

CITIZENS IN CHARGE

*Managing Local Budgets
in East Asia and Latin America*

Isabel Licha
Editor

Inter-American Development Bank
Washington, D.C.

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FOREWORD



This book presents the papers discussed during the seminar “Citizen Participation in the Context of Fiscal Decentralization,” which took place in Tokyo and Kobe in September 2002. The seminar was carried out through the support of the Japan Program of the Inter-American Development Bank in coordination with the Inter-American Institute for Social Development (INDES). The papers present case studies at the municipal level in Bolivia, Brazil, Colombia, and Peru in Latin America, and Indonesia, Malaysia, and the Philippines in East Asia. The seminar brought together Asian and Latin American researchers and practitioners to discuss experiences of citizen participation in local government decisions during the 1990s.

As the chapters in this volume show, decentralization is a vibrant process. It is taking place in Latin America and East Asia under conditions, scope, and speed that vary widely between countries within each region and certainly between the two regions. Nevertheless, in both Latin America and East Asia, decentralization has increased citizen participation at the local government level. Participation is accompanied by challenges and opportunities for governments and civil society alike to reap the best possible results of this strong phenomenon.

Income inequality is an important element that appears to influence the type of participation in which citizens engage at the local level. In Latin America, where inequality is high, citizen participation often focuses on the process of fiscal resource allocation; the effort is to reverse inequality through influence on spending. In East Asia, where inequality is lower and seems to be declining, the sector priorities of civil society groups tend to drive citizen participation.

An important conclusion of the seminar participants from both regions is that fiscal decentralization and citizen participation in the affairs of local governments are strong processes that are probably irreversible, as citizens look for means of expanding democratic spaces. It

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is therefore important to understand these movements and to try to facilitate them in a manner that enhances development and the effectiveness of governments in increasing the wellbeing of all citizens.

INDES is pleased to be able to present the results of another joint venture with the Japan Program in this series of comparative explorations of key social and economic issues and their impact on development. These studies contribute to an interesting and productive transfer of knowledge between Asia and Latin America.

Nohra Rey de Marulanda

Director, INDES

はじめに

本書は2002年9月に東京と神戸で開催されたセミナー、「財政面での地方分権化における住民参加」の際に議論されたレポートを紹介します。同セミナーは、米州開発銀行のジャパン・プログラム、米州社会開発研究所（INDES）ならびに米州開発銀行駐日事務所との連携で企画、実施されました。これらのレポートの中で、中南米ではボリビア、ブラジル、コロンビア、ペルーからの、また東南アジアではインドネシア、マレーシア、フィリピンにおける地方レベルでの諸事例が紹介されました。同セミナーによって、1990年代の地方自治体レベルにおける政策決定の住民参加の経験について、アジアおよび中南米からの研究者や実務者が議論する場が生じた結果となりました。

本書の各章が示すとおり、地方分権化は活発なプロセスです。このプロセスは中南米および東南アジアで現在起きているものですが、もちろん両地域間のみならず、各地域内の諸国間においてさえ、状況、範囲、そしてスピードにはそれぞれ格差があります。それでも、中南米、東南アジアの両地域で、地方自治体レベルでの住民参加が地方分権化によって増進しています。また、住民参加には、政府および市民社会が同様に直面する課題や機会が付随して伴いますが、確実な住民参加の現象が可能な限り成果をあげるのに必要なものです。

所得の不平等は、地方レベルでの住民参加の様式に影響をおよぼす重要な要素のように見受けられます。不平等の度合いが大きい中南米では、財政資源配分の過程において、しばしば住民参加に重点が置かれます。市民による予算決定への影響力を通じて不平等を覆すことがそのねらいです。一方、不平等の程度が低く、さらに格差が縮小しているようである東南アジアにおいては、市民社会団体の優先重要事項として住民参加が促される傾向にあります。

地方政府における財政面での地方分権化と住民参加は、市民が民主的な空間を拡大する手段を模索している中、確固とした、おそらく不可逆的なプロセスである、という点が同両地域のセミナー参加者から出された重要な結論として挙げられます。したがって、これらの動向への理解を深め、全市民の生活の質を改善するために、政府活動の発展と効率を一層高めるような方法でこうした住民参加の動きを促進するよう努めることが重要です。

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I N D E S は、ジャパン・プログラムとの連帯企画として、主要な社会、経済問題とそれらの開発への影響に関する比較研究の成果を提供できることを光栄に思っています。これらの研究はアジアと中南米カリブの発展的な知識交換に寄与しています。

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INTRODUCTION



CITIZEN PARTICIPATION IN THE CONTEXT OF FISCAL DECENTRALIZATION

Isabel Licha

Decentralization, in a general sense, is essential to the process of state democratization, and as such has two inseparable elements: administrative and civic. We convened the seminar “Citizen Participation in the Context of Fiscal Decentralization” in Tokyo and Kobe in September 2002 with the aim of laying the groundwork for discussion of these issues. This book is a collection of papers from the seminar. The contents reflect the outstanding exchange that took place among academics and experts from Asia and Latin America.

The chapters included in this work explore the achievements of the decentralization process in Asia and Latin America. Decentralization is the backdrop for the emerging process of citizen participation in public decisionmaking at the local government level. The approach to this issue is made first from a general perspective that focuses as much on the analysis of decentralization and fiscal decentralization in particular as on the issue of participation, with a view to generating a framework for analytical understanding.

In Part I, the first three chapters provide an overview of citizen participation and fiscal decentralization (Chapter 1 by Nohra Rey de Marulanda), the situation in East Asia (Chapter 2 by Clay Wescott), and developments in Latin America and the Caribbean (Chapter 3 by Luiz Villela). These authors propose that decentralization and citizen participation reinforce and complement each other, and shape a dis-

tinct process in response to increased demand for citizen participation in forming public policies.

