ▲ Confusion about the decentralization process and strategies prevents policies from being implemented. For example, the organization of nine departmental councils, headed by health secretaries, does not guarantee coordination of activities; a heavy dose of political management is required for these to function.
- ▲ A lack of clarity about the roles of the health secretaries and regional directors creates uncertainty within these bodies and at the community level. There are various opinions about the operational role of the health secretariats, but this role is not yet determined. The regional directorates, which report to the Ministry of Health, are threatened by a potential loss of power. At present, the activities carried out by the health secretariats and the regional directorates overlap. That duplication, which is most evident in primary care and in some medical activities, decouples parallel government activities.
- ▲ The lack of a mechanism for coordination among the Ministry of Health and the departmental governments, municipalities, and Social Insurance Institute complicates the use of resources assigned to health care.
- ▲ Service-providing units do not have the capacity to manage their own resources discourages cost recovery. As a consequence, many officials are threatened by administrative modernization and decentralization.

- ▲ The available infrastructure is under-utilized, particularly in primary care units, indicates a misallocation of resources.
- ▲ There is uncertainty about the system for taxation and transfers. The current Ministry of Health budget is divided into funds derived from cost recovery and funds from the central level. Funds recovered through fee-for-service are deposited in the Ministry of Finance. In order to support a unified budgeting system across the various levels of government, the system for redistribution and cost recovery needs to be redesigned. Since it supports the strengthening of municipalities and the creation of departmental governments, the tax and transfer systems ought to be reformulated. For example, there should be greater equity in the distribution of real estate taxes collected by the municipalities, funds raised through lotteries, and VATs.

5. The Challenges of Decentralization

Paraguay has historically been considered one of Latin America's most centralized governments. Political power was centralized in 1537 in Asunción, the first urban center under the Spanish conquest. The political history of Paraguay is dominated by authoritarian forms of government. Indeed, the centralist tradition in the political, institutional, and economic governance of the country were perpetuated and strengthened by the civil dictatorships of the past century and the military ones of this century (1936–89).

Another important factor in the centralization of the government is the heavy concentration of the population in the central areas of the country. Until the 1950s, Paraguay's population was concentrated in the central regions that comprise the departments of Asunción, Cordillera, Paraguari, and Guairá, and in the departments stretching toward the southeast (Caazapá, Misiones, and Itapúa). The western region, or Chaco, was almost empty, as was the entire northeastern area of the country.

This history of centralized authority and settlement makes decentralization more difficult. The first article of the recently modified Paraguayan Constitution (1992) characterizes the country as decentralized: "The Republic of Paraguay is forever free and independent. It constitutes a social State of law, unitary, indivisible, and decentralized in the form this constitution and statutes provide for." But this won't make it so. Putting the constitutional principle into practice involves challenges of differing political, legal, administrative, and financial natures. It demands that the Paraguayan government develop an overall and diversified strategy for restructuring the government. The prevailing legal system shores up an authoritarian and centralist state, and it is necessary to transform the legal system so that it can be a foundation for a modern, democratic, and decentralized society.

5.1 Political Challenges

Decentralization is essentially a redistribution of administrative and financial power which should reinforce the intervention capacities of various social groups and forces through citizen representation. The transfer of decision-making authority gives power to local and regional authorities who are in contact with the community and can seek the direct participation of citizens in decision-making. Through the democratic election of local and regional authorities, administrative and fiscal decentralization becomes a mechanism for strengthening and sustaining the new democratic structure. This also makes the political system more manageable. This kind of democratic participation can also be extended to individual health facilities.

Decentralizing the management of public and social services is often associated with the creation of new political structures which reshape the role of the departments and municipalities and their democratically elected authorities. An example is the creation of regional and local health councils in some departments.

Decentralization is, above all, a political process that involves a transfer of power. For some, it implies a devolution of power to the citizenry itself and to subnational units of the state such as the departments, municipalities, and even service-providing agencies. As a political process, decentralization presupposes a strong disposition at the central level to share power with other social and regional forces.

The act of sharing, transferring, or devolving power often creates negative reactions among those who have traditionally held such power, specifically the national leaders of the traditional political parties and the upper or middle levels of the central government bureaucracy. Those in traditional circles that favor centralism can always find reasons to impede or delay a transfer of power. They often can find the best justification for refusing to begin the process in the administrative and financial underdevelopment of recipient agencies, without offering alternative forms of transition that include transferring technical and administrative capacity or financial resources.

Decentralization therefore requires great political will at the top levels of national government and a more encompassing view of state reorganization. This political will should be complemented by strong leadership that includes articulated efforts to overcome obstacles during the transition period.

5.2 Legal Challenges

Decentralization may be preceded by deconcentration measures in the form of delegations of power that a ministry can make to lower levels of its own administrative apparatus (e.g., delegations by the Ministry of Health to regional directorates and health districts to establish goals and manage resources). Decentralization itself can be initiated through the creation of inter-sectoral and inter-institutional coordination and negotiation mechanisms such as departmental and district health councils. Deconcentration measures are easily reversible, and coordination mechanisms may become inoperative if there is a lack of political will.

Deconcentration and negotiation mechanisms in Paraguay are almost totally dependent on the political disposition of the minister in power. Given the institutional instability of those mechanisms, decentralization must be established through a legal framework that guarantees its continuity through binding force and operational capacity that is distinct from central-level political proclivities.

