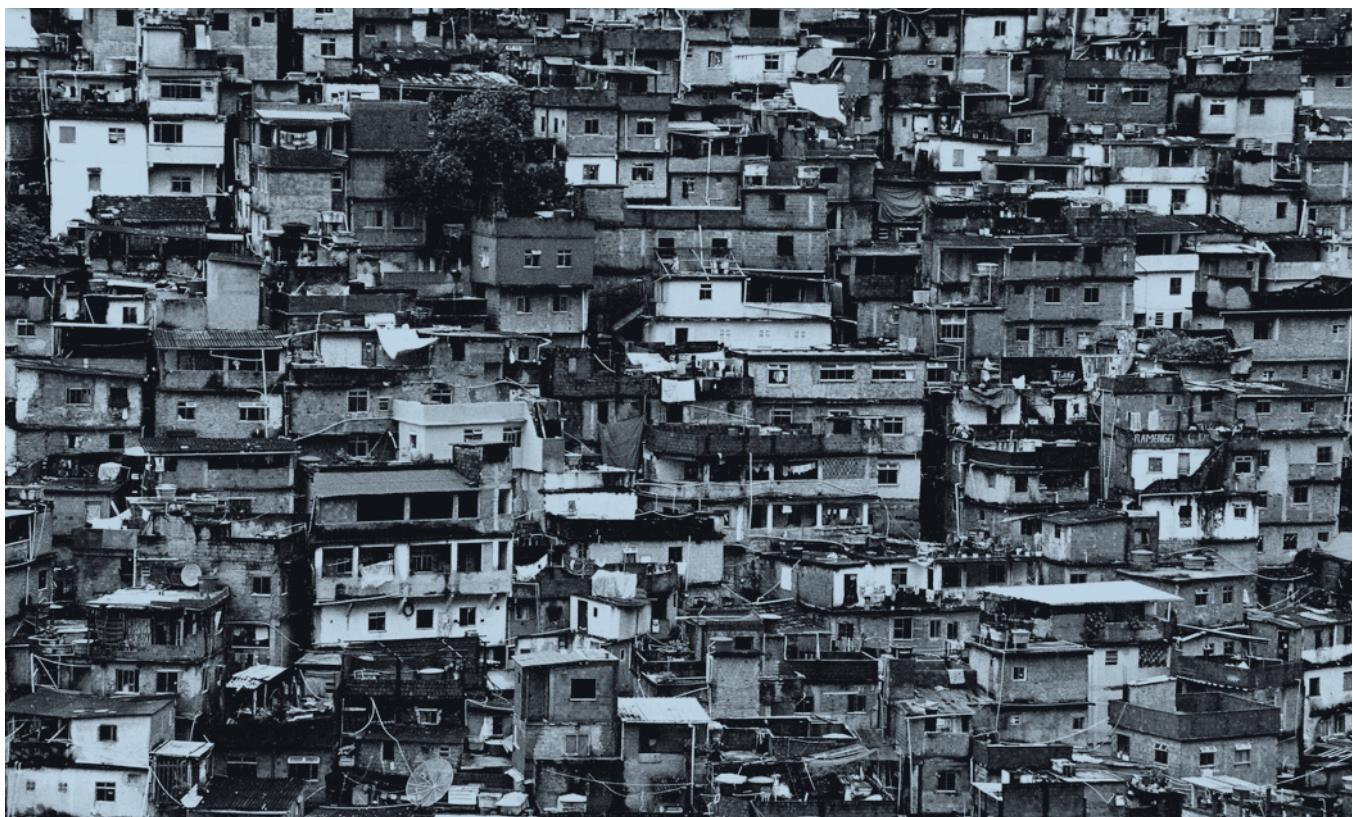
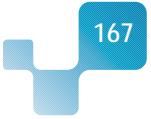
An aerial photograph of Rio de Janeiro, Brazil. In the foreground, the city's dense urban sprawl is visible, with numerous high-rise buildings and lower residential structures. A large, dark, craggy mountain, identified as Sugarloaf Mountain, rises prominently from the center-left. To its right, a bay filled with many small boats and yachts stretches towards the horizon. In the background, more hills and mountains are visible under a clear sky.

LATIN AMERICA

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I. Introduction

Latin America is made up of a large group of countries located in the territory extending from Mexico's Río Bravo in the north to Tierra del Fuego at the southernmost tip of South America. Latin America for the purposes of this report is divided into four sub-regions: Mesoamerica, including Mexico and the Central American nations of Belize, Costa Rica, Guatemala, Honduras, Nicaragua, Panama and El Salvador; the Antilles with Cuba and the Dominican Republic¹; South America, which comprises the Andean countries of Bolivia, Colombia, Ecuador, Peru, and República Bolivariana de Venezuela; and the Southern Cone, which encompasses Argentina, Brazil, Chile, Paraguay and Uruguay.

An estimated 540 million people live in Latin America. Predominant cultures include those embodied by descendants of Native Americans, Spanish and Portuguese colonizers, African slaves and successive waves of European immigrants during the past two centuries. It is the most urbanized of the developing regions. Although levels of urbanization vary between 93% in República Bolivariana de Venezuela and 42% in Haiti (see Table 1), an estimated 77.8% of all Latin Americans live in cities.

Latin American countries present very different degrees of development. While the average regional GDP is \$4,044 (CEPAL, 2005), it is a continent with great inequality in the distribution of wealth. Almost 40% of the population lives below the poverty line. The inequality has an unfavorable impact on the advance of democracy and full exercise of citizenship (Human Development Report, UNDP, 2005).

In Latin America, the presidential regime is the most prevalent form of governance, with a clear predominance of the national executive over other state powers

The forms of states are diverse as would be expected in a vast area containing 100 states or provinces in federal countries, 250 regions or departments, and more than 16,000 local governments—municipalities, districts or cantons—across the subcontinent. Several countries, including Brazil, Mexico, Argentina and República Bolivariana de Venezuela, have adopted a federal system with at least two levels of sub-national government. The other countries have unitary state systems.

In Latin America, the presidential regime is the most prevalent form of governance, with a clear predominance of the national executive over other state powers. From 1980 onward, the authoritarian regimes that dominated the area for generations have slowly given way to democratic governments that foster popular election of local authorities.

A few Latin American countries did have democratically elected local governments before 1980, and now all of the nations have municipal governments elected by universal suffrage (see Table 2). The majority of the countries are democratizing and reforming their states through institutional, political and legal transformations, of which decentralization² and strengthening of sub-national governments are part³.

1. The English-speaking countries (Antigua, Barbados, Granada, Jamaica, Saint Lucia, Trinidad and Tobago) are not included in this study. Nor is Puerto Rico or the overseas territories of France, the United Kingdom and the Netherlands. Only brief mention will be made of Haiti.

2. The notion of decentralization is broadly understood as the process of transfer of power and functions from the central state to the intermediate and local levels of government and administration. We make a distinction between political decentralization or devolution—with the transfer of responsibilities and resources in the framework of local autonomy—and administrative decentralization or "deconcentration," which refers only to the transfer of functions and resources without autonomy. Both processes are accompanied by varying degrees of fiscal decentralization, i.e., the capacity to establish, collect and administer financial resources, to fulfill functions and provide services. Complex forms arise from the various combinations of these three processes.

3. Valadés, Diego and Serna, José María, 2000; Carbonell, Miguel 2004; Fix, Héctor and Valencia, Salvador, 2005.

Table 1

Development Indicators in Latin America

Country	Type of state	GDP per inhabitant in \$ US	GDP per inhabitant PPP in \$ US	IHD ranking 2006 *	% population below poverty line	% urban population 2005
Argentina	Federal	4.747	13.298	36	26,0	91,8
Bolivia	Unitary	990	2.720	115	63,9	64,2
Brazil	Federal	4.250	8.195	69	36,3	83,4
Chile	Unitary	7.085	10.874	38	18,7	86,6
Colombia	Unitary	2.663	7.256	70	46,8	76,6
Costa Rica	Unitary	4.632	9.481	48	21,1	62,6
Cuba	Unitary	2.797	-----	50	---	76,1
Ecuador	Unitary	2.761	3.963	83	48,3	62,8
El Salvador	Unitary	2.469	5.041	101	47,5	57,8
Guatemala	Unitary	2.492	4.313	118	60,2	50,0
Haití	Unitary	454	1.892	154	---	41,8
Honduras	Unitary	1.139	2.876	117	74,8	47,9
Mexico	Federal	7.239	9.803	53	35,5	76,5
Nicaragua	Unitary	896	3.634	112	69,3	56,9
Panama	Unitary	4.797	7.278	58	33,0	65,8
Paraguay	Unitary	1.201	4.813	91	60,5	58,4
Peru	Unitary	2.841	5.678	82	51,1	72,6
Dominican Rep.	Unitary	3.815	7.449	94	47,5	65,6
Uruguay	Unitary	4.860	9.421	43	18,8	91,9
Venezuela, R. B.	Federal	5.275	6.043	72	37,1	92,8
Latin America		4.471			39,8	77,8

Source: CEPAL, 2006; United Nations Development Report, 2006.

* Index of Human Development: High is from 1 to 63; Medium is from 64 to 146; Low is from 147 to 177.

Nevertheless, the depth of the reforms and their impact differ from one country to another. Argentina, Brazil and Mexico—the three biggest nations in the region—have chosen federalism; in the unitary countries, the role of the municipalities has been expanded, and intermediate governments have been organized in the regions and comparable departments.

Argentina, Bolivia, Brazil, Chile, Colombia and Ecuador have redistributed functions and resources in favor of sub-national governments.⁴ In Peru, the process of decentralization that began in the 1980s was reversed in the 1990s, and restarted after 2000. In República Bolivariana de Venezuela, the decentralization of the 1990s has, in recent years, been muddled by contradictory reforms that could affect the nature of local institutions. In Uruguay and Paraguay, decentralization is still in the early stages.

Mexico has moved forward with a “new federalism,” through the opening of the political system and democratic alternation. Legal and financial reforms favor sub-national governments; progress is slower at the municipal level.

The Central American countries are evolving to a lesser extent. Guatemala and Nicaragua are passing decentralization laws. Honduras and El Salvador are increasing the amount of money transferred to the municipalities. Costa Rica and Panama are progressing comparatively slowly: in Costa Rica, the popular election of mayors was introduced only in 2002; in Panama, decentralization is being raised to a constitutional level.

For the past ten years, decentralization in the Dominican Republic has been on the public agenda, and there has been a gradual increase of municipal resources as well as enactment of new legislation favoring the municipal regime. Cuba remains centralized, and Haiti, though still facing severe problems at all levels of government, recently held its first local elections in several years.

II. Evolution of local governments

Tension between centralization and decentralization existed in the region long before the emergence of the nation states. The colonial era saw only the centralism of the Spanish and Portuguese Crowns. Decentralization first appeared during the wars for independence and in the time of the *Cabildos Abiertos* (People’s Councils). Struggles to preserve the colonial system or to discard it have flared periodically throughout the region ever since.

During the 19th Century, wars and conflicts took place in the nascent Latin American nations setting federal tendencies against unitary ones. Throughout the 20th Century, many emerging nations opted for political and economic centralization, to the detriment of the intermediate and municipal organizations. After the Second World War, national planning and new policies to replace imports coveted by the pro-development sectors, reinforced centralizing tendencies. The tide of centralization began to change in the 1970s as a consequence of successive economic and political crises.

During the 19th Century, wars and conflicts took place in the nascent Latin American nations setting federal tendencies against unitary ones

II.1. Decentralization Cycles

During the 1980s and 1990s, the democratic transition saw state reforms and decentralization. The centralist model was deemed outmoded and inefficient as a way to liberalize economies and reduce state costs. It is customary to distinguish between two decentralizing cycles: one more economic and neo-liberal, the other with greater emphasis on social and democratic aspects⁵.

The first decentralizing cycle developed from the 1980s in a context of debt crisis and high inflation. One of its avowed goals was to reduce the size of the central administration in order to eliminate the fiscal deficit and drive the market. The economies made strong structural adjustments, delivery of services was transferred to the sub-national govern-

4. The concept of sub-national governments refers both to state or intermediate governments and municipalities, also known as local governments.

5. Finot, Ivan, 2001 and Wiesner, Eduardo 2003.

ments or privatized by passing responsibility to privately held or state companies. Results were mixed at best. Although this first policy cycle did not produce the hoped-for results, it did cause serious social, economic and political problems.