Joaquin L. Gonzalez III (Chapter 4) and Isabel Licha (Chapter 5) consider decentralization and citizen participation as components of the same process. In the case of Asia, Gonzalez proposes that citizen participation has increased in response to the focus on cooperation among actors that was promoted in the 1990s in a new approach to public management. These processes have succeeded in good part in response to pressures from civil society organizations and have achieved important goals, but at the same time there are major challenges and obstacles. In the case of Latin America, Licha's analysis of citizen participation shows considerable growth at the municipal government level, which contributes to strengthening democracy, the public sector, and the role of citizens. In practice, the process has strengths and weaknesses and presents important challenges.

Part II contains three cases of citizen participation in Asia: the Penang initiative in Malaysia; the Surakarta municipality in Java, Indonesia; and the case of San Fernando in Pampanga, Philippines. In Chapter 6, Tan Pek Leng describes the Penang initiative and the difficulties in institutionalizing mechanisms for citizen participation in contexts where the predominant political culture does not support the process. This requires officials and citizens to expend a great deal of effort to expand and strengthen this practice.

In Chapter 7, Pratikno looks at the case of the Surakarta municipality in Indonesia, and how it shows the beginning of citizen participation in the formation of public policies. Given the incipient nature of the process and the country's scant participatory culture, the case might be seen as an experience rather than a definitive model; its contribution to strengthened democracy in the country should be noted.

In Chapter 8, Edel C. Guiza analyzes the experience of San Fernando in the Philippines, focusing on the community's initiatives to rebuild the city, which was ruined by natural disasters. These initiatives took place in association with the local government in a context where decentralization and citizen participation have gone hand in hand, facilitating strengthened local government and institutionalizing mechanisms that promote the participation of citizens in local governance.

Part III presents four examples of citizen participation at the municipal level in Latin America. In Chapter 9, George Gray Molina analyzes the impact of decentralization and public participation on the delivery of services and poverty reduction in Bolivia. This case suggests that decentralization and public participation have reduced poverty (measured in terms of a basic needs index), and implies that participation has contributed to improved public access to basic social services without affecting their quality. A possible explanation for this is the continuation of centralized management of health and education policies.

In Chapter 10, Zander Navarro looks at the case of the participative budget in Porto Alegre, Brazil, and finds that it has improved the efficiency and equity of public management. It has also led to undeniable achievements in democratizing decisionmaking on budgets, and in citizen development.

In Chapter 11, Cristina Rojas evaluates the role of the mayor's office in Bogotá, Colombia, in the development of civic culture. This case addresses a recent initiative to transform the relations of citizens with each other and with their city by way of cultural change; this process aims to become a fundamental element of municipal management. It is an interesting example of the creation of new values and behavior of the citizenry that has resulted, in general terms, in improved quality of life for the community.

In Chapter 12, Mario Zolezzi describes citizen participation in planning and budgeting in Villa El Salvador in Peru. The chapter analyzes the results of the participative process used to define the Integral Development Plan and the participative budget recently carried out in Villa El Salvador, showing strengths and weaknesses of the process.

Part IV examines the experience of fiscal decentralization in Japan. In Chapter 13, Kiyotaka Yokomichi describes the structure and authority of local governments. In Chapter 14, Katsuhito Imai describes the two-tiered system of government in Japan and the fiscal resources of local governments. In Chapter 15 on the government of Metropolitan Tokyo, Tomoyuki Kamiyama outlines the various reforms for decentralization that are being examined for Tokyo Megalopolis.

In addition to addressing recent experiences of citizen participation in public management in the context of state decentralization in Asia and

Latin America, the chapters in this book present the following basic ideas:

- Decentralization is an ongoing process in both regions, although there are differences in conditions, pace, and extent in each region.
- In the cases analyzed, fiscal decentralization facilitates citizen participation.
- Citizen participation is a means of creating democratic spaces.
- Specific economic, political, and social factors have triggered this process in both regions.
- While in Asia the process seems to be more focused on results, in Latin America the focus is more on the process itself.
- All of the cases show differences in leadership style and the type of participation, but there are important similarities, such as trust, political will, unity among actors, intergovernmental coordination, capacity of governmental and citizen organizations to generate participatory public policies, and redistribution of power and responsibility between the state and civil society.

The aim of this book is to contribute to an understanding of both the potential and the limitations of these experiences in both regions. The goal is to improve citizen participation in the new framework of state decentralization, which is understood as the process of democratization of the state and society.

序論

イザベル・リチャ

一般的に、地方分権化は国家の民主化にとって本質的なものであるがゆえに、行政面と市民社会の側面という二つの切り離せない要素を有しています。2002年9月に米州開発銀行は、東京と神戸にて「財政面での地方分権化における住民参加」というセミナーを開催しました。そのねらいはこれらの問題について議論するための土台を作ることにあります。本書は当セミナーでのレポートをまとめたものであり、その内容はアジアおよび中南米の有識者と専門家らの間で交わされた優れた議論を反映しています。

本書の全章を通して、アジアと中南米での地方分権化プロセスの成果に関する考察がなされています。地方政府レベルでの公共政策決定への住民参加という新たなプロセスの背景には地方分権化があります。この問題への取り組みはまず、住民参加の問題と同程度に地方分権化、特に財政面での分権化に関する分析に焦点を当てている一般的な見方によって形成されます。この取り組みの目的は問題に対する理解のための分析的枠組みを構築することにあります。

第一部の初めの三章で、住民参加と財政面での地方分権化（一章、ノーラ・レイ・デ・マルランダ著）、東アジアでの状況（二章、クレイ・ウェスコット著）、中南米・カリブ諸国での経緯（三章、ルイズ・ヴィエラ著）についてそれぞれ概要が論じられています。同執筆者らは、地方分権化と住民参加が互いに強化し、補完するものであると提議しています。また、地方分権化と住民参加は、公共政策立案への住民参加に対する要請が高まる中で、明確な住民参加のための手段を形成するものでもあります。

ホアキン・L. ゴンザレス（四章）とイザベル・リチャ（五章）は、地方分権化と住民参加を同じプロセスの中の構成要素であると捉えています。アジアの例でゴンザレスは、諸アクター間の協働への着目を受けて、住民参加が促進されたと論じています。この協働関係への着目は、1990年代に普及した公共管理への新たなアプローチの中で推し進められたものです。これらの動きは主に市民社会組織からの圧力によるものであり、重要な成果を生み出しました。しかし、同時に多くの課題と障害が今に至っても存在します。中南米においては、リチャによる分析が、住民参加の発展が地方政府レベルにおいて顕著に見られていることを提示しています。この住民参加の向