Decentralization therefore must take shape in a framework law that genuinely conveys responsibilities and financial resources to the departments and municipalities. This law will advance the process of decentralization. A suitable place for discussion of a bill of this nature might be the National Decentralization Council.

What follows is a list of laws that present other legal, administrative, and budget obstacles to the decentralization of the national government's functions and resources:

- ▲ The Public Administration Law, which organically regulates all governmental operations: The prevailing law creates a vertical, pyramid-type organization which is an impediment to deconcentration and decentralization at the ministerial level.

- ▲ The Organic Budget Law, which regulates the government's annual budget: This law ensures absolute centralization in the Ministry of Finance of all matters related to public expenditure. Within the budget, departmental governments are considered to be "autarchic bodies" along with the National Electricity Administration, the National Telecommunications Administration (ANTELCO), and other state enterprises that have no political autonomy. This makes difficult any budgetary autonomy for the departmental governments or any transfer of resources resulting from co-participation with the central government in some taxation or royalties.

- ▲ The Municipal Organic Law (Law 1294/87) was drawn up when municipalities were thought to have a role in controlling the civilian population. Many of its articles contradict the new National Constitution. A bill to modify this law, expected to be approved in 1996, grants many prerogatives to municipal government and requires them to make an effort to implement them.

- ▲ The Departmental Organic Law (Law 496/94) governs departmental governments. Although the current law reflects many improvements over the previous law, it is still considered to restrict the exercise of autonomy and autarchy by the departmental governments. Progress in decentralization, and the dynamism which departmental governments are gaining, will very soon require further changes in this law.

5.3 Financial Challenges

Decentralization of the financial system requires a strategy that combines two objectives. First, it must stimulate the creation of new local and regional resources, and, second, it must transfer resources now collected and spent by the national level to the departmental and municipal levels.

The creation of new resources should go hand in hand with a strengthening of municipal and departmental fiscal systems, which can now be put in place by the new, democratically elected political authorities. It will also be necessary to create new rates and taxes or to redesign existing ones. In the health sector, the new resources will sometimes be linked to the redesign of cost recovery systems, although the varying payment capacity of different users will continue to be respected.

Decentralization cannot, however, be based solely and exclusively on stimulating the fiscal and financial efforts of departments, municipalities, and communities. If that were the case, decentralization would be merely a mechanism for the central level to shed its social responsibilities and thereby save its own financial resources.

Decentralization should therefore be accompanied by the creation of a system of inter-governmental transfers that gradually transfers resources from the national level to the departmental and municipal levels. Decentralization thereby becomes a mechanism that produces a redistribution of executive power over the national budget. In addition, decentralization seeks to stimulate the fiscal efforts of local agencies by promoting the widening and improvement of service coverage with new resources.

Fiscal decentralization should follow two norms:

- ▲ No responsibility should be transferred unless adequate financial resources are transferred to carry it out.
- ▲ No financial resources should be transferred unless there is a complementary local effort that allows a co-financing of services.

In addition, financial decentralization may be an excellent way to correct inefficiencies and inequities in the allocation of financial resources to different regions and different service-providing institutions. As such, financial decentralization may be accompanied by two additional principles:

- ▲ The transfer of resources to various departments and municipalities should be in direct proportion to their relative poverty and in inverse proportion to their relative economic development.
- ▲ Resource transfers should promote efficiency and productivity in the provision of services, and so the amounts transferred to service-providing units should be proportional to the volume of services they provide and the number of people they serve.

Decentralization of the health sector in Paraguay should therefore involve promulgation of a law regulating transfers between the national level and departments and municipalities. The law should define the progressiveness with which such transfers should be made and the criteria by which to determine which proportion of available resources to provide to different regions.

5.4 Administrative Challenges

Decentralization is an administrative process that involves redesigning the state in such a way that ministries and national agencies gradually cease to be “executors” and become “executives,” “advisers,” and “supervisors.” Executive responsibilities are gradually transferred to departments and municipalities, and the national bodies and agencies fulfilling these functions should be eliminated.

An initial step toward decentralization occurs when departments and municipalities assume coordination and oversight duties, as is happening in Paraguay through the health councils. To help ensure that the decentralization process continues, local agencies should assume responsibility for the organization, management, and control of public and social services by taking on full responsibility for matters related to coverage, quality, and efficiency.

5.5 Institutional and Human Resource Challenges

Decentralization implies that different regions and localities are capable of establishing their own objectives and managing their own resources within the political and normative frameworks determined at the national level, specifically by the Ministry of Health and Social Welfare.

Local capacity to establish objectives is linked to a technical capacity for identifying needs and problems, assessing alternative solutions, and quantifying and evaluating the effects on costs and benefits. But the capacity to establish objectives is also linked to an ability to forge a consensus about priorities among different actors that are interested in or affected by decision-making about health care. Local capacity to establish objectives should therefore take into account the development of different kinds of participation, especially through district and departmental health councils.

Local involvement in establishing objectives necessarily leads to local involvement in programming activities, designing projects, and contracting and financing processes for implementing planning components. Each of these activities requires qualified personnel or technical advice. Therefore the process of decentralization necessarily involves developing human resources at the local and regional levels, including new technical and management capacities required to carry out new responsibilities. The skills that are relevant for decentralization are related to the new activities that lower-level institutions will assume, including fiscal management, program management, problem resolution, customer-orientation, and general management principles. Decentralization will not succeed without this capacity at all levels.

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