The second decentralization cycle took place at the end of the 1990s, in the midst of the financial and social crises that affected coun-

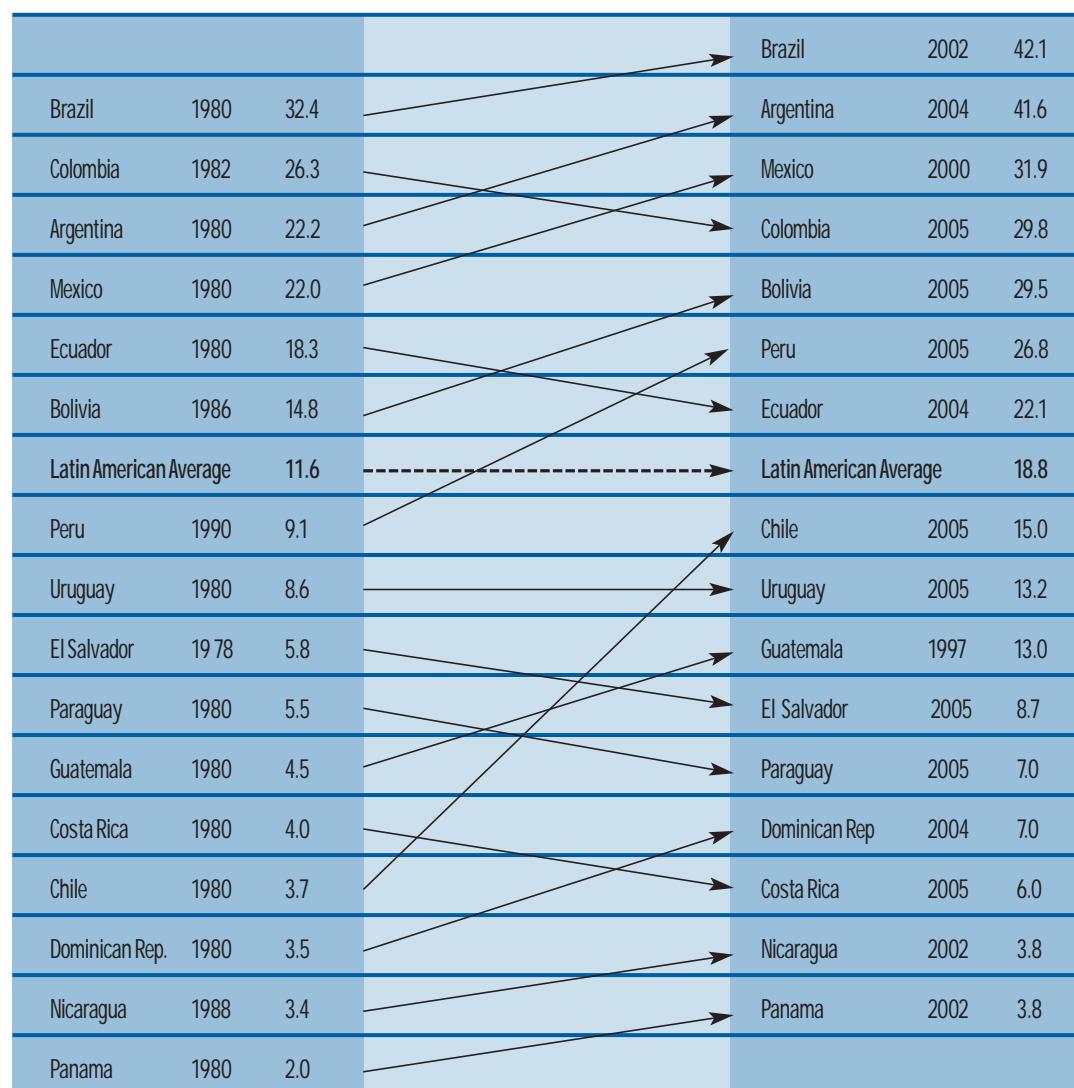
tries such as Argentina, Bolivia, Brazil, Ecuador, Mexico, Peru and República Bolivariana de Venezuela. It involved strategies to correct the neo-liberal paradigm with more democratic and social policies. The decentralization movement was stimulated by the progress of municipal management of the region.⁶

Predictably, these great cycles translate differently in each sub-region of Latin

Graph 1

1980-2005: Evolution of Decentralization in Latin America⁷

Percentage of the Expenditure of Sub-national Governments in Total Governmental Expenditure



Source: UCLG Country Profiles (2007), National Files.

Drawn up by: Mero.

6. New paradigms for local government management come to light, as in the cases of Curitiba or Porto Alegre, in Brazil; Villa El Salvador, in Peru; Bogota, in Colombia; Cotacachi and Guayaquil, in Ecuador; Santiago de Chile; Mérida, San Pedro Garza García or San Nicolás de los Garza, in México; Rafaela in Argentina; or La Paz in Bolivia, among many others.

7. Sub-national expenditures used as indicators for decentralization are limited in nature, given that they usually aggregate municipal and federal level expenditures. For example, a higher level of expenditure in the provinces in Argentina does not represent more municipal expenditure.

America (see graph 1). The federal countries mainly strengthened the intermediate levels of government and, after these, the municipalities.

Brazil is one of the most decentralized countries in the region⁸. It is based on a federal tradition that goes back to the birth of the republic at the end of the 19th century. The main attempts to reduce federalism to the advantage of the central state occurred under the presidency of Getúlio Vargas (1937-1945) and during the military governments (1964-1985). With the end of this last authoritarian period, decentralization was pushed forward in order to resolve the state crisis. Thus, the 1988 Constitution defined Brazil as an "indissoluble union of states and municipalities and the federal district." Autonomies were strengthened and local responsibilities and powers were increased. The municipalities received federal entity status and were granted full autonomy by the Federal Constitution. In 1993, hyper-inflation and state indebtedness pushed the national government to fiscal recentralization, and to reorganizing and privatizing the states' banks and public services. In 2003, the government of Luiz Inácio Lula da Silva promoted greater dialog and coordination between the federal level and the municipalities through the Secretariat for Federal Matters. The Ministry for Cities was also created to establish a national urban development policy that would guarantee the "right to the city," relying on the municipalities to carry out policies to redistribute income and social programmes like "Zero Hunger." In March 2003, during the VI March in Defence of the Municipalities, the federal government and municipal entities signed a protocol for the creation of the Committee of Federal Articulation — CAF. This committee became the main instrument for negotiations between the Federal Union and the municipalities, helping to further advance municipal interests in Brazil in matters such as teacher salaries, school transport, and fiscal and pension reform.

In Argentina, there was an historical and troubled relationship between the federal government and the provinces. The Constitution of 1853 attempted to regulate this relationship by transferring support for the municipal government to the provinces. After the military governments (1976-1983), the already centralized division of powers and resources was reviewed. In the ensuing decade, the national government and the provinces redefined the rules of financing through co-participation which increased transfers in exchange for a decrease in local tax revenues and the privatization of services. The constitutional reform of 1994 took up essential aspects of fiscal co-participation between the central government and the provinces. Thus, municipal autonomy was recognized and the city of Buenos Aires, capital of the country, was granted an autonomous local government. However, it was still within the provinces' power to define the municipal regime, allowing great diversity among them.⁹

Mexico, throughout the 20th Century, lived through a process of expansion and enlargement at the central level, in accord with provisions of the 1917 Constitution. The national government absorbed local responsibilities and their sources of income, to the detriment of the sub-national governments. As recently as 1977, 1983 and 1999, constitutional reforms favored municipalities, particularly in order to introduce party pluralism into the councils, and to strengthen the treasury and local public services. During the 1990s, the national government undertook policies to favor sub-national bodies through a "new federalism." In turn, pluralism and political alternation facilitated local reactivation. In 1994, the statute of the Government of the Federal District of Mexico City was approved, and three years later its Head of Government was elected by popular vote. Mexican municipalities were organized by the states, but continued to depend on the national government. However, innovative changes were taking place in many municipi-

Brazil is one of the most decentralized countries in the region. It is based on a federal tradition that goes back to the birth of the republic at the end of the 19th century

8. With over 40% of public expenditure delegated to states and municipalities, Brazil has the most equitable distribution of resources between the two levels of the state in the region.

9. Many provinces usually restrict the local autonomy of small municipalities. For example, in the province of Santiago del Estero only five out of 126 municipalities enjoy full autonomy.



**Decentralization
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palities, which were demonstrating modernization in local management.

Although República Bolivariana de Venezuela officially has a federal system, it is a strongly centralized country, heightened by the model of sustained development in financing public expenditure through the distribution of oil income. In 1989, the *Ley Orgánica de Descentralización, Delimitación y Transferencias del Poder Público* (Decentralization, Delimitation and Transfers of Public Power Act) drove the decentralization process, of which the first achievement was the direct election of mayors and governors. The process ground to a halt in the second half of the decade. In 1999 the Bolivarian Constitution seemed to re-launch the process, but subordinated municipal autonomy to the *Ley Orgánica del Poder Público Municipal* (Organic Law of Municipal Public Power) and its fiscal responsibilities to a *Ley Nacional* (National Law) in 2005. The tension between centralism and local autonomy increased with the *Ley de los Consejos Comunales* (Community Councils Act of 2006), which set up a network of local organizations directly connected to the presidency in order to channel local financing. At the start of 2007, the *Ley de Habilitación Legislativa* (Enabling Act) was passed, authorizing the national government to regulate the provincial states and municipalities.

In the unitary countries, the debate about decentralization focused on the relationship between the national government and the municipalities. The process advanced more slowly at the intermediate level which, in fact, worked in tandem with the national level. In the majority of South American and Central American countries, intermediate administrations depend on the central power and are the responsibility of an official appointed by the latter. Despite this, there is a growing tendency toward the popular election of intermediate authorities, as already occurs in Colombia, Peru, Ecuador, Bolivia and Paraguay.

Decentralization in the Andean countries has taken place through far-reaching constitutional and legislative reforms, in a relatively brief time.

In Colombia, after the extreme centralization of the 1960s and 1970s, and the political crisis expressed in the civil strikes of the 1970s and early 1980s, a clear decentralizing process began in the middle of the 1990s. The 1991 Constitution laid the bases for a unitary and decentralized territorial government, with autonomy of the territorial bodies: departments, municipalities and districts. Moreover, indigenous territories, regions and provinces were created to regroup bordering departments and municipalities. Direct election of mayors (1986) and of departmental governors was thus established by 1992. Throughout the 1990s, abundant legislation was passed regulating different aspects of local management, such as the mechanisms of transfer and participation, distribution of responsibilities and territorial organization. By the end of the 1990s, problems of indebtedness and the economic crisis made it necessary to review the transfer system and impose a regime of austerity on sub-national government spending, along with a redistribution of competences.

Bolivia implemented an original decentralizing process that recognized its multi-ethnic and multicultural character by strengthening two levels of sub-national government: the municipalities and the departments. After many election-free decades, in 1987 municipal elections were held. In 1994, the *Ley de Participación Popular* (Popular Participation Act) was passed, strengthening the municipalities politically and financially and strongly promoting the participation of grassroots communities. In 1995, the *Ley de Descentralización Administrativa* (Administrative Decentralization Act) benefited the departments at the intermediate level, granting them elected assemblies. In 1999, the new *Ley de Municipalidades* (Municipalities Act) was passed. The departmental prefect was

initially appointed by the national government, but in 2006 he was elected by popular vote. In that year, after a prolonged social and political crisis, Evo Morales' government took power and convoked a new Constituent Assembly, in which questions pertaining to the regions, municipalities and indigenous communities took priority. The richest departments, in particular those in the east, demanded greater autonomy.

In Ecuador, mired in a deep political and social crisis that led to the fall of various presidents and the dollarization of the economy, the 1998 Constitution ratified the decentralization, de-concentration and participation prescribed by previous laws. *La Ley de Juntas Parroquiales* (Parish Councils Act) of year 2000, the Decentralization Plan and the regulation of the *Ley de Descentralización y Participación Social de 1997* (Decentralization and Social Participation Act of 1997) in 2001, as well as the reforms to the *Ley del Régimen Municipal* (Municipal Government Act) of 2004 further mandated improvements in services and the obligation to transfer responsibilities. Two main levels of autonomous government were recognized: provinces and cantons (municipalities). However, the provincial level was limited by its scanty responsibilities and resources, and by the coexistence of two authorities: a popularly elected Prefect and a governor appointed by the central government. In small municipalities, mayors and council presidents had been elected since 1935; since 1988 all mayors have been democratically elected.

In Peru, the Constitutional Reform of March 2002 placed emphasis on the creation of regional governments, effectively restarting decentralization plans that had been blocked under the authoritarian government of Alberto Fujimori. That same year the *Ley de Bases de la Descentralización* (Bases for Decentralization Act) was passed, followed in the period from 2002 to 2005 by various rulings, including the *Ley de Gobiernos Regionales* (Regional Governments Act), a new *Ley Orgánica de Municipalidades* (Municipalities Act), the

Ley de Descentralización Fiscal (Fiscal Decentralization Act) and the *Ley Marco de Presupuestos Participativos* (Framework for Participatory Budgets Act). In November 2006, regional governors were elected for the first time by popular vote. Peru now has several levels of government: national, regional, as well as distinct levels for both provincial municipalities (cities) and district municipalities.

The unitary states of the Southern Cone –Chile, Uruguay and Paraguay– have also carried out reforms shaped by their respective characteristics.