上は、民主主義、公共セクター、市民の役割の強化に貢献します。むろん、実際問題として住民参加の向上には長短の両方があり、重大な課題を呈しています。

第二部では、マレーシアでのペナン・イニシアティブ、インドネシア・ジャワ島のスラカルタ自治体、フィリピン・パンパンガのサン・フェルナンド、の三つの住民参加に関するアジアでの事例を紹介しています。六章では、タン・ペック・レンがペナン・イニシアティブについて説明すると共に、既存の政治環境の支持を得ない中でいかに住民参加のメカニズムを制度化することが困難であるかということについて論述します。こうした状況下で、住民参加のメカニズムの制度化を拡大、強化するには政府担当官および市民の多大な努力が不可欠です。

七章では、プラティクノがインドネシアのスラカルタ自治体を用例に、同自治体での公共政策立案への住民参加の始まりに関する考察をしています。この動きが初期段階であることと、インドネシアの参加的文化が欠如していることを考えると、この事例は決定的なモデルというよりは、ある一経験と捉えられるべきでしょう。ですが、住民参加の向上が同国の民主主義の強化をもたらしたことは特記するに値します。

八章では、フィリピンのサン・フェルナンドで実施された、自然災害で破壊された街の復興に向けた地域のイニシアティブでの経験についてエデル・C. グイザが分析をしています。こうしたイニシアティブは地方政府との共同で実現化しました。その背景には、地方分権化と住民参加が協調的に進められ、その結果として地方政府が強化され、地方統治への住民参加を促すメカニズムが制度化されたという状況がありました。

第三部では、中南米における地方レベルでの住民参加について四つの事例が論じられています。九章は、ジョージ・グレイ・モリーナがボリビアの社会事業と貧困削減への取り組みに対する地方分権化と住民参加の影響を分析しています。同事例は、地方分権化と住民参加が（人間の基本的ニーズ（BHN）指数の計測結果にて）貧困を削減するのに寄与したこと、また住民参加によって、人々の基本的な社会サービスへのアクセスが、サービスの質の低下を招くことなく改善されたことを示唆しています。今日に至っても保健・教育

政策が中央集権的な管理の下にあるという点がその理由として考えられます。

十章においては、ザンダー・ナヴァロがブラジルのポルト・アレグレでの参加型予算決定プロセスの事例を挙げ、公共管理の効率性・公平性がこれにより改善したという見解を提示しています。この他に同事例が貢献した点は、より積極的・活動的で影響力のある市民の成熟化、予算政策決定の民主化が指摘されます。

十一章では、クリスティナ・ロハスが、コロンビア・ボゴタにおける、市民文化（シビック・カルチャー）の発展という面での市政の役割について検証しています。この事例では、市民同士、また市民と市との関係を市民文化の変容によって変化させるという最近の試みを取り上げられています。こうした市民間および市民－市間の関係の変化がもたらす新たな関係が、地方自治体運営の根本的な要素となることが目標とされています。また、同事例は、市民としての新しい価値観と行動様式が生み出された興味深い事例であり、こうした価値観や行動様式は地域コミュニティの生活の質が全般的に向上することにつながったと言えます。

十二章では、マリオ・ゾレグジがペルーのヴィジャ・エル・サルバドルにおける企画立案・予算管理への住民参加に関して論述しています。同章は「最重要開発計画」を特徴付けた参加型プロセスの結果と、同市で近年遂行された参加型予算決定プロセスを分析します。これにより、参加型プロセスの長短が明らかにされます。

第四部では、日本における財政上の分権化について検討します。第十三章では、横道清孝が地方自治体の組織と権限について説明しています。第十四章では、今井勝人が日本における二層編成の政府のシステムと地方自治体の財政資源に関して論じています。東京都に関する第十五章では、神山智行が分権化を進めていくうえでの様々な改正について論じています。

本書ではアジア、中南米における国の地方分権化との関連で、近年の公共管理への住民参加の経験について検討されることに加え、以下の点についての考察がなされています。

- 地方分権化は各地域において状況、速度、範囲で差異があるものの、両地域で現在進行中のプロセスである。
- 分析対象の事例では、財政面での分権化が住民参加を促した。

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- 住民参加は民主的空間を生み出す手段である。
- 両地域において、ある特定の経済的、政治的、社会的要因が地方分権化に伴う住民参加のプロセスを促した。
- アジアではこのプロセスの結果に重点が置かれているように見受けられる一方、中南米では重点はプロセスそのものに置かれている。
- 事例の全てが、リーダーシップの形式や参加の種類で違いを見せている。だが、信頼、政治的な意志、当事者間の団結、官庁間協調、参加促進型の公共政策を築くための政府および市民団体のキャパシティ、国家と市民との間での権力と責任の配分において、着目すべき共通項が見られる。

本書のねらいは、両地域でのこれらの経験から引き出された今後の可能性と現在見られている限界の両面について、その理解を深めるという点にあります。国家と社会の民主化過程であると認識されている国の地方分権化という新しい枠組みの中で、住民参加の向上を推進することが、本書の最大の目的です。

PART I

DECENTRALIZATION AND PARTICIPATION IN ASIA AND LATIN AMERICA: A GENERAL VIEW

CHAPTER 1



CITIZEN PARTICIPATION AND FISCAL DECENTRALIZATION IN LATIN AMERICA AND EAST ASIA

Nohra Rey de Marulanda

In Latin America in the 1980s, the initiation of a new era of democracy increased citizens' demands to participate in identifying priorities for policymaking. As a result, most governments in the region incorporated the notions of territorial and fiscal decentralization and some form of participatory democracy in their formal laws and constitutions. The new framework was theoretically designed to promote higher levels of participation in local development and enhance the efficiency of public administration. Because decentralization shortens the distance between government and citizens, it was believed these modalities would encourage more equitable economic and social development.