Chile has been a centralized country since the middle of the 19th Century. However, in 1891 following a brief civil war, the *Ley de la Comuna Autónoma* (Autonomous Community Act) was passed, and it was very advanced for the time. Nevertheless, the ruling did not work and the Constitution of 1925 recentralized the country. During the 1980s, the military regime applied an administrative decentralization that handed over to the municipalities the administration of primary health care, primary and secondary education, and the management of social funds. With the return of democracy in 1990, the country moved toward a more political decentralization with the direct election of mayors and town councillors in 1992. In 1993, 13 regional governments were created, although *intendentes* (mayors) were appointed by the national government. In later years, new responsibilities, tasks and resources were allocated to the municipalities by reforms to the *Ley Orgánica Municipal* (Organic Municipal Law) of 1999-2000.

In Uruguay, local government is identified at the departmental level, which includes various centers of population, and possesses an extension and population far above the average for Latin American municipalities (table 2). After the return to democracy in 1985, the constitutional reform of 1996 for the first time confirmed the obligation of the state to formulate decentralizing poli-

The unitary states of the Southern Cone –Chile, Uruguay and Paraguay– have also carried out reforms shaped by their respective characteristics

cies in order to "promote regional development and social well being." It was set down that departmental elections should be held on a different date from the national elections. Now the tendency is to dissociate the local level –*Juntas locales* (Local Councils)– from the departmental, although no legislation has been passed to this effect. The 19 departmental *intendentes* (chief executives) have been directly elected since 1966¹⁰.

In Paraguay, after 35 years of dictatorship (1954-1989), the first elections for municipal *intendentes* were held in 1991, and the first elections of departmental governors and councils in 1992. The constitution of 1992 recognized the political autonomy of municipalities in handling their affairs, collecting taxes and managing their expenditure. The autonomy of the departments was far more limited. In 2000, the National Council for Decentralization of the State was set up. However, despite the new constitutional framework for democratization, the municipal code has not yet been reformed, and national officials in concert with the legislature continue to exercise strong control over the municipalities.

The Central American countries have passed decentralizing laws, and their main challenge now is to implement them. Above all, they need to broaden the scant financial capability of the municipalities.

1999-2004. A law was passed in 1998 to increase financial transfers to the municipalities (revised in 2005), and recent reforms have been made to the Municipal Code (2005). A new General Decentralization Act is now in discussion in the Parliament and a Civil Service law was approved.

In Guatemala, the *Ley General de Descentralización* (General Decentralization Act) was enacted through Decree 14-2002. In 2002, the new Municipal Code and *Ley de Consejos de Desarrollo Urbano y Rural* (Councils for Urban and Rural Development Act) also came into force in 2002; the *Ley del Catastro* (Land Registry Act) (2005) was enacted; the *Política Nacional de Descentralización del Organismo Ejecutivo* (National Policy of Decentralization of the Executive Organism) was passed in 2005.

In Honduras, the National Plan for Decentralization and Municipal Development was passed in 1994, the Executive Commission for Decentralization was established and the Plan of Action 1995-1998 was drawn up, though it was not put into effect. The topic was taken up again in 2000 and linked to the eradication of poverty. In 2003, a new *Ley de Ordenamiento Territorial* (Decentralized Spatial Planning Act) was issued. Then in 2004 the *Ley de Descentralización del Servicio de Agua* (Decentralization of the Water Service Act) was issued. Other reforms to the *Ley de Municipalidades* (Municipalities Act) are underway.

In Nicaragua, the constitutional reforms of the beginning of the 1990s strengthened the power and self-financing of the municipalities, and reaffirmed the autonomy of the two regions created in 1987 along Nicaragua's Atlantic Coast. In 2003, a decentralization policy was defined as the crux of the *Estrategia Reforzada de Combate y Erradicación de la Pobreza* (ERCERP) (Reinforced Strategy to Combat and Eradicate Poverty). Between 2002 and 2004, the *Ley de Régimen de Presupuesto Mu-*

¹⁰. The term *intendente* was coined during the colonial reforms of the 17th Century. Such officials displaced the greater mayors. In Uruguay the *intendentes* are in charge of the departments, assisted by a council of aldermen, to the detriment of local bodies.

In Costa Rica, the reform of the Municipal Code (1998) allowed direct election of mayors for the first time in 2002. It also approved, through the constitutional reform of 2001, a gradual increase in responsibilities and transfers to the municipalities, rising to 10% of the national budget. However, strong resistance has arisen and there is not yet any legislation to achieve its implementation.

El Salvador made a concerted effort to draw up its National Strategy for Local Development, with strategic guidelines for decentralization to be implemented during the period

nicipal (Municipal Budget Regime Act), the *Ley de Participación Ciudadana* (Civic Participation Act) and the *Leyes de Transferencias Financieras y de Solvencia Fiscal Municipal* (Financial Transfers and Municipal Fiscal Solvency Acts) were passed.

In Panama, decentralization of the state was included in the constitution through the constitutional reform of 2004 and a new legal framework was developed for provinces, town councils and *corregimientos* (mayoral jurisdictions)¹¹.

In the Spanish-speaking Caribbean, authorities at the provincial level in the Dominican Republic are appointed by the central government. The town council is the only elected level of local government. Among recent reforms, mention should be made of the division of the National District into various municipalities in 2001, and the law of 2003 that made it possible to increase transfers to the municipalities. The convocation of a Constituent Assembly in 2007 is being contemplated; among its prerogatives would be the deepening of the decentralization process. The new Law of the Participatory Budget has been enacted and a Municipal Bill is under debate.

In Cuba, the Constitution in force since the mid 1970s recognizes the legal status of 14 provinces and 169 municipalities. They are administered as representative institutions whose leaders are elected in the Popular Power Assemblies with their own electoral division. These are governed according to the principles of "socialist democracy," have very limited autonomy, and generally defer to higher levels of government.

II.2. Municipalities, Cities and Metropolitan Areas

The sub-national administrations and governments of Latin America are extremely heterogeneous. Among the intermediate levels of government —states, provinces

or departments —some, such as São Paulo and Buenos Aires, possess populations and productive capacities surpassing those of many nations; many others are small and have quite limited resources.

Nearly 90% of the 16,000 Latin American municipalities have fewer than 50,000 inhabitants. Some administer broad territories, some are meager in size. The majority have to deal with considerable financial difficulties, and restrictions on human technical resources.

Where local autonomy is a goal, legislation in many countries sets minimum requirements for a municipality: population and territory of reasonable size, and sufficient economic, social and political capacities to ensure adequate institutional consistency. As a practical matter, many municipalities are nevertheless established without these minimum requirements, giving rise to what is often referred to as municipal fragmentation. Such inconsistencies often generate problems in the delivery of municipal services and in coordination between the intermediate and national governmental authorities.

Sometimes called the "atomization" of municipalities, fragmentation is to some degree endemic throughout Latin America. Consider: In Brazil, out of a total of 5,562 municipalities, 1,485 were created between 1990 and 2001. This gave rise to a constitutional amendment —the 15/96— to specify the requisites for creating municipal corporations. Mexico now has 2,438 municipalities, and it may cause little surprise that in many of its states municipal fragmentation is the norm¹².

Fragmentation has also been observed in some unitary countries, especially those with numerous municipalities. Colombia, for example has 1,099 municipalities, Peru more than 2,000 provincial and district municipalities. In Bolivia, the 1994 Law of Popular Participation created 198 new municipalities, bringing the total to 327.

11. *The corregimientos are elected sub-municipal entities. In effect, the Panamanian Constitution decrees that there must be a municipal council in every district, and this council must include representatives of the corregimiento who have been elected in this electoral division.*

12. *In Oaxaca there are 570 municipalities; 217 in Puebla; 212 in Veracruz and 124 in the State of Mexico.*

Table 2

Number of Sub-national Governments and Population

Country	Population		Federal countries		Unitary countries		Democratic Municipal Elections following authoritarian rule
	(millions)	Average Population per Municipality	States	Municipalities	Departments	Municipalities	
Brazil	190.127	34.183	26	5.562			1986
Mexico	107.537	44.091	32	2.439			1977
Colombia	47.078	42.837			32	1.099	1986
Argentina	38.971	17.531	23	2.223			1983
Peru	28.349	13.695			25	2.070	1981
Venezuela, R. B.	27.031	80.690	24	335			1992
Chile	16.436	47.641			15	345	1992
Ecuador	13.408	61.224			22	219	1935
Guatemala	13.018	39.211			22	332	1986
Cuba	11.400	67.456			14	169	---
Bolivia	9.627	29.440			9	327	1987
Dominican Rep.	9.240	60.789			32	152	1978
Honduras	7.518	25.228			18	298	1982
El Salvador	6.991	26.683			14	262	1984
Paraguay	6.365	27.554			17	231	1991
Nicaragua	5.594	36.803			15 + 2 regional autonomies	152	1990
Costa Rica	4.399	54.309			7	81	1948
Panama	3.284	43.787			9	75	1996
Uruguay	3.478	183.053				19	1985
Total	549.851	33.548	105	10.559	251	5.831	

Sources: CEPAL 2005. UCLG Country Profiles (2007). Drawn up by authors.

More than half of the population of Latin America dwells in cities with more than a million inhabitants. No fewer than 50 Latin American cities have populations of a million or more; of these, four rank among the ten largest cities on earth: São Paulo (17.8 million), Mexico City (16.7 million), Buenos Aires (12.6 million) and Rio de Janeiro (10.6 million). Three other cities, Bogotá, Lima and Santiago de Chile, have populations in

excess of 5 million; the 3 million mark has been surpassed in Brazil by Belo Horizonte, Salvador de Bahía, Fortaleza, Porto Alegre and Recife; Caracas in República Bolivariana de Venezuela, Santo Domingo in the Dominican Republic, and Monterrey and Guadalajara in Mexico also have passed this population milestone. Many more cities in Latin America are of intermediate size –between 100,000 and one million inhabitants–

and generate significant demographic and economic dynamism.

The great size of most big cities in Latin America and the Caribbean means that they typically encompass many municipal territories and, in some cases, an entire state or province. Mexico City and its Metropolitan Area, as defined in 1995, envelops more than 41 municipalities in two states, as well as the Federal District. Buenos Aires covers the territory of the autonomous City of Buenos Aires plus that of 32 municipalities in the province of Buenos Aires; *Gran Santiago* (Greater Santiago, Chile) takes in 52 municipalities, and São Paulo in Brazil has 39 *prefeituras* (prefectures).

Territorial administration and management of the big cities poses a major problem. While various Latin American capital cities have special regimes, such as Bogotá, Buenos Aires, Caracas, Lima, Mexico City and Quito, few have a metropolitan government that allows them to manage the urban territory in an integrated manner. Among this latter type are the Metropolitan Municipality of Lima¹³, with a special regime that grants it the faculties and functions of Regional Government within the jurisdiction of the Province of Lima; the Metropolitan District of Quito, created by law in 1993, and the Metropolitan District of Caracas, created in 2000¹⁴. In Montevideo, the national government has recently created a

Metropolitan Consortium, which encompasses the municipal councils of the departments of Canelones, Montevideo and San José, with, altogether, 2,000,000 inhabitants. In most metropolitan areas only mechanisms for sectoral coordination of limited scope are in operation¹⁵.

In Central America, some coordinating institutions also function: the Corporation of the Metropolitan Area of San Salvador (COAMSS) and in Costa Rica the Metropolitan Federation of Municipalities of San José (FEMETROM) whose aims are limited to spatial planning and land use-management.

Given the level of urban and territorial complexity, various countries are trying policies to realign land use. Others, such as Argentina, Bolivia, Brazil, Colombia, Ecuador and a few other Central American countries, are promoting the creation of *mancomunidades* (associated municipalities) and other associative forms to help solve the problem of the small size of many municipalities, which is limiting their capacity to respond effectively to the demands of their communities and citizens.

More than 70 municipal *mancomunidades* have been set up to develop and provide services in Bolivia. In Argentina, there are 72 inter-municipal bodies which group 770 local governments of 22 Argentinian provinces, aimed mainly at

While various Latin American capital cities have special regimes, such as Bogotá, Buenos Aires, Caracas, Lima, Mexico City and Quito, few have a metropolitan government that allows them to manage the urban territory in an integrated manner

13. *The Metropolitan Region of Lima is created by Article 33 of Law N° 27783, on Bases for Decentralization. Article 65 and following of Organic Law N° 27867, on Regional Governments (modified by Law N° 27902). Article 151 of Organic Law N° 27972, on Municipality.*

The Mayor of Metropolitan Lima carries out the functions of Regional President, as executive organ; the Metropolitan Council of Lima, exercises functions of Regional Council, as normative organ and inspector; the Metropolitan Assembly of Lima, made up of the metropolitan mayor, the district mayors and representatives of civil society and base organizations of the province of Lima, exercises competencies and functions of the Council of Regional Coordination, as consultative and coordinating organ.

14. *Quito has a relatively decentralized configuration, endowed with a council and a metropolitan mayor with responsibility over most of the territory. Caracas has a system of municipal government on two levels with a metropolitan mayor and a legislatively elected council, covering the zones of Libertador (the federal district of Caracas has been eliminated) and the municipalities of the neighboring state of Miranda.*

15. *See the Comité Ejecutor del Plan de Gestión Ambiental y Manejo de la Cuenca Hídrica Matanza-Riachuelo (Committee to carry out the Plan for Environmental Management and Handling of the Matanza-Riachuelo River Basin) in Buenos Aires. Or else partial and incipient experiments in inter-institutional cooperation, such as the ABC Chamber of São Paulo (with Santo André, São Bernardo and São Cayetano).*

the promotion of micro-regional economic development, tourism development and the preservation of the environment. In Ecuador, there are more than 20 *mancomunidades*, bringing together more than 100 municipalities¹⁶, with a similar number of associative arrangements between provincial, regional and micro-regional entities to promote development. There are more than 60 regional, sub-regional and sectoral local government associations operating in Chile; and in Colombia there are over 44 local government associations representing 454 municipalities that work jointly for the provision of public services, public works and/or carry out administrative functions that are delegated to the municipal associations.

III. Finances, responsibilities and management capacities

III.1. Progress in Decentralization and Financing Capabilities

The progress in financing sub-national governments may be seen as a whole in Table 3, though the figures used —based on data from the IMF and World Bank, national accounts and others— are not always homogeneous and must be considered with caution. Nevertheless, the positive impact which decentralization has had on all of the countries is obvious. The simple average decentralized expenditure in Latin America went up from 11.6% of total governmental spending around 1980, to 18.8% between 2002 and 2005.

Drawing from the information for aggregated expenditure in the table below (see column 2 in Table 3), the following classification can be made:

- The first group of countries with sub-national public expenditure greater than 20% includes federal countries —Argentina, Brazil and Mexico— and the unitary countries, Colombia, Peru, Bolivia and Ecuador. However, in federal countries,

the states and provinces take up the largest share of expenditure, while local government expenditure is lower than 20% in Brazil and less than 10% in Argentina and Mexico¹⁷.

- A second group of nations —with an intermediate degree of centralization— with sub-national public spending between 10% and 20% includes República Bolivariana de Venezuela, Chile, Uruguay and Guatemala.
- A third group of countries has only incipient decentralization, with public expenditure less than 10%. These are Costa Rica, the Dominican Republic, Nicaragua, Panama, Paraguay and El Salvador.

All the same, the indicator for municipal expenditure shows (Table 3: column 3) that only three countries exceed 15% of general government expenditure: Ecuador, Colombia and Brazil. They are followed by Chile, Guatemala and Uruguay at 13% (in Uruguay, the Departments, given their size, are closer to the intermediate rather than municipal level). Next come Argentina, Bolivia, Peru and El Salvador with between 7% and 9% of general government expenditure. The remaining countries range between 3.8% and 7% of this indicator.

Brazil stands out in the first group of countries mentioned above; not only is it the country with the greatest degree of fiscal decentralization, but it is also the country that demonstrates the greatest balance in expenditure (vertical equity) between the three levels of the state.

Argentina, Brazil and Colombia have had to overcome critical processes arising out of the excessive indebtedness of their sub-national and central governments. This has made it necessary to make severe adjustments, especially in Colombia. Even so, in Colombia the fiscal balances in territorial governments have shown important improvements. At the end of

16. Example in Ecuador: the Mancomunidad of Municipalities for the Rehabilitation of the Ecuadorian Railway, created through an agreement signed in June 2005 by 33 municipalities.

17. One criticism of this classification is that in federal countries the index for sub-national expenditures usually conceals the level of centralization by state agencies.

Table 3

Evolution and Distribution of Expenditure by National, Intermediate and Local Governments in Latin America

Countries	1. Non-financial Public Expenditure (% GDP)	2. Evolution of Expenditure by Sub-national Governments (% Expenditure of Central Government)	Distribution of Total Governmental Expenditure between National Government, Intermediate Governments and Local Governments 2002-2005			
			3. Local Government	4. Intermediate Government	5. National Government	6. General Government
Argentina	25.2	41.6	7.8	33.0	59.1	100.0
Bolivia	30.0	29.5	8.5	21.0	70.5	100.0
Brazil	24.6 (CG)	42.1	16.6	25.5	57.8	100.0
Chile	34.2	15.0	13.2	1.8	85.0	100.0
Colombia	35.2	29.8	17.0	12.8	70.2	100.0
Costa Rica	25.5	6.0	6.0	---	94.0	100.0
Dominican Rep.	19.3 (CG)	7.0	7.0	---	93.0	100.0
Ecuador	24.5	22.1	17.2	4.9	77.8	100.0
El Salvador	17.5	8.7	8.7	---	91.3	100.0
Guatemala	11.7 (CG)	13.0	13.0	---	87.0	100.0
Honduras	34.1	5.6	5.6	---	94.4	100.0
Mexico	23.3	31.9	4.3	27.5	68.1	100.0
Nicaragua	30.3	3.8	3.8	---	96.2	100.0
Panama	24.8	3.8	3.8	---	96.2	100.0
Paraguay	33.3	7.0	5.2	1.8	93.0	100.0
Peru	19.2 (GG)	26.8	8.5	18.3	73.2	100.0
Uruguay	29.6	13.2	13.2	---	86.8	100.0
Venezuela, R. B.	32.2	---	---	---	---	---

Sources: IMF Finance Yearbook 2002 to 2006; World Bank; Central Bank of Colombia; General Audit Office of Chile; "Descentralización Fiscal en C. América", G. Espitia. CONFEDELCA, GTZ, 2004. "Descentralización en Ecuador", CONAM; Ministry of Economy of Ecuador; State Bank of Ecuador, 2006. Country Profiles. GC = Gobierno Central. GG = General Government. Drawn up by: MERO.

2004, the sector of regions and local governments presented a high surplus of 1.1%, and repeated that mark in 2005 and 2006.

In the unitary states, the weight of the intermediate bodies is less. This is the case because they usually depend wholly or in part on the central government bud-

get, and because frequently their self-administered revenue is not significant. In general, in these countries progress toward decentralization is subject to the rhythm of the municipalities or local governments.

Overall, the nations that have carried out more decisive decentralizing processes have

In the unitary countries that have intermediate entities, only a few types of tax revenue are allocated to the middle level

visibly improved the situation of infrastructure, services and degrees of participation in the poorer, more remote and rural areas. Bolivia provides a notable example: there has been a substantial increase in the resources which reach the outlying territories, as well as in the degree of organization and participation of rural communities.

In the countries with a medium degree of decentralization there are contradictory situations, as in Chile. While there are notable advances in the democratization of the municipalities, the intermediate level continues to depend to a great extent on the central government. Curiously, Chilean legislation uses the term "regional governments" to refer to the de-concentrated intermediate level, and the expression "local administration" to refer to the municipalities, even if they possess autonomy and their own resources, and deliver a wide range of services.

III.2. Income and Taxation Capacity of Intermediate and Municipal Bodies

In essence, the political autonomy of any sub-national government depends largely on its financial strength. Self-administered revenue comes primarily from local taxes, over which autonomous local governments exercise direct control. But in Latin America, restrictions on local taxation powers are one of the main limitations of decentralization processes. In most countries, the municipalities do not have the power to impose duties and local taxes. Rather they have a high level of dependence on central funds transfers, and although the degree of dependence varies from one country to another, the overall trend appears to be moving toward increasing dependency.

In the federal countries, most local income is derived from fiscal co-participation, although important revenues are sometimes set aside at the intermediate level.

- In Argentina, the provinces receive taxes on income, property, fiscal stamps and

vehicles (64%, 14.5%, 7% and 6%, respectively, in 2004).

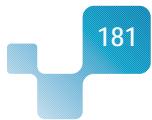
- Brazil has allowed the states to receive the sales tax (Circulation of Goods and Services Tax - ICMS), which represents 26% of the national revenue.
- In Mexico, some states receive taxes on personal income and from the acquisition of used cars. Since 2005, local taxes on professional services, transfers, and temporary usufruct of property or business activities have been permitted.
- República Bolivariana de Venezuela grants to the states only the tax revenue from stamps and salt mines.

In the unitary countries that have intermediate entities, only a few types of tax revenue are allocated to the middle level. For example, in Colombia intermediate entities receive revenue from the sale of alcoholic beverages, tobacco and lottery tickets, plus vehicle registration fees¹⁸; road, highway and harbor taxes in Chile, in Bolivia, departments receive royalties for exploitation of hydrocarbons. In Bolivia, the amount of the income and the system of compensation to departments that do not produce hydrocarbons explains the relative importance of the intermediate-level expenditure.

Most countries do not grant municipalities the right to determine taxation. Usually, the intermediate governments in the federal countries, or the national governments and parliaments in the unitary countries retain the right to approve the respective values for municipal income laws.

With some exceptions, taxation powers are similar in federal and unitary country municipalities. The most common taxes are those on property, vehicle circulation and economic activities, including licenses for businesses and industries or income from industry and commerce. Throughout the region, the most important source of municipal revenue is the tax on property. The exceptions are Argentina, where it is a provincial tax; El Salvador,

18. In Colombia, in 2000 the tax income from the departments corresponded to 10% of the national total, 1.8% of the GDP, while that of the municipalities rose to 15%, 2.7% of the GDP. (Jaime Bonet, *Descentralización fiscal y Disparidades en Ingreso Regional*, Banco de la República, CEER, Nov. 2004).



where it is the responsibility of central government; and the Dominican Republic, which does not have property taxes. As far as the tax on vehicle circulation is concerned, Argentina and Brazil are also exceptions; in those countries it is managed by the intermediate government. Mexico allocates it to the national government.

In general, taxation pressure in Latin America is low (16.9% of the GDP, CEPAL¹⁹), and this is especially critical at the local level where the capacity to collect taxes is weak. What is collected generally represents a limited percentage of the local budget. Because of the heterogeneity of the territories, population and wealth of the municipalities, the yield of taxes and duties is extremely unequal. The most developed urban municipalities have access to significant resources of their own, but this is certainly not the case in poor or rural municipalities.

In Brazil, self-administered fiscal resources represented almost 32% of the budget in municipalities with more than 500,000 inhabitants in 2000, but only reached 5% of the budget in municipalities with fewer than 20,000 inhabitants, yet the latter comprise 72% of all the nation's municipalities. In Repùblica Bolivariana de Venezuela, 50% of the municipalities with fewer than 50,000 inhabitants depend on 80% of the national transfers, while 2% of the municipalities with a greater number of inhabitants have 90% of

the self-administered resources. In Argentina, local tax collection amounted to 48% of revenue in the year 2000, although in some provinces it did not reach 10%²⁰. In Colombia, taxes collected by Bogotá represented 40% of total municipal revenue in 2000. Something similar occurred with the metropolises of the Central American countries.

This inequality in taxation capacity translates, in many countries, into a tendency toward stagnation in the collection of municipal taxes and local duties. This typically leads to an increase in transfers, as in Bolivia, Colombia²¹, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua and Repùblica Bolivariana de Venezuela. In Mexico, self-administered municipal taxes did not increase from 1994 to 2004, but transfers increased three times²² during those years.

However, there are some clear indications that decentralization does not necessarily induce fiscal laziness. Territorial revenues in Colombia have grown steadily over the past decade, and as regards revenue behavior patterns, the municipalities have done better than the departments²³. Increases in territorial entities' share of national income have often been accompanied by an increase in regional tax collection efforts. Between 1996 and 2004, the great majority of municipalities enjoyed a real increase in tax revenues. There is no evidence, given the experience of the municipalities over the past years, to

19. Cited by Oscar Cetrángolo, "Descentralización y Federalismo Fiscal: aspectos teóricos y práctica en América Latina," Seminario internacional, Arequipa, 30 and 31 October 2006. The country with the highest fiscal pressure is Brazil (35.9%) and the lowest is Guatemala (10.6%).

20. The main sources of resources are the taxes for services of lighting, sweeping and cleaning, environment and health regulations for companies and industries, road maintenance and improvement of infrastructures.

21. The percentage of self-administered taxes collected from the Colombian municipalities went from 76% in 1984 to 44% in 2000 and that of the departments from 97% to 45% over the same period.

22. Peru is in a similar case: local collection increased at a rate less than the transfers (21% and 82% respectively between 2003 and 2006), which is due to the acceleration of the process of transferring responsibilities and resources since 2002, National Decentralization Council, Report 2005.

23. In real terms, municipal revenues increased by 28% between 1996 and 2004, compared with 20% at the department level. Source: la Comptroller General's Office of the Republic: "Informe social. Evaluación a las transferencias intergubernamentales 1994-2005" and Boletín de Coyuntura Fiscal 3 CONFIS, Ministry of Finance and Public Credit, Colombia.

The collection of property tax is far from efficient because of outdated property registers and real estate evaluations, excessive exemptions, and a culture rife among municipalities and citizens of tolerance for not collecting or paying taxes

support the hypothesis that an increase in transfers causes a reduction in local tax collection²⁴.