Fiscal decentralization occurred in parallel with political democratization in Latin America. Although decentralization of public resources had well-known benefits in terms of efficient and effective delivery of services, it did not arise as a result of an economic policy decision. Instead, decentralization was the central government's reaction to the increasing demands of local subnational governments and the progressive emergence of democratic mechanisms at the community level.

Demands for more active citizen participation and fiscal decentralization were influenced more by the fact that centralized governments had not been successful in providing adequate living standards with equity for their populations than by the expected gains in efficiency from these institutional reforms. Unfortunately, because of the way both

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processes have been implemented, the potential benefits have not been fully realized. The reforms have basically changed the electoral system and promoted political and administrative decentralization, but in many cases they have failed to match available fiscal resources with the needs of the population. And in most cases, the degree of advance observed in the process of deconcentration and devolution of functions from central to local authorities has not coincided with progress in the decentralization of resources.

Prior to the period of disassociation and distrust between fiscal planning officials and civil society organizations, the evidence shows there was a well-defined propensity toward partnership and trust between governments and their citizenry, supported by better political leadership. In fact, decentralization is occurring not only through changes in the rules defining the assignment of resources and responsibilities among different levels of government, but also through a change in the rules governing the relationship between elected officials and their constituencies (IDB 2001).

The forces leading to community involvement in policymaking and fiscal decentralization have been quite different in East Asia. González (2002) points out that the rise of a strong Asian private sector and the growth of citizen organizations were among the most important factors promoting citizen participation practices across the region. In the 1980s, the private sector in East Asia became a key actor in the configuration of the new balance of power and the primary engine of growth. Furthermore, the expansion and development of community and non-governmental organizations funded by national and international resources gave social groups the right to be heard on issues such as poverty alleviation, equity, education, health, and the environment.

Although most East Asian countries maintained highly centralized political-economic systems after their political independence, the need for fiscal decentralization became obvious by the late 1970s when bureaucratic, centralized state systems began to fail in delivering services efficiently. Governments across the region acknowledged that they were not always efficient and effective at assuming multiple fiscal, administrative roles because of financial, managerial, technical, and resource constraints (Wescott 2002). In contrast with the Latin American

case, the interest in intensifying fiscal decentralization practices seems to have its origins in the intentional political decision to reduce poverty and achieve more rapid economic growth, rather than in pressures from the local level fueled by increasing disenchantment about the central government's policymaking style. In fact, although there was no common pattern, it seems there was a progressive movement from a highly centralized system to a multiple-centered one in which diverse entities embodied public, private, and community interests.

The workshop "Citizen Participation in the Context of Fiscal Decentralization: Best Practices in Municipal Management in Latin America and Asia," sponsored by the Inter-American Institute for Social Development (INDES) of the Inter-American Development Bank (IDB) with funding from the Japan Program, addressed these issues.¹ Workshop participants analyzed fiscal decentralization and best practices in community participation at the municipal level in Latin America and Asia. The main purpose was to bring together fiscal policy experts at the regional level and academics who have studied best practices in citizen participation to debate and reflect on the differences, benefits, and challenges of decentralization and participation.

Benefits

Citizen Participation

Latin America and Asia could achieve extraordinary benefits from citizen participation in the context of fiscal decentralization. Abundant evidence shows the positive impact of citizen participation on the fulfillment of local needs through more efficient allocation of fiscal resources. In other words, citizen participation in the context of fiscal decentralization could greatly enhance the development effectiveness of public funds and promote social equity. Moreover, central government administration and democracy at the community level have achieved significant progress in the presence of citizen involvement (Navarro 2000).

¹ The workshop was held in Kobe, Japan, in August 2002.

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According to Licha (2002), participatory social management—citizen participation in public policies, as proposed by INDES—promotes the establishment of rules and institutions for monitoring and involvement by the citizenry. It creates the conditions needed for citizens to construct the public realm—a process that takes place through the culture and practice of deliberation. Participatory social management fosters deliberation and decisionmaking that enable citizens to attain influence in guiding public policies. And citizen participation in government decisionmaking processes develops a sense of community and social commitment that is absent from the traditional (technocratic) system for shaping and implementing policies.

Based on the IDB's experience in Latin America, it is clear that citizen participation can favorably affect the execution and viability of social portfolio projects in the long run. In addition, it has been suggested that citizen involvement and the inclusion of local cultural factors in public policy implementation are associated with long-run benefits beyond project execution (Cernea 1988). Finally, expansion of the scope and capacity of civil society organizations and their role in development can build and strengthen *social capital*, which is "the lasting informal rules and relationships which facilitate coordinated actions and allow citizens to undertake initiatives in cooperation and mutual benefit" (World Bank 1997).

The potential benefits from citizen participation have been widely accepted by international development organizations. The Organisation for Economic Co-operation and Development and other multilateral organizations, such as the World Bank, the Asian Development Bank, and the European Bank for Development, have incorporated the concept of citizen participation as a key element in their development strategies.

Fiscal Decentralization

Fiscal decentralization can result in a better allocation of resources because local elected officials can match the available fiscal funds with the needs and preferences of the local population. Decentralization can encourage improved local governance and greater accountability

through more direct community scrutiny. In addition, it can promote community involvement and ownership in local programs (Villela 2001).

Constraints

Latin America is far from achieving these exceptional benefits in a widespread manner. The relationship between government and civil society in many cases is characterized by restricted cooperation and some amount of distrust and misunderstanding on both sides (IDB 2000). One of the most important constraints in promoting citizen participation is that, in general, it requires investing more time and confronting higher costs in a context where these two resources are in short supply—especially time, which is the most valuable income-creating resource for the poor. Citizen participation also increases the expectations of the parties involved, when the possibility of satisfying them does not always exist. Furthermore, weaknesses in the organizational, political, and technical capacities of traditionally excluded groups seriously restrict their influence on decisionmaking. Moreover, civil society organizations do not necessarily represent the interests of traditionally excluded social groups, such as women and marginalized indigenous or ethnic groups (IDB 2001).

Fiscal decentralization—transfers of resources—may also have shortcomings. Local service delivery has not necessarily improved and in some cases has even tended to decline. Granting political autonomy to local government does not guarantee an improvement in public services (in quality or coverage). Lack of an appropriate central government structure to monitor and support local governments is a common problem.

Many central authorities may not have a good understanding of both the existing situation of their local governments and the likely effects of the reform on local finance. Therefore, the issue is not just a question of transferring resources, but understanding needs and equipping local governments with the capacity to administer them and to generate new resources. Decentralization may have widened regional disparities in the provision of public services, as reflected in differences in institutional capacities across communities. This may

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lead to increasing concentration among certain groups and to widening the social gap in some areas.

At the local level, serious problems affect the well-functioning of public management. The most important is lack of adequate institutional capacity, which obstructs the efficient, effective, and equitable provision of public services. Local governments have been affected by lack of qualified human capital, weak managerial capacity, scarcity of resources, and a political culture that discourages citizen participation.

Furthermore, under some conditions, fiscal decentralization may pose a macroeconomic threat in the form of recurring deficits at the provincial level, excessive indebtedness, an overexpanded public sector, or the inability of the central government to adequately use fiscal policy to promote economic stability (Villela 2001). Indeed, local expenditures have persistently tended to grow faster than local revenues, and this gap has either been covered by increased central government transfers or resulted in deficits and high subnational indebtedness. In fact, in some cases, once the central government transfers resources, the communities stop or reduce local tax collection.

Finally, fiscal decentralization may benefit a narrow group of wealthy, politically connected, and well-educated individuals with little regard for the needs and preferences of the majority of citizens.

Recommendations

Citizen participation can enhance the quality of policymaking, promoting both economic development and democracy. IDB (2000) proposes the following policy recommendations:

- *Disseminate information* to encourage citizens, individually or collectively, to express their opinions and recommendations and improve the efficacy of social investments.
- *Implement consultation* to identify needs and preferences of target populations. Forums such as community boards, open town meetings, public hearings, and citizen complaint centers are good mechanisms for gathering information on local preferences.

- *Include participation* at the execution and evaluation stages to reduce costs, increase the ownership sentiment of beneficiary groups, and establish better social conditions for future projects. When citizens take part in local policymaking from the beginning and their contributions affect the outcomes, they are more willing to invest time and human resources in the process. Consequently, final decisions are generally perceived as more legitimate and confront less opposition.
- *Establish mediation mechanisms* for reducing the negative impact of disputes between the groups involved in local development.
- *Maintain a clear legal framework* to support local political accountability. Accountability will not work effectively unless the division of responsibilities across levels of government is clear, well enforced, and respected. Local officials must have sufficient authority to perform their role. And local governments must be accountable not only downward to their constituencies, but also upward to the central government because local fiscal management may affect the nation as a whole.

Based on these criteria, the IDB has designed policy instruments to promote local participation, and has refined them on a learning-by-doing basis. These instruments include the following:

- Consultation procedures for environmental and social projects
- Rules for civil society participation
- Consultation for sector development strategies
- Initiatives to organize citizen participation debates
- IDB-sponsored meetings that bring together civil society, the central government, and the private sector.

Conclusion

Analysis of best practices in municipal management in Latin America and East Asia suggests that the level of success in achieving good living standards in both regions has shaped the attitudes each society exhibits toward citizen participation and fiscal decentralization policies.

Forty years ago, the quality of life the average Latin American citizen led was higher than that of the average Asian citizen. According to the United Nations, the human development index²—which combines achievements in the standard of living, life expectancy, and educational attainment—reached an average of 0.51 in 1960 for the six largest Latin American countries, compared with 0.40 for the high-performing Asian economies.³ By contrast, at the beginning of the 21st century, while the same sample of Latin American countries recorded an average human development index of 0.79, the index for the selected East Asian economies jumped to 0.81 (Table 1.1).

The relatively slower improvement in Latin America's economic and social development performance explains why local subnational governments in the region have demanded more political and administrative control over fiscal resources as well as greater involvement in policymaking. Disillusionment among Latin Americans about central government management has grown over the years, and found expression when the achievement of democracy and structural reforms was on the top of the political agenda in the 1980s and 1990s. In short, in Latin America, the demand for fiscal decentralization reflects the desire for equity and citizen participation.

In East Asia, the success of central governments in assuring an acceptable quality of life for their populations has made them less willing to take confrontational postures and less likely to press for more local government. The progressive movement from a highly centralized political system to a multiple-centered structure of power seems to be the result of a political decision based on expected efficiency gains rather than a response to growing pressures from subnational governments to take control. This is the main difference compared with Latin American societies, where popular dissatisfaction and frustration led to confrontational postures. In fact, demands for implementation of new institutionalized mechanisms for broad-based citizen

² Theoretically, the human development index goes from 0 to 1, and a higher value for the index indicates a higher quality of life.

³ The Latin American countries included are Argentina, Brazil, Chile, Colombia, Mexico, and Peru. The high-performing Asian economies are Hong Kong, China, Indonesia, South Korea, Malaysia, Singapore, and Thailand.

Table 1.1. Human Development Index for Latin America and East Asia

Country	1960	1970	1980	1994	2000 ^a
Argentina	0.67	0.75	0.79	0.85	0.84
Brazil	0.39	0.51	0.67	0.76	0.76
Chile	0.58	0.68	0.75	0.85	0.83
Colombia	0.47	0.55	0.66	0.81	0.77
Mexico	0.52	0.64	0.76	0.80	0.80
Peru	0.42	0.53	0.59	0.64	0.75
Average	0.51	0.61	0.70	0.79	0.79
Hong Kong	0.56	0.74	0.83	0.88	0.89
Indonesia	0.22	0.31	0.42	0.59	0.68
Malaysia	0.33	0.47	0.69	0.79	0.78
Singapore	0.52	0.68	0.78	0.84	0.89
South Korea	0.40	0.52	0.67	0.86	0.88
Thailand	0.37	0.47	0.55	0.80	0.76
Average	0.40	0.53	0.66	0.79	0.81
Latin America	0.46	0.55	0.63	0.74	0.74
East Asia and Pacific	0.36	0.49	0.59	0.76	0.77

^a Figures for 2000 based on new methodology.
Source: UNDP (2002).

participation are less evident in the Asian cases than in the Latin American ones. In summary, in East Asia, the demand for fiscal decentralization and citizen participation reflects the desire for democratization of the state and society.