Frequently, the municipalities do not have the mechanisms needed to increase collection, either because they are not the ones who do the collecting or because they do not have the authority to set levels of taxation. In particular, the collection of property tax is far from efficient because of outdated property registers and real estate evaluations, excessive exemptions, and a culture rife among municipalities and citizens of tolerance for not collecting or paying taxes. This matter should be a priority and is a key issue in decentralization²⁵. However, the situation varies from country to country, and among municipalities. In Costa Rica, for example, when the municipalities assumed cadastral management, their revenues increased considerably; however, the central government changed the rules of the game, to the detriment of the municipalities that are making a greater fiscal effort²⁶. The law in Ecuador imposes a bi-annual review of the cadastral evaluations, from a minimum 2/1000 up to 5/1000.

Local taxation structures –often archaic and inefficient– also have much to do with the low level of tax collection. For example, in the Dominican Republic, the local tax structure includes 70 taxes, but the municipalities only bring in 30% of these monies. In Central American municipalities, tax revenue represents, on average, 0.58% of GDP. The municipal contribution to the GDP is what is reflected in minimum local taxation. In El Salvador, Guatemala and Nicaragua, the municipalities depend to a large extent

on central transfers. In Nicaragua, local taxation had great importance in the last decade, thanks to the Municipal Sales Tax (ISV), but this decreased from 5% to 1% of gross sales.

In Costa Rica and Panama, the weakness of the transfers, and above all the reduced municipal responsibilities and levels of spending mean that local revenue –local taxes and duties– represents between 96% and 75% of municipal income. Something similar occurs with Paraguay in the Southern Cone where transfers represent just 11% of municipal budgets. But in this group, local budgets are mostly low. All the same, within this group of countries, good levels of income are not synonymous with greater autonomy; rather, it points to a lack of interest and efficiency in the central governments' systems for redistribution of revenue to less favored territories. In this sense, the high percentage of own-source revenues stands out against the limited budget and responsibilities for local governments.

III.3. Transfers and Compensatory Financing

Transfers from central governments –or intermediate governments in the federal countries– to local governments have increased in recent years. These may be free of use or directed and tend to include compensation mechanisms to limit regional imbalances. Free transfers support autonomous sub-national decisions and are financed through tax revenue co-participation systems. Directed transfers address the operational costs of national policies, such as those for health and education services.

24. Different studies show that there is not sufficient evidence to support the existence of fiscal laziness. rather, it has been proven that in regions with greater economic activity, the decentralization process tends to revitalize the tax collection process.

25. Nickson, Andrew, 2006. Certain cities make an effort to improve the outdated register of the commercial values of properties (Bogotá, La Paz, Quito, Nicaraguan municipalities). Among the measures are: restructuring the legal framework, modernizing collection, computerized systems and self evaluation.

26. Information provided by the National Union of Local Governments in Costa Rica, UNGL.

Box

Transfer Systems in Latin America

- **Argentina.** The Regime of Federal Co-participation with the provinces contributes 57% of the collection of taxes on income, wealth and sales²⁷. The provinces transfer part of these funds to the municipalities, to which they add two transfers: a) maintenance of schools, hospitals and specific projects, and b) discretionary resources. Together it adds up to more than 50% of municipal revenue.
- **Brazil.** The two main sources are the Municipalities Participation Fund (FPM) and the States and Federal District Participation Fund (FPE); both are fed by national taxes²⁸. Furthermore, the municipalities receive transfers from the states (25% tax on the circulation of goods and services, 50% tax on vehicles and the exportation of goods). Some municipalities receive royalties for the exploitation of natural resources. Transfers over the municipal budget have increased in the past decade, reaching 90% of the budget for the smallest municipalities.
- **Mexico.** Allocates participations and contributions to draw on federal income. The former are transferred to the states and municipalities through the Municipal Promotion Fund. The latter are for restricted use by the states and municipalities²⁹. Other transfers exist through oil and export revenue in certain states. Transfers go from 52% of municipal resources in 1990 to 90% in 2005, in particular thanks to "branch 33."
- **Venezuela, R. B.** Municipal dependency on transfers rose from 35% in 1986 to 48% in 1998. It is based on the Treasury Fund (20% of tax income) and extraordinary contributions (Inter governmental Decentralization Fund, with resources from VAT and the Law of Special Economic Assignations, with oil resources).
- **Colombia.** The General Participations System (articles 356 and 357 of the Constitution) provides the resources transferred by the state to territorial entities (departments, municipalities and districts, and indigenous reserves) to finance the services that are their responsibility. The resources are divided into: sector allocations for education (58%), health (24.5%), drinking water and basic sanitation (17%), and special allocations (4%). The distribution of resources is based on population, attended population, population to be attended, equity, fiscal efficiency, administrative efficiency and relative poverty.
- **Bolivia.** Tax co-participation transfers to the municipalities amount to 20% of the national taxes, less the Special Hydrocarbon Tax. To this are added resources from debt cancellation (HIPC I y II) for education, health and investment in infrastructure and the Fund for Productive and Social Investment (FPS). The transfers contribute two thirds of the municipal budgets; 85% is used for investment.
- **Ecuador.** The transfers derive from the Sectorial Development Fund (FODESEC) and the distribution of 15% of current income from the central government budget. Both sources allocate 80% and 70% respectively of their funds to the municipalities and 20% and 30% to the provincial councils. The transfers represent between 47% and 74% of the municipal budgets (1998-2000), and are generally conditional —they are usually earmarked for public investment, not for current expenditure.
- **Chile.** The Common Municipal Fund redistributes 30% of municipal taxes (zoning tax, commercial patents, vehicle tax) with the role of addressing imbalances between rich and poor municipalities. The Ministries of Health and Education allocate transfers to finance the corresponding responsibilities. The National Fund for Regional Development, FNDR, and the National Fund for Social Investment, FOSIS, deliver resources to projects for social investment and to reduce poverty. Various other sectorial funds exist. The transfers constitute half of the total municipal resources.
- **Peru.** Free availability transfers more than doubled between 2003 and 2006 and the municipalities were the main beneficiaries. Of these transfers, 36% come from the Municipal Compensation Fund based on the national taxes collected, 16% of the *Canon* (levy) and royalties for exploiting natural resources, and 2% for participation on Customs Duty. The regional governments receive 2% from FONCOR, 4% from the *Canon* and 1% from Customs Duty. In addition there are transfers of funds from sectorial programs and projects (FONCODES, PRONAA, PROVIAS, etc.)
- **Uruguay.** Transfers account for between 33% and 16% of departmental budgets.
- **Paraguay.** Limited transfers derive from royalties from bi-national hydroelectric companies.
- **Central America.** The legislation allocates a growing percentage of the national budgets to the municipalities: 10% in Guatemala, 7% in El Salvador, 6% in Nicaragua (it will reach 10% in 2010)³⁰, 5% in Honduras, although the government failed to meet the targets. In Costa Rica the constitutional mandate (2001), which allocated 10% of the national budget to the municipalities, has not yet been implemented. In Panama there is no norm for transfer to the municipalities.
- **Dominican Republic.** Although Law 166 (2003) raises transfers to the municipalities from 6% to 10% of the national budget, only 8% had been transferred (2005). Even so, resources have more than doubled in two years. The Dominican Municipal League, in charge of the transfers, fulfils a controlling and inspecting role over the town councils. Transfers represent 90% of the local budget in most municipalities.

27. Moreover, through fiduciary funds for provincial development, the provinces receive resources for debt reduction programmes, in exchange for greater fiscal control.

28. They receive 22% of income tax, 21.5% on industrial products, 50% of the rural property tax and 30% of the tax on financial operations. In addition, the Compensation Fund for the Exportation of Industrial Products (FPEX), the Fund for the Maintenance and Functioning of Teaching (FUNDEP) and the Rural Property Tax (ITR).

29. Branch 33 of the budget includes 7 funds for municipal activities: primary and normal education; health; social infrastructure; strengthening of municipalities and delegations of the Federal District; multiple contributions; technological and adult education; public safety. To these are added specific funds from branches 25 and 39, such as resources for state infrastructures and for natural disasters.

30. The Law of Financial Transfers of 2004 stipulates that, beginning with 4% of the current revenue of the state, transfers to the municipalities must increase annually to 10% of the budget in 2010. The municipalities also receive resources for investment from the FISE and the Institute of Rural Development (IDR).

These services are delivered by sub-national governments with transfers carried out through difficult systems of monitoring, control and evaluation.

In Latin America, different transfer systems are used –over fiscal income or the national budget– with varying fixed or variable percentages, distribution criteria by levels of government and other conditions (see box)³¹. Distribution criteria for transfers involve different factors –population, levels of poverty, access to services, economic potential, efficiency in management– but they have limited impact on limiting regional gaps.

Directed transfers encompass a wide range of objectives that respond to national policies, and only collaterally to the strengthening of democracy and local governance. The majority of countries have sectorial funds for carrying out projects, which in federal countries may be administered by the intermediate governments³². In the unitary countries they are usually administered by autonomous institutions that manage resources from the central government and international financing in a centralized way³³. For example, the Fund for Productive and Social Investment (FPS) in Bolivia co-finances the provision of infrastructure and equipment for educational establishments.

In Central America, the funds were created through peace agreements to deal with

emergency situations or reconstruction, or as social compensation for national macro-economic adjustments. However, they have become permanent and now channel investment into infrastructure, basic services or the promotion of productive development. Frequently, they handle resources that surpass those of the municipalities without being subject to the democratic and civic control of the latter³⁴.

The excessive proliferation of bidding funds for projects has a negative impact on intermediate and small municipalities. Smaller cities often can not partake of such funds because the terms are too complex, and the local staff lacks the ability to draw up sufficient projects. In Chile, it is calculated that there are some 200 funds and sectorial programs related to municipal management.

Recently, systems of direct transfer from the national government to poor families and people are taking on greater importance. Some of them bypass sub-national bodies, or tolerate little intervention.³⁵ In Mexico these transfers give rise to the "Opportunities" program; in Argentina to the "Heads of Household" program; in Brazil the "Family Grant"; in República Bolivariana de Venezuela it gave rise to "Different Missions"; and in Colombia to "Families in Action." In Chile a new National System of Social Pro-

31. Martín, Juan and Martner, Ricardo, 2004 pp. 77 and following; Finot, Iván, 2001, pp. 87 and following.

32. This is what occurs with the National Funds for Housing, Provincial Roads and Rural Electrification in Argentina, the transfers from the Single Health System and the Social Contribution to the Education Salary in Brazil, and the Funds for Contributing to Primary and Normal Education and the Health Services in Mexico.

33. Fund for Productive and Social Investment (FPS), Bolivia; Fund for Compensation and Social Development in Peru; National Fund for Regional Development, FNDR and Fund for Solidarity and Social Investment, FOSIS, in Chile; Fund for Social Investment (FIS) and Solidarity Fund for Community Development (FDSC), in Guatemala; FISDL, in El Salvador; FHIS, in Honduras; FISE in Nicaragua; Fund for Indigenous Guatemalan Development, and Fund for Agricultural Development and Guatemalan Housing Fund.

34. The Fund for Social and Economic Investment (FISE) in Nicaragua is another example: an autonomous organization which depends on the Presidency of the Republic, with funding from the central government, bilateral donations from foreign governments and loans from the Inter-American Development Bank and the World Bank. Something similar occurs with the Social Investment Fund for Local Development (FISDL) in El Salvador, which finances strategies for the eradication of poverty and local economic development, along with the Honduran Fund for Social Investment (FHIS).

35. On occasion they are even manipulated for election purposes.

tection was organized for the unification and better coordination of the different social subsidies granted to poor families through the municipalities.

III.4. Control Systems and Difficulties of Indebtedness

The expenditure of Latin American municipalities is subject to internal and external controls. For internal control, the bigger municipalities establish a municipal accounts office or audit unit –organs granted a certain technical autonomy. In municipalities with a weak structure, this task is entrusted to the municipal treasurer or the person in charge of finance.

There are different models of external control. In some countries there is still a control of the budget by national institutes whose function is to support, control and inspect. This is the case with the Dominican Municipal League, but also with the Institutes for Municipal Promotion or the Comptrollers Offices in some Central American countries. In Costa Rica, for example, municipal budgets have to be approved by the controlaría before they can be allocated.

In many unitary states, the external control over the intermediate-level local government bodies is exercised by the Controlaría. Bolivia, Chile, Costa Rica, Ecuador, Guatemala, Nicaragua, Paraguay and Repùblica Bolivariana de Venezuela still maintain this form of external control. In El Salvador and Honduras, control is exercised by the audit board or the superior auditor body.

In the federal countries, external control is more complex, since both international and national entities intervene. Thus, in Argentina and Brazil external scrutiny of the mayor —*intendente* or *prefeito*— is conducted by the Deliberating Council or Town Council with the assistance of the provincial or State Court of Auditors or the Municipal Court of Auditors, created by the provincial or state government. Should the federation have transferred resources to

the municipalities, the audit would be carried out by the Court of Auditors of the Union. The state legislatures are the organs of oversight of the municipalities, although control of federal resources is exercised by the Superior Auditor of the Federation's Office, which in turn depends on the Union Congress.