The past two decades were a fertile era for the promotion of the notions of citizen participation and fiscal decentralization in Latin America as a way to achieve a robust democracy based on civic commitment, social equity, trust, and tolerance. However, this discourse has been more rhetorical than real, although there are isolated cases recognized as best practices. Most countries in the region already have legislation generally establishing alternative forms of social and political participation, but this is still not a general practice and is limited to emblematic but episodic cases. Even in countries like Brazil, which has

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many years of successful participatory experiences, it is estimated that less than 4 percent of the country's population belongs to a popular organization (Villela 2001). Participatory projects promoting citizen involvement that have attained notable success have responded to isolated cases, and governments have failed to apply them on a large scale.

The democratic process in Latin America made remarkable progress in the 1990s. Current political and social conditions are enormously favorable for promoting participatory democracy and fiscal decentralization. Nevertheless, if the parties involved do not acknowledge that lack of cooperation, consultation, and community organization are the main obstacles to achieving the full benefits of the process, the region will lose a new opportunity to build a better society.

Fiscal reformers and leaders of civil society organizations must realize that citizen participation and fiscal decentralization are processes that complement and strengthen each other. The contributions from municipal best practices discussed in this volume illustrate progress and obstacles in these processes in Latin America and East Asia.

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CHAPTER 2

FISCAL DECENTRALIZATION
IN EAST ASIA*Clay Wescott*

East Asia's success at promoting economic growth and poverty reduction is well known. Since the early 1980s, sustained economic growth rates on the order of 5 percent have reduced poverty rates by half. But it is a clear fact of contemporary geopolitics that not all areas are equally well connected with newly expanding economies or regions, nor are basic entitlements to publicly provided goods and services accessible by all. As economic growth has progressed, poverty has manifested in pockets of exclusion, often accompanied by growing inequalities, both across the region and within countries sharply differentiated by urban-rural, upland-lowland, and other ethnic, geographic, and place-based divides.

Across Asia Pacific and most markedly in East Asia, a common feature of the policy and institutional package applied by governments keen to foster growth alongside poverty reduction has been to assign state powers, responsibilities, and resources to subnational authorities and private and civil society agencies under various forms of contract, partnership, or principal-agent relationships. *Decentralization* has become the catchall term for what proves in practice to be a highly differentiated and differently motivated range of practices and institutional forms. Despite assertions to the effect that in East Asia decentralization has heralded major political restructuring and "dramatic steps...of dispersing or decentralizing the highly centralized power structure" (Susumu, Fujiwara, and Reforma 1996, p. vii), the

region's experience defies any single application of the term *decentralization*. At the same time, although central-local relations are being reconfigured in many ways, local, subnational areas are overwhelmingly regarded as the site for effective governance. Hopes for better service delivery and private enterprise promotion are pinned to this scale of governance, and increasingly the subnational scale is seen as the site for the exercise of new forms of participation and citizenship emerging throughout the region.

This chapter looks at case studies of five contemporary experiences with decentralization, namely, Cambodia, Indonesia, the People's Republic of China, the Philippines, and Thailand. The focus is on gauging the impact of country approaches to fiscal decentralization on state-society relations. In particular, the chapter investigates how decentralization may support the near universal policy commitments to increase public access to the affairs of government, bring about greater responsiveness and accountability of locally elected leaders, better match resources for public services with locally defined and often highly specific needs, and be positively or negatively associated with the achievement of commitments made by every government in the region to poverty reduction and sustainable economic growth. The relationships between political participation, democracy, and decentralization have of course been debated since John Stuart Mill, and still are not entirely clear (Breton, Cassone, and Franchini 1998; Litvack, Ahmad, and Bird 1998). The analysis identifies problems, challenges, and innovative experiences in ways that contribute to building fair societies and democratized public policies that work for poverty reduction within the framework of fiscal discipline.

Definitions and Context

Definitions

Decentralization means transferring fiscal, political, and administrative functions from higher to lower levels of government, and can take on different forms depending on the degree to which independence of action is assigned to lower levels of authority.

Deconcentration involves central agencies assigning certain functions to lower-level branch offices.

Delegation takes place when authority for defined tasks is transferred from one public agency to another agency or service provider that is accountable to the former but not wholly controlled by it.

Devolution takes place when authority for defined tasks is transferred from a public agency to autonomous, local-level units of elected leadership holding corporate status granted, for example, under legislation.¹

Turner (1999) provides a useful framework for understanding both the territorial and functional dimensions of decentralization, as well as its common public and private sector manifestations—which serves to remind that fiscal decentralization is merely one manifestation of an ongoing restructuring of the nation-state—in market relations throughout the region in the past 30 years (Table 2.1).

Decentralization is not necessarily a spatial concept requiring reassignment of service delivery responsibilities from higher to lower orders of administration, although this often is the case. Cohen and Peterson (1999, p. 61) emphasize that it is rather the broadening of institutions producing and providing needed goods and services at efficient cost, wherever they are located and whether they are public, quasi-public, or private. Indeed, that decentralization often manifests in a plurality of agencies—public and private, operating at different scales of jurisdiction providing overlapping services—gives rise to debate about the consequences for efficiency, through competition, and accountability, through unclear, overlapping mandates.

It is fallacious to presume that decentralization indicates an inexorable policy progression from more to less centralized governance structures. However, by conventional measures, decentralization is in its early stages of adoption in East Asia, despite the commitment in most countries to intensify it and the fact that various decentralizations are underway. Measuring fiscal decentralization entails two conceptual choices: revenue decentralization and expenditure decentralization. Although both are limited as comparative measures, Table 2.2 contains

¹ This categorization, as defined by Rondinelli, Nellis, and Cheema (1983), Leonard and Marshall (1982), and others, is the most widely accepted in the recent literature, although Cohen and Peterson (1999) provide an array of alternative definitions.