In recent years, the problem of debt has been a priority. Different countries face fiscal problems through the indebtedness of the sub-national entities. Although in most countries sub-national government borrowing must be approved by national government, this does not guarantee discipline; some countries are trying more innovative solutions to avoid excessive borrowing³⁶.

In 1997, Colombia established a 'traffic light' system for regulating sub-national borrowing relative to the level of debt incurred by the regional entity. The law establishes the basis for territorial fiscal adjustment through borrowing performance agreements that are controlled at national level. These not only limit the debt capacity, but also manage the repayment of loans, essentially duplicating the IMF system internally. Other laws have complemented this policy with good results.

III.5. Public Services

The financial capacity of the municipalities is closely connected to the delivery of public services. In the second half of the 20th Century, national and intermediate governments absorbed public services which, according to the principle of subsidiarity, are most effectively provided by the municipalities. New support for decentralization has begun to reverse the old approach³⁷.

The public services generally attributed to municipalities include the provision of: urban cleanliness, refuse collection and treatment, drinking water, drainage and sewers, public lighting, town planning, parks, gardens and spaces for sport, markets, cemeteries and slaughterhouses,

36. *Law of fiscal responsibility in Brazil (2000), the "semaphore system" in Colombia – by Law 358 of 1997, in Ecuador, the Law of Responsibility, Stabilization and Fiscal Transparency of 2002.*

37. Martín, Juan and Martner, Ricardo (coordinators), "Estado de las finanzas públicas: América Latina y El Caribe", cit. pp. 62 and ff, see table 9 on revenues and total expenditure at government level.

traffic regulation, roads and civic safety, public shows and culture (see table 4).

Bolivia, Brazil, Chile, Colombia and Mexico have transferred to intermediate and local levels responsibility for managing health care, primary and secondary education, and social assistance³⁸.

Latin American municipalities also share the management of public services with the intermediate entities and the national government. The specific services differ in each country, but among the most common are planning, education, health, civil protection, environmental protection, sport and culture. When these are shared by different levels of government, each level takes responsibility for certain components of the policy. However, problems of coordination as well as ambiguities with respect to management responsibility are fairly common at each level.

Under the influence of neo-liberalism in the 1990s, many countries opted for the concession or privatization of local services. In Argentina all of the local public services in the metropolitan area of Buenos Aires and the provinces in the interior were granted in concession: mainly water, sanitation and energy services. In Chile, the basic services of water, sewers, electricity, gas and telephone systems were privatized and taken over by regional and national companies. In Bolivia and Ecuador, the management of drinking water and sewers has been privatized, granted in concession or delegated to

private sector operators³⁹ in the major municipalities of La Paz, Cochabamba and Guayaquil. Nevertheless, the management of some services is returning to public authorities at the local (as is the case in Bolivia and shortly in Guayaquil) and national (Buenos Aires) levels.

In Brazil, there is some overlap of responsibilities between levels of government in some regions; others have some inadequate services or lack certain services entirely. While responsibility for education and health is transferred to the intermediate governments and municipalities with sufficient administrative capacity, small municipalities give up part of their responsibilities, such as construction and maintenance of roads, in exchange for a portion of the fuel tax. The division of responsibilities usually follows sectorial logic (water and sanitation and education are dealt with by the states; the financing of health, housing and sanitation is done by the federal government).

In Argentina in the 1990s, while services managed by the national Government and provinces were privatized, the municipalities held onto the services for which they were responsible. Furthermore, those with greater capacity⁴⁰ took on new responsibilities⁴¹. In addition, through delegation of the upper levels of the government, some municipalities administer social policies and temporary work programs, programs offering assistance to micro-companies, and small and medium companies, and the development of sanitation.

38. There are important differences among countries. In Chile, the municipalities administer integrally primary health care, and primary and secondary education. In Bolivia, they are only responsible for the administration and maintenance of infrastructure and equipment of the establishments. In Argentina, the municipalities carry out complementary actions for infrastructure maintenance, and in the health sector they share primary health care.
39. The concept of "privatization" is generally avoided as it tends to generate strong resistance. Bolivia, for example, opted for "capitalization" where private firms bring capital to public enterprises, taking over their control.
40. The municipality of Rio Cuarto, in the province of Cordoba took on the water supply company —first national, then provincial; through excellent management of the water service, self-financing has been achieved for the first time in years.
41. Among the new responsibilities: environment, civic safety, economic promotion, access to justice and resolution of conflicts between family members and neighbors without recourse to the law; social promotion (young people, senior citizens, gender equality, disability), health, promotion of culture and sport; and education insofar as it complements the efforts of other levels of government.

Table 4

Municipal responsibilities in Latin America

	Basic services						Food distribution			Urban planning			Social services						Economic development			City safety				
	UO	W	DW	SS	SL	Cem	M	B	P	RI	TRNS	T	PS	PHC	H	SS	C	S/L	ED	J	Tourism	CS	FB	RP	E	
Argentina	X	X	S	S	SL	Cem	X		X	X	S	X		S	S	X	X	S	S	S	S	X	X	X	X	
Bolivia	X	X	X	X	X	X	X		X	S	X			S	S	S	X	X	S	S	S	S	S	S	S	
Brazil	X	X	X	X	X	X	X		X	S	X			X	X	X	X	X	S	S	S	S	S	S	S	
Chile	X	X	X	X	X	X	X		X	S	X			S	S	S	S	X	S	S	S	S	S	S	S	
Colombia	X	X	X	X	X	X	X		X	X	S			S	S	S	S	X	S	S	S	S	S	S	S	
Costa Rica	X	X	*	X	X				X	X	X			S	S	S	X	X	S	X	S	S	S	S	S	
Dominican Rep.	X	X	X	X	X	X	X		0	X	X							0	0	0	0	0	0	0	0	
Ecuador	X	X	X	X	X				X	X	X			Conv	Conv											
El Salvador	X	X	Pil	exp	X	X	X		X	X	C							X								
Guatemala	X	X	X	X	X	X	X		X	X	X			S												
Honduras	X	X	X	X	X	X	X		X	X	X							X	X							
Mexico	X	X	X	X	X	X	X		X	X	X															
Nicaragua	X	X	S	S	X	X	X		X	X	X							S	X	X	X	X	X	S	X	
Panama	X	X	X	X	X																					
Paraguay	X	X	S	S	X	X	X		X	S	S			X												
Peru	X	X	X	X	X	X	X		X	X				S	S	X	S	X	S	S	S	S	S	S	S	
Uruguay	X	X	X	X	X	X	X		X	X	X			S	S	X	X	X	X	X	X	X	X	X	X	
Venezuela, R.B.	X	X	X	X	X				X	X	X			S	S	X	X	X	X	X	X	X	X	X	X	

S: Shared; O: Optional; Pil: pilot experiences; Conv: convention; UO: Urban ownership; W: Waste; DW: Drinking water; SS: Sewer system; SL: Street lighting; Cem: Cemetery; M: Market;

B: Butchery, slaughterhouse; P: Urban planning -land regulation and territorial planning; RI: Transport; T: Traffic; PS: Primary school; PHC: Primary health care; H: Housing; SS: Social services; C: Culture; S/L: Sport and leisure; SL: Sport and leisure; ED: Economic development; J: Job offer; Tourism: Tourism; CS: City safety; FB: Fire brigades; RP: Risk prevention; E: Environment.

* In rural areas.

In Mexico, the state institutions and occasionally federal ones intervene in the delivery of local services. Responsibility for drinking water, the management of town planning, roads and the collection of taxes has often been taken over by the states. The participation of local governments in administering education is limited to the maintenance of certain infrastructures. By contrast, since 1997 the financing of social programs has been decentralized. The granting of services to the private sector is less common than in other Latin American countries.

In Bolivia, a uniform strategy of decentralization has been applied to all public services, including health, education, roadways and micro-irrigation. Most are now allocated to the municipalities. Since 2001, the decentralization policy in Ecuador has opted for voluntary transfers of responsibilities through the signing of individual agreements between the central government and the municipalities involved. New responsibilities of special interest to local governments are: the environment, tourism, social welfare and, to a lesser extent, education, housing and health⁴².

In Paraguay, the municipalities provide a limited number of basic services⁴³. The central government assures the provision of most of the services, in particular drinking water, education and public transport⁴⁴. In Uruguay, these services are delivered at the departmental level, including more and

more social services (primary health care), environmental protection and cultural development.

In Central America, with the exception of Guatemala, the majority of local governments take on the basic services with difficulty and, in many cases, in precarious conditions. The activities that involve greater responsibility and require greater investment –education, health, social well being, housing, aqueducts and sewers– are delivered at the national level, in the majority of cases.

The municipalities frequently take on responsibilities not anticipated in the legislation. The municipality of San Pedro Sula in Honduras allocates resources for the maintenance of the hospital and payment of salaries to doctors, nurses and skilled workers, in addition to providing refuse collection services to the hospitals free of charge. In several countries, the municipalities take part in the construction and maintenance of the basic infrastructures of education and health. In Honduras, water management, previously in the hands of a state company, was decentralized in 2003⁴⁵.

Regrettably, there are few studies that make it possible to measure the impact of all these processes of transfer on access to, or quality of basic services. Nevertheless, the existing data is promising: in Ecuador, for example, it is calculated that since the beginning of decentralization the

- 42. Fernando Carrión, "El proceso de descentralización en Ecuador," July 2006. Interest in new responsibilities for local governments is centered on three topics: environment 31.5%, tourism 24.6% and social well being 23.3%. To a lesser extent, education at 7%, and housing and health at 4%.
- 43. Hygiene, waste management, public lighting, slaughterhouses, markets, cemeteries, transport terminals.
- 44. At the end of the 1990s, agreements were made between the Ministry of Health, the departments and the municipalities to create departmental and local health councils with limited responsibilities in planning and management. In 2005, only 25% of the municipalities had signed agreements with the Ministry of Health. In 1996, the Department of Itapúa created a Rotating Fund for Medication for Social Pharmacies, which administers 70 social pharmacies in 30 municipalities (2002). Paraguay File.
- 45. In El Salvador, around 15 pilot projects have been set up transferring the management of water to mancomunidades or local companies. In Nicaragua, there are municipal companies or franchises at the municipal or regional level. Also in El Salvador and Nicaragua, in the social areas, a limited direct de-concentration is taking shape, aimed at the community and designed centrally (Ministries of Education, Health, Public Works). Ex: EDUCA program –Education with Community Participation– in rural zones of El Salvador, and Co-management of Education and Health in Nicaragua.

percentage of houses connected to the public sewer system has risen from 39.5% in 1990 to 48.5% in 2001; homes with electricity went from 78% to 91%; domiciliary connection to the drinking water supply rose by 10%; and refuse collection went up 20% at national level⁴⁶.

In Chile, the favorable impact of local management is expressed in the positive evolution of the main indicators of social and human development (education, basic sanitation, health). For its part, the system of directed subsidies, applied from the municipalities, has contributed decisively to reducing poverty from 38% in 1989 to 18% in 2002⁴⁷.

National Planning observed that in Colombia decentralization has improved the rates of educational provision, literacy and coverage of health services. Nevertheless, according to the same source, progress is insufficient in basic social infrastructures and provision of services, and regional disparities have increased. Improvements in management have been significant, but are still not adequate, although pre-existing imbalances have influenced this factor, as have the difficulties related to the armed conflict and lack of governance of certain territories.

III.6. Local Government Personnel and Civil Service Career

For the intermediate sub-national entities and municipalities, the absence of a civil service career is a serious failing. In the majority of countries the predominant system in sub-national government is the spoils system which gives rise to a large scale rotation of staff, in particular at the upper and intermediate levels, every time there are political changes that affect the administration.

The best performing countries in terms of development and institutions at the state level are Chile, Brazil and Costa Rica. Ano-

ther group of countries –República Bolivariana de Venezuela, Mexico, Uruguay, Colombia and Argentina– present civil service systems that are not particularly well organized. The situation is more critical in the remaining Central American countries and particularly in Bolivia, Peru, Paraguay and Ecuador, where the degree of politicization is higher⁴⁸. This situation is worse at the level of sub-national governments.

In the best-qualified countries –Brazil, Chile, Costa Rica– local officials have generally become integrated into national career systems that are now being matched by systems at the municipal level. In Brazil, the 1988 Constitution allowed local governments to define their own statute for their three million employees, but application of this is limited.

In Chile, the 185,000 municipal employees (54% of public personnel, including teachers and health workers) are mostly integrated into different national personnel evaluation systems and career services statutes⁴⁹.

Costa Rica had 10,755 municipal workers in 2004 (4.7% of public personnel), of whom 25% worked in San José⁵⁰. In 1998 a municipal administrative career path was established, but it has not yet been implemented to any effect. Similarly, in 2004 Nicaragua adopted the *Ley de Carrera Administrativa Municipal* (Municipal Administrative Career Act).

Ecuador and Colombia have a legal framework concerning the career civil service for the public sector as a whole. In Colombia, it is calculated that in the 1990s municipal staff accounted for less than 10% of public personnel. In Mexico it was 5%.

In some provinces of Argentina, the regime of employees is uniform between the provincial and the municipal level; in others, local governments have their own regime, although mixed situations are the most common.