Table 2.1. Forms of Decentralization

Nature of delegation	Basis for delegation	
	Territorial	Functional
Within formal political structures	Devolution: political decentralization, local government, democratic decentralization	Interest group representation
Within public administrative or parastatal structures	Deconcentration (or delegation): administrative decentralization, field administration, indirect rule	Establishment of parastatals or quangos
From state sector to private sector	Privatization of devolved functions (deregulation, contracting out, voucher schemes)	Privatization of national functions (divestiture, deregulation, economic liberalization)
Source: Turner (1999).		

data on six countries for which comparable data are available. Bearing in mind the limitations in using such data (Ebel and Yilmaz 2001), the subnational share of public expenditures is greater than 30 percent only in China and Mongolia, less than 20 percent in Malaysia and Indonesia, and less than 10 percent in the Philippines and Thailand.

Context

In almost all countries in the Asia Pacific region, decentralization has appeared an attractive policy option for national governments. Supporters advocate decentralization policies in their mildest form on the grounds that they will increase popular participation in planning and implementing nationally sanctioned development policies and priorities. The country case studies in this chapter examine the association between decentralization and citizen participation more thoroughly, although it is immediately apparent that any intuitively positive association would be contestable. This is suggested, for example, by Tanzania's experience with Nyerere's *ujamaa* policies in the 1970s, decen-

Table 2.2. Subnational Share of Public Expenditures and Revenues in Selected Countries
(Percent)

Country	Year	Subnational share of expenditures	Subnational share of revenues	Subnational expenditures as share of GDP		Subnational revenues as share of GDP	Tax share	Vertical imbalance
China	1998	53.85	51.34	10.68	10.68	10.68	52.68	38.94
Indonesia	1998	10.08	3.1	2	2	2	16.69	74.24
Malaysia	1997	19.14	15.18	5.06 ^a	5.06 ^a	5.06 ^a	9.51	17.21
Mongolia	1999	32.16	22.8	12.11 ^b	12.11 ^b	12.11 ^b	42.69	42.6
Philippines	1992	8.7	4.69	1.87	1.87	1.87	26.77	62.66
Thailand	1998	8.4	7.99	2.06	2.06	2.06	59.6	32.33

^a Data are for 1995.

^b Data are for 1998.

Source: Author's calculations based on using the IMF (various years) from the OECD-DAC Indicators webpage:
http://www.bellatnet.org/indicators/index.cfm?fuseaction=dsp_indicator&indicator_id=7.

tralized planning under Marcos's martial law in the Philippines, and many other experiences.

Regardless of whether it is explicitly stated, various forms of decentralization adopted in practice tend to be pinned to the twin imperatives of poverty reduction and sustained rapid rates of economic growth. Whether the association between decentralization and these aspirations is as robust as hoped for occupies a central place in policy debates. However, any study of this type would note the Asia Pacific region's comparative success during the past two decades in promoting economic growth and poverty reduction. Although this success has varied between and within individual countries, the region has changed. As Quibria (2002, p. 1) notes, "the dramatic improvement in the quality of life that accompanied this miraculous economic transformation has virtually abolished extreme poverty in these societies." Table 2.3 shows comparative data on growth in major developing regions and the relatively strong and sustained performance of the Asia Pacific region.

Along with growth, there has been significant progress in poverty reduction. In the early 1970s, more than half the population of the region was poor, average life expectancy was 48 years, and only 40 percent of the adult population was literate. Today, the percentage of poor people has decreased to around one-third of the population, life expectancy has increased to 65 years, and 70 percent of adults are literate (ADB 1999). Comparative regional trends in poverty reduction are shown in Table 2.4.

Country Experiences

Cambodia

Cambodia's government signaled its commitment to a mild form of fiscal devolution with the passage of key legislation in 2001 and the election of commune councils in February 2002. However, until systems and procedures for decentralized planning, financing, and service delivery are promulgated in full and extended across the more than 1,600 communes in the country, it is fair to characterize the Cambodian experience as a limited form of fiscal deconcentration. Some expenditures made by provincial and district branches of central ministries are

Table 2.3. Real Growth of Per Capita Gross Domestic Product, 1981–90 and 1991–2000
(Percent)

Region	1981–90	1991–2000
East Asia and the Pacific	6.1	6.0
South Asia	3.5	3.3
Latin America and the Caribbean	-0.9	1.6
Middle East and North Africa	-0.6	1.0
Sub-Saharan Africa	-1.0	-1.4
Eastern Europe and the Commonwealth of Independent States	2.6	-2.5

Source: World Bank (2001, Table A3.2).

Table 2.4. Population Living on Less Than \$1 a Day, 1987 and 1999
(Percent)

Region	1987	1999
East Asia and the Pacific	26.6	14.2
South Asia	44.9	36.9
Latin America and the Caribbean	15.3	15.1
Middle East and North Africa	4.3	2.3
Sub-Saharan Africa	46.6	46.7
Eastern Europe and the Commonwealth of Independent States	0.2	3.6

Source: World Bank (2001, Table 1.8); World Bank (2002, Table 1.8).

paid through provincial treasuries, subject to tight pre-audit controls by the Ministry of Finance. There has been some success on a pilot basis with greater degrees of fiscal deconcentration at the province level, and the delegation of powers, functions, and resources to commune authorities emulates various kinds of devolution.

Analysis of Cambodia should be viewed in the light of its tragic recent history, including the death of more than 1 million people who

were killed or starved to death during 1975–79 (Chandler 1993). Although the Khmer Rouge was formally removed from power in 1979, factional fighting continued sporadically until October 1991, when the four main political factions signed the Peace Accords in Paris. This laid the groundwork for general elections in 1993 and the development of a liberal, multiparty system and a market economy. One of the provisions of the accords was commitment to democratically elected local government, a pledge that was fulfilled in February 2002.

Statistics on economic growth and poverty reduction are not available for 1980–92. Based on the available data, in 1992–97, the country achieved average per capita growth of real gross domestic product of nearly 7 percent, and in 1996–2000, 4 percent. There was modest success in addressing poverty during this period, with the headcount index showing a reduction in poor households from 39 percent in 1993/94 to 36 percent in 1997. Analysts attribute this success to improvements in security, sound macro-fiscal management, large aid flows, and growth in new businesses such as garment exports and tourism.