46. Ponce, Juan. *La vivienda y la infraestructura básica en el Ecuador: 1990-2001. SIISE*. Cited by F. Carrión, el proceso de descentralización en Ecuador, July 2006.

47. Ministry for National Planning in Chile (MIDEPLAN).

48. See the Report on the Civil Service in Latin America, AIDB, 2006.

49. Department of Studies of the Chilean Association of Municipalities (Asociación Chilena de Municipalidades – ACHM).

50. Ministère des Affaires Etrangères-DGCID, *Bilan des politiques de Décentralisation en Amérique Latine, décembre 2005*.

In recent years, the great Latin American metropolises have driven processes of partial decentralization or deconcentration into delegations

In most countries, public employees are subject to national workers legislation and a special employment status for public or municipal employees, although these practices are rarely applied in practice. Unfortunately, the majority of these countries does not possess precise statistical data on public employees.

In theory, in the majority of countries, sub-national government officials and employees are covered by the national work law and by statute as public or municipal employees. However, in practice this is rarely fulfilled. Regrettably, most countries lack precise statistics about personnel in the intermediate governments and municipalities⁵¹.

tems are regularly established (example: single names and lists in República Bolivariana de Venezuela). The specifics observed in different countries are influenced by respective norms and traditional customs.

The duration of the mandate of mayors and representative councilors varies from country to country. The majority tend to have mandates of four years (Central American countries, Argentina, Brazil, Chile, Colombia, Dominican Republic, República Bolivariana de Venezuela), but there are also some with three-year terms (Mexico), two and a half (Cuba), and five-year terms (Bolivia, Peru, Uruguay, Paraguay and Panama). Re-election of the mayor and councilors is usually allowed, except in Mexico and Colombia where re-election to office is prohibited.

IV. Local democracy

IV.1. Local electoral regimes

With regard to municipal government, the terms *cabildo*, town council, council or municipal corporation are used, with different national nuances. In most cases the municipal institution is made up of: the mayor, *intendente*, *síndico* (trustee), municipal president or *prefeito* (prefect), who presides over it, represents it and is in charge of the administration. The *concejales*, *regidores* or *vereadores* (town councilors) act as a legislative body, although at times they receive specific commissions.

Direct election of mayors predominates in the region, generally through a majority system, on different dates from those designated for the national elections (Chile, Ecuador, Argentina, Uruguay, Brazil, Peru, Dominican Republic, El Salvador, Nicaragua). In the federal countries, local elections tend to coincide with the provincial or state elections (Argentina, Brazil, Mexico). In Bolivia, the mayor is elected indirectly from among the members of the Municipal Council who are elected by direct universal suffrage. Recently, the method of election has changed from indirect to direct in Chile (2001), Costa Rica (2002), Nicaragua (1995), and República Bolivariana de Venezuela (1989). For the town councilors, proportional representation or the mixed sys-

The municipalities of each nation possess their own territorial division, with sub-municipal entities with different names. Such entities are beginning to be granted greater participation, and direct election of municipal authorities is now taking place in various countries. Promising results have been observed in the *corregimientos* of Panama; in the Neighborhood Associations' legal status and election through direct suffrage in Chile; with the *Juntas Vecinales* (neighborhood associations) in Bolivia; the *Juntas Parroquiales electas* (elected parish associations) in Ecuador, which were briefly interrupted in 1980; the elected auxiliary presidencies of Tlaxcala and the municipal communities of Tabasco, in Mexico.

In recent years, the great Latin American metropolises have driven processes of partial decentralization (18 community centres in Montevideo and 15 communes in Buenos Aires) or deconcentration into delegations, sub-mayoral areas or sub-prefectures (16 in Mexico City, 31 in São Paulo). In Mexico City, the delegation chiefs are elected by direct vote; in Buenos Aires community councilors are to be elected for the first time in 2007.

In the unitary countries, the process of electing intermediate government authorities has been slow. In 2004, only half of the de-

51. In Paraguay there are 13,250 municipal employees (7.7% of the public workforce), half concentrated in the city of Asunción (6,500 employees). In Nicaragua, the number of municipal employees rose to 8,648 in 2000; 31% of them work in Managua.

partments or regions held elections (Colombia, Bolivia, Ecuador, Peru and Paraguay). In the federal countries, the duration of government terms of office does not always coincide with those of the municipal authorities. In Mexico, for example, the governors have a mandate of six years, as opposed to three years for the mayors.

As for women's participation in local government in Latin America, recent studies show that women's political representation remains very low. Between 1999 and 2002,

there were 838 women mayors serving in 16 Latin American countries, representing only 5.3% of the total (Table 5). The ratio of women to men councilors is slightly higher.

There is open public debate in all the countries throughout the region on the under-representation of women at local levels, and measures have been taken to improve the proportion of democratically elected women officials in local government. The quota system is the most common mechanism used to improve women's political participation⁵².

Table 5

Women Mayors in Latin America (between 1999 and 2002)

Country	Number	Percentage
1. Panama 1999	11	14.8
2. Costa Rica 1998	10	12.3
3. Chile 2000	39	11.4
4. Honduras 2002	29	9.7
5. El Salvador 2000	22	8.3
6. Nicaragua 2000	11	7.2
7. Colombia 2002	76	7.0
8. Argentina 1999	136	6.4
9. Bolivia 2002	19	6.0
10. Brazil 2000	317	5.7
11. Paraguay 2002	12	5.6
12. Venezuela, R. B. 2000	16	4.7
13. Mexico 2002	80	3.3
14. Peru 2002	52	2.6
15. Ecuador 2000	5	2.3
16. Guatemala 1999	3	0.9
Latin America	832	5.3

Source: "Participar es llegar", Alejandra Massolo, INSTRAW.
United Nations. Dominican Republic, 2006.

52. In Argentina, for example, the law provides that women candidates must be positioned in proportions sufficient to get elected; in Bolivia, a minimum of one in three candidates has to be a woman; and in Paraguay, one in five candidates has to be a woman; by law in Mexico no more than 70% of the candidates can be of the same gender; and in Peru, at least 25% of the candidates must be women. There are electoral gender quotas also in Ecuador and Dominican Republic.



IV.2. Civic Participation

Latin American democracy has made progress. According to the Index of Electoral Democracy (IED) –whose values vary between 0 and 1– the region goes from 0.28 in 1977 to 0.93 in 2002. Moreover, 89.3% of the potential voters are registered on the electoral rolls, 62.7% actually vote and 56.1% cast a valid vote. These percentages for participation in elections are below those of European countries, but are superior to those recorded in the United States⁵³. But significant progress is still needed in many respects: transparency in the financing of parties, the struggle against corruption, and in overcoming clientism.

Multiple procedures for citizen participation have been formally introduced into almost all the countries, although these are not always effective or really used

At the local level, participation in elections is high, although in some countries it is tending to decrease. In Argentina, Brazil and Uruguay, where participation exceeds 80%, voting is mandatory.

In Bolivia, participation in local elections has oscillated between 59% and 63% from the mid-1990s to the present. In Paraguay, participation declined from 80% between 1991 and 1996, the first period of democratically elected local authorities, to 50% between 2001 and 2006. In the local elections of 2005 in Repùblica Bolivariana de Venezuela, up to 69% of the voters abstained, because of the political situation and the call by opposition sectors to abstain from voting. However, historically the level of participation in municipal elections in Venezuela has been quite low.

In Central America, general average participation is near 50% of the population of voting age, except for Nicaragua where participation exceeds 70%. In Guatemala in the election of 2003, 58% of registered voters voted in the municipal and general elections. In Costa Rica, in the first local elections for mayor in 2002, abstentionism reached 48% of the electorate in some municipal cantons.

Political pluralism has taken root throughout the region, except in Cuba. In Mexico, for example, at the local level a genuine political

competition has emerged, and in just a few years it has overtaken the institutional quasi-monopoly exercised by a single party, contributing to the democratization of national political life. New local and regional parties, supporting new leaders, have also emerged.

In Peru, the new *Ley de Partidos Políticos* (Political Parties Act) allows the appearance of regional political groupings and the formation of provincial and district political committees that obligate the national political parties to review their structures and renew their leaders. In Colombia and other countries, national political figures are starting to emerge from the local level.

Multiple procedures for citizen participation have been formally introduced into almost all the countries, although these are not always effective or really used. The constitutions and legal reforms define a broad range of forms of participation.

In Brazil, the Constitution of 1988 mentions the plebiscite, referendum, popular tribune, popular councils, and the right to popular initiative with the support of 5% of the voters. But it is the participatory budget that has achieved world recognition as the expression of direct democracy whereby the community becomes involved in formulating the plan for municipal investment. This procedure has been applied in Porto Alegre since 1989, and is used in more than 100 Brazilian cities. It has also been extended to some municipalities in Argentina, Ecuador, Colombia, Uruguay, the Dominican Republic, Paraguay and Chile, albeit in simplified form. In the Dominican Republic, in 2006, more than 110 municipalities (two thirds of the country) were applying the participatory budget.

In Bolivia, the *Ley de Participación Popular* (Law of Popular Participation) of 1994 has generated new participatory practices in the municipalities through the Territorial Base Organizations (OTBs). Through these, the communities take part in the municipal development and annual operating plans that are required in order to access co-parti-

53. *La democracia en América Latina* PNUD, 2004, pp. 77 and following.

cipation funds. The oversight committee elected by the OTB monitors the implementation of development plans, along with the sub-mayors and social syndicates. The result has been encouraging in most municipalities, above all in the regions of Chapare and Santa Cruz. But in many cases, legal requirements have given rise to bureaucratic practices that get in the way of genuine participation, reinforcing clientism and corruption.

In República Bolivariana de Venezuela, the Constitution and the law are fairly careful in setting up mechanisms for civic participation, but do not clearly define the ways to make them operational. The recently passed *Ley de los Consejos Comunales* (Community Councils Act) of April 2006 creates a new framework for participation through the Community Councils responsible for bringing together different community organizations, social groups and citizens for the direct management of public policies at local level. This initiative does however present the risk of displacement to these Community Councils, which are highly dependent on presidential authority, of programs and resources that should be channeled through the municipalities, as the primary political unit of the national organization and democratic participation.

In Ecuador, in a context in which national institutions have lost their legitimacy, citizen participation has been channeled toward local governments through strategic planning in formulating provincial plans (18), municipal plans (more than 100) and participatory budgets, and through local sectorial committees for public works and service provision; one outstanding example is the participatory experience in the municipality of Cotacachi⁵⁴.

Also in Peru, recent legislation has promoted the creation of Councils for Regional and Local Coordination as spaces in which to participate, and Development Plans and Participatory Budgets in the different levels of government (districts, provincial municipalities and regional governments).

In the majority of countries, incentives are offered for organizing the population through Neighborhood Associations, commissions or neighborhood councils and other forms of association (Argentina, Chile, Paraguay, Ecuador, República Bolivariana de Venezuela, Colombia, Uruguay). In Chile, more than 65,000 local organizations linked to the municipalities manage requests and projects. Regrettably, the level of participation in neighborhood elections and in the life of the organizations is tending to decrease⁵⁵.

In Uruguay, the neighborhood councils in Montevideo are elected and have a consultative role. Moreover, "defenders of the people" (ombudsmen), have been created; this post is also included in the Argentine constitutional reform of 1994.

Popular initiatives and consultation are provided for by law in various Latin American countries, including Chile and Uruguay. For its part, the *cabildo abierto* –open session of the Municipal Council– with a broader participation by the community, serves to sound out the community with respect to certain impending decisions. This last modality has spread particularly in Central America (Costa Rica, Nicaragua and El Salvador), and since 2004 Guatemala has instituted popular consultation with neighbors and indigenous peoples. Such processes are, however, still in the earliest developmental stages⁵⁶.

Procedures for the recall of municipal elected officials also exist. In Colombia, the programmatic vote is taken into account: the mayor submits his program and if he does not carry it out, revocation may take place. In República Bolivariana de Venezuela, the legislation allows for a revocatory referendum for the mayors. In other countries, revocation is allowed for cases of corruption or non-fulfillment of the municipal development plan (Ecuador, Costa Rica). In Bolivia, the mayor is removed from office by the constructive censure vote of 60% of the councilors, who then choose from among themselves the person who will replace him. It is often used

54. See "La Asamblea Cantonal de Cotacachi" - International Experiences www.municipium.cl

55. UNDP: Social capital Map of Chile.

56. Procedures of social participation have also been instituted in local planning: community development councils, COCODES, and municipal development councils, COMUDES, in Guatemala; Councils for Municipal Development, CODEM, in Honduras, etc.

The rights of indigenous peoples and of other minorities are moving forward through different options, although the process is still incipient and does not apply in all countries

in response to party political issues rather than questions of bad management.

In the interests of greater transparency in management, Brazil and other countries have legislated to oblige local governments to publish their public accounts, and are exploring other mechanisms for the diffusion of public information.

In Cuba, "socialist democracy" establishes the principle of presenting accounts once a year, and revoking the mandate of the delegates elected to the Popular Power Assembly.