Fiscal Decentralization

The situation and challenges for fiscal decentralization should be understood in the wider context of ongoing improvements in fiscal management. There is an extreme shortage of qualified and competent public finance specialists and line managers. Although a small but dedicated group of specialists has been able to bring down the fiscal deficit, they have yet to achieve transparent and accountable fiscal operations to ensure that budget execution is in accordance with budget allocation. Programs to raise social well-being through improved health, education, and welfare services are among the least effective as a result of major institutional problems in program design, resources, delivery, and evaluation. Although a reasonable legal framework is in place for budget management, governance structures at the provincial and local levels tend to exacerbate the misallocation of resources and waste and abuse of public monies.

The government is heightening efforts to monitor budget implementation in the priority areas of health, education, agriculture, and

rural development, building on earlier efforts to improve the management of externally assisted projects. The government has declared that line ministries will be provided with quarterly spending plans and more timely transfers, and that quarterly budget allocations and disbursements will be published. A partial medium-term expenditure framework is planned for 2002.

Major progress has been made toward setting up an effective audit function. The audit law was passed in March 2000, establishing the National Audit Authority as the supreme audit institution in Cambodia. The law empowers the National Audit Authority to conduct financial, performance, and compliance audits of government ministries, agencies, loan projects, state enterprises, joint venture undertakings in which the government has a financial interest, nongovernmental organizations, and foreign investor businesses that have received financial concessions from the government. Other important features of this law relate to its independence of reporting directly to the national assembly, the rank equivalent to a senior minister for the Auditor General position, two Deputy Auditor General positions with the rank of a minister, and the authority vested in the Auditor General to determine the remuneration of the National Audit Authority staff.

Improvements in government performance require improvements in the terms and conditions of employment for civil servants. Cambodian government salaries have been seriously eroded in recent years due to revenue shortfalls, inflation, and currency devaluation. To help alleviate this problem, donors are paying salary supplements to counterpart staff. For example, a recent study (Godfrey and others 2000) finds that a sample of 38 counterparts received an average government salary of \$18 per month and average donor supplements of \$194. When the respective donor projects were completed, some staff found other projects that continued the supplements. Those who did not had to find income from other sources, and thus became, in effect, part-time government employees. This roller-coaster income stream seriously hinders the buildup of capabilities in key government functions.

To address the problem, the government is implementing an Administration Reform Program with assistance from the United Nations Development Programme, the World Bank, and the European

Commission. The program includes setting up a Priority Missions Group that will be managed and paid differently from the rest of the civil service. As part of the poverty reduction and growth facility, Cambodia will develop a strategy to increase overall pay levels and reduce the size of the civil service within the context of the medium-term expenditure framework.

Despite massive, across-the-board reform challenges and limited capacity, the government has been able to make some progress on fiscal deconcentration and some degree of devolution on a pilot basis. Most government expenditures at any level are subject to pre-audit control of spending. Ministries must seek approval from the Ministry of Economy and Finance for spending requests, including a commitment visa, DBFA (up to 10 signatures, which can take months to obtain), and a payment order from the Ministry of Economy and Finance, leading to payment by the national treasury (or a donor-funded account of the National Bank of Cambodia), via the provincial treasury, in cash.

The advantages of the present system are that it maintains tight control of spending, clearly defines roles, ensures that basic financial reporting is carried out, and provides severe sanctions for incorrect behavior. The disadvantages include slow budget execution (in the first eight months of 1999, only 23 percent of the health budget was disbursed, compared with 66 percent of the defense budget); multiple steps that may strengthen control but diminish accountability; many perfunctory pre-audit signatures that add no value to the final decision; uneven budget expenditures, which tend to surge in November and December; and the absence of formal mechanisms for participation in planning or monitoring by villages/communes/districts.

To address these problems, three systems are being tried on a pilot basis. First, the Accelerated District Development system, introduced in 1996, is being tested in 27 districts and 5 percent of health expenditures. Funds are allocated on a post-audit basis directly to the district level, with flexible reallocation of funds between categories. Problems are the need to collect cash in Phnom Penh (since checks cannot be cashed outside major centers), and a limit of 500,000 riels (about \$125) per spending request.

Second, priority action programs were introduced in 2000 in education and health, and there are plans for introducing them in agricul-

ture and rural development in the future. Under these programs, funds are made available at the provincial level on a post-audit basis, budgeted funds are protected, provincial departments of health and education spend and account for funds through budget management committees, and payments are made by the national treasury (or donor-funded account of the National Bank of Cambodia) through provincial treasuries. In 2001, 25 billion riels of the education budget (14 percent) was to be disbursed through this system, plus around 40 billion riels of the health budget.

Third, the government has developed a program called Seila, which promotes rural development through decentralized planning, financing, and management of investments in basic services and infrastructure. Introduced in 1996, the program is the most ambitious decentralization initiative implemented to date, resulting in the creation of commune development committees in six provinces encompassing more than 1,000 villages and 100 communes. Key features of decentralization policy and laws reflect the Seila experience. The government has committed to expanding the program to all provinces and communes over the next five years. Under the Seila program, funds are made available at the provincial level on a post-audit basis; provincial rural development committees set priorities based on consultations at the provincial and local levels; an executive committee spends and accounts for funds; withdrawals from the treasury account require the governor's signature; withdrawals from donor accounts require one or two signatories, depending on the account; and payment is by the national treasury (or donor-funded account of the National Bank of Cambodia), via the provincial treasury. In 2000, 2.1 billion riels in government funds was disbursed through this system (plus about \$8.5 million in donor funds), and in 2001, 5 billion riels in government funds was disbursed.

There is evidence that these pilot exercises are improving disbursement and effective targeting of public expenditures in rural areas, and that they are making positive contributions to citizen participation in governance. However, decentralization in Cambodia is in its infancy. In February 2002, for the first time in its history, Cambodia elected local government corporate entities (forums and deliberation councils). With

more than 1,600 newly created rural and urban commune councils and more than 12,000 local councilors, the task of establishing and internalizing appropriate legal, administrative, fiscal, and supervision mechanisms is immense, particularly in