IV.3. Minority Rights

Native peoples are an important part of the population in numerous Latin American countries. In Bolivia, Ecuador, Guatemala, Peru and some regions of Mexico, they make up between 12% and 70% of the population. Significant minorities constituting 10% or more of the population live in specific regions of Belize, Chile, Paraguay, El Salvador, Honduras, Nicaragua and Panama. The rights of indigenous peoples and of other minorities are moving forward through different options, although the process is still incipient and does not apply in all countries.

- In Bolivia, the *Ley de Agrupaciones Ciudadanas y Grupos Indígenas* (Civic Associations and Indigenous Groups Act) of 2004 gives electoral guarantees, the right to present candidates, and recognition of the traditional authorities. The practice of old forms of direct democracy inherited from the *ayllus*, agricultural syndicates, neighborhood associations, and other forms of community participation is very common in local life.
- Brazil recognizes indigenous rights in the constitution.
- In Colombia, indigenous territorial entities may be formed with their Council, and a special circumscription is anticipated for ethnic groups, political minorities

and Colombian nationals abroad, with five representatives in Congress.

- Guatemala recognizes the multi-ethnic and multicultural character of the municipalities, as well as the indigenous mayoralties, councils of Mayan Advisers and the law of national languages.
- As a result of the Chiapas uprising, in Mexico indigenous rights are included in the Constitution. Among state legislatures, Oaxaca stands out with 480 municipalities electing their authorities by use and custom.
- Nicaragua grants constitutional autonomy to two regions on its Atlantic Coast by means of a Statute of Autonomy and each region's own *Ley de Propiedad* (Property Law). In this way, native indigenous peoples live alongside Afro-descendants and other social groups.
- In Panama, the *Comarca de San Blas* (Indigenous Community of San Blas) has constitutional autonomy because that is where the Kuna people live, having been granted their own charter. Their highest authority is the Congress of Kuna Culture. They are entitled to two legislators in the parliament.
- In República Bolivariana de Venezuela, the law recognizes that in the municipalities where there are indigenous communities, their values, ethnic identity and traditions must be respected. The figure of the indigenous municipality is established, and through it the indigenous peoples and communities define, execute, control and evaluate public management.

IV.4. Municipal Associativism and Defence of Municipal Autonomy

The transformations in local governments caused by decentralization processes permit the creation and strengthening of national and regional associations of local

Table 6 Associations of Municipalities in Latin America

Country/Region	Name of the Association	Acronym	Year founded
Regional Associations			
Latin America	Latin American Federation Cities, Municipalities and Local Government Associations	FLACMA	2003
Sub-regional Associations			
Central America	Federation of Municipalities of the Central American Isthmus	FEMICA	1991
Mercosur	Mercocities		1995
National Associations			
Argentina	Argentine Federation of Municipalities	FAM	1997
Bolivia	Federation of Municipal Associations of Bolivia	FAM	1999
Brazil	Brazilian Association of Municipalities	ABM	1946
	National Confederation of Municipalities	CNM	1980
	National Front of Prefects	FNP	2001
Colombia	Colombian Federation of Municipalities	FCM	1989
Costa Rica	National Union of Local Governments	UNGL	1977
Chile	Chilean Association of Municipalities	ACHM	1993
Ecuador	Association of Ecuadorian Municipalities	AME	1940
El Salvador	Municipal Corporation of the Republic of El Salvador	COMURES	1941
Guatemala	National Association of Municipalities of Guatemala	ANAM	1960
Honduras	Association of Municipalities of Honduras	AMHON	1962
Mexico	Association of Local Authorities of Mexico	AALMAC	1997
	Mexican Association of Municipalities	AMMAC	1994
	National Federation of Municipalities of Mexico	FENAMM	1997
Nicaragua	Association of Municipalities of Nicaragua	AMUNIC	1993
Panama	Association of Municipalities of Panama	AMUPA	1995
Paraguay	Paraguayan Organization of Inter-municipal Cooperation	OPACI	1964
Peru	Association of Municipalities of Peru	AMPE	1982
	National Association of District Mayors	ANADIS	2003
	Network of Rural Municipalities of Peru	REMURPE	1997
Dominican Rep.	Dominican Federation of Municipalities	FEDOMU	2001
Uruguay	National Congress of <i>Intendentes</i>	CNI	1959
Venezuela, R. B.	Association of Venezuelan Mayors	ADAVE	1996
	Association of Bolivarian Mayors	ADABOVE	

authorities. With the exception of Brazil, Ecuador and various Central American countries, the majority of regional and national associations of municipalities in Latin America were established between 1980 and 2000 (see table 6).

In some countries, the associations enjoy a legal status recognized by national legislation (Argentina, Bolivia, Ecuador, Colombia, Paraguay, Uruguay). However, their representative and institutional capacities are uneven. In general they offer advisory services, information and training, maintain contact with the governments and channel resources from international cooperation. Many of them have incipient institutional structures.

In some countries, the associations enjoy a legal status recognized by national legislation. The majority of countries also have sub-national associations of regional municipalities

The Latin American Federation of Cities, Municipalities and Local Government Associations (FLACMA), whose roots date back to 1981, brings together the majority of national associations in the region. In addition, two sub-regional organizations operate: FEMICA with the six national associations of Central America (AMHON, AMUNIC, AMUPA, ANAM, COMURES, UNGL) and the Mercocities Network with 181 associated cities in Argentina, Brazil, Paraguay, Uruguay, República Bolivariana de Venezuela, Chile and Bolivia. Recently, a network of Andean cities has been set up, and COSUDAM, another organization made up of local government associations, was established.

The majority of countries also have sub-national associations of regional municipalities. Bolivia's FAM is, in fact, a federation of departmental associations of municipalities. There also exist associations of indigenous mayors (AGAAI in Guatemala, Coordinator of Alternative Local Governments in Ecuador) and associative structu-

res of aldermen or town councillors (Colombia, Paraguay, Uruguay).

The governors of provinces and states, and more recently of regions or departments, create their own organizations, such as CONAGO in Mexico, and the National Conference of Governors in Colombia. At the end of 2004, the Latin American Organization of Intermediate Governments, OLAGI, was set up, bringing together governors, *intendentes*, prefects and regional presidents from 14 Latin American countries that administer intermediate governments.

A number of local-government women's organizations have been formed in Latin America, including: the Association of Women Councilors of Bolivia (ACOBOL); the National Association of Women Councilors and Mayors of El Salvador (ANDRY-SAS); the Ecuadorian Association of Female Municipal Employees (AMUME); and the Paraguayan Network of Women in Municipal Government (RMMP). In other countries, there are organizations operating at sub-regional levels, such as the Network of Women Councilors of Ayacucho in Peru. Additionally, a bi-annual Congress of women mayors and councilors is held within the organizational framework of the Chilean Association of Municipalities. In 1998, the Latin American and Caribbean Federation of Women in Local Government (FEMUM-ALC) was set up; the organization is linked to FLACMA.

V. Achievements, limitations and perspectives on decentralization

Although progressive and sometimes contradictory, the decentralization and strengthening of the municipalities and intermediate governments of Latin America is a reality. In just over two decades, there have been important achievements.

- Election by the people of local authorities has become common, changing the way that parties operate, bringing

about renewal of leadership and transforming the municipality into a space in which leaders are formed, from which various Presidents of the Republic have already emerged;

- Multiple constitutional and legal reforms have transformed the states, with competencies and resources being transferred to sub-national governments, although not always with clear strategies and methods;
- Sub-national resources have increased significantly, although unevenly, and the average decentralized continental expenditure has risen from 11.6% in 1980 to 18.8% of total government expenditure between 2002 and 2005;
- The new responsibilities of the local governments translate into progressive institutional development – though uneven – where some municipalities stand out because of their capacity for initiatives and innovation, while others still cling to their traditional structures and practices;
- The local spaces for civic democracy have given rise to new experiences of participation by citizens, such as the strategic participation plan and participatory budgets;
- Experiences in municipal de-concentration or decentralization have also been developed to share management with the communities and open spaces to groups that were previously marginalized (indigenous populations below the poverty line);
- The new responsibilities of the local governments and the transformation of relations with the national governments are expressed in the creation and strengthening of the national and regional associations of local authorities;

- In various countries, such as Bolivia, Brazil, Chile, Colombia and Ecuador, the positive results attained through decentralization are reflected in the increases of local investment, extension of basic services, improvement in human development indicators, decrease in poverty and broadened citizen participation.

However, the decentralizing process shows gaps and faces obstacles, such as:

- Unequal relations and frequent subordination of the intermediate entities and municipalities to the central governments, heightened by the increase in fragmentation and municipal heterogeneity;
- Gaps between the proliferation of legislation and weakness in its application, which may be attributed largely to prevailing political and institutional cultures;
- Limited financial capacity of local governments, because of central resistance to handing over resources in a context of macro-economic instability, lack of financing policies and adequate credit, citizens not used to paying for subsidized services, but also because of the lack of political will to strengthen the local capacity to collect taxes;
- Low efficiency of many local administrations in delivering services, because of the absence of human resource policies and bad handling of personnel (rotation, lack of career paths), resulting in a low level of efficiency and professionalism in local personnel;
- Limitations in civic participation in development management due to a lack of adequate financial and local human resources, poor adaptation of central laws and policies, and difficulties in organizing and mobilizing the actual communities.

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The decentralizing process in Latin America has shown diverse and contradictory signs, and is passing through a moment of uncertainty. In big countries like Brazil, there is a need to review the federal pact and transfer policies in order to deal with the growing cost of the new responsibilities of education and health.

In Argentina, party political centralism continues to be a limiting factor for local autonomy, particularly at the provincial level. In República Bolivariana de Venezuela, it is feared that the government will intervene increasingly in the provincial states and municipalities, cutting down their autonomy.

In Mexico, where democratization of national and local political life has made significant advances, strong pressure persists on the federal government to move forward with questions of federalism and decentralization.

In some unitary states, this process has been slowing down. In Colombia, local government spending is controlled in order to reduce the fiscal deficit of the central government. During the last years, decentralization has not been intensifying. In Colombia, sub-national expenditure is controlled to alleviate the deficit of central government, and the decentralization process has not deepened over the last years. In Ecuador, the transfer of competencies is at a standstill; local authorities are asking the government to undertake concrete measures to re-launch the process. In Peru, local authorities have shown concern about recent unwelcome measures taken by the national government⁵⁷.

In Bolivia, where local governments now administer half of the national public investment, the rigidity of the transfer system and the overlap of responsibilities at the

local, regional and state levels, generate tensions between the municipal and departmental levels. In the framework of the current Constituent Assembly, the topic of decentralization and regionalization is at the heart of the national political debate.

However, in Peru, Ecuador and the Dominican Republic, intended constitutional reforms have positive implications for local governments. In the Dominican Republic, a new Law of *Presupuesto Participativo* or Participatory Budget has been passed, and a new Municipal Law is expected.

Meanwhile, in Chile the national government and the Chilean Association of Municipalities are negotiating a new Municipal Reform to increase the responsibilities and resources of the municipalities with the hope of stimulating local development and reducing social and territorial inequalities.

In those countries with more incipient processes, the situation seems stable. In Paraguay, control from central government continues to be decisive in the action of the sub-national governments, although the Paraguayan Organization of Inter-municipal Cooperation, OPACI, has presented a project to the national government to pass a law reforming municipal legislation.

In Uruguay, various "Intendencias Departamentales" (department executives) insist that the Local Commissions or *Juntas* be further strengthened, and propose new mechanisms of citizen participation. There is a new bill in parliament for Local Decentralization, which intends by 2010 to bring the public administration closer to the people through the municipal authorities in towns or villages with more than 2,500 inhabitants.

57. Centralized establishment of remunerations by local authorities, cutting of transfers and centralization of decisions to finance projects.



Despite advances in decentralization, Latin America is still a continent with a high degree of political, territorial and economic centralization, exacerbated by concentration in the metropolises and immense social and territorial disparities

VI. Conclusion

Despite advances in decentralization, Latin America is still a continent with a high degree of political, territorial and economic centralization, exacerbated by concentration in the metropolises and immense social and territorial disparities.

In the near future, new debates are envisaged. New centralizing trends have emerged that are curtailing local self-government, such as the accreditation of local capacities needed in Costa Rica to qualify for the transfer of responsibilities and resources. Public purchase⁵⁸, information and monitoring systems –through administrative mechanisms–

control, condition and restrict municipal autonomy.

The decentralizing experiences have rekindled the debate about the importance of local development for sustainable and socially equitable development at the national level. The issue of good local governance is emphasized and understood as a form of territorial self-government based on participatory networks of local actors, public-private alliances and the mobilization of own territorial resources to activate the endogenous processes of development.

58. In Chile, Chile Compras, as the only public sector purchasing website, is presented as an example of procedural transparency and rationalization of public purchasing for central government and municipalities. Yet it is not very practical for local governments, as it displaces local providers, favors national companies and slows down the administrative process, to the detriment of municipal responsiveness to the demands of the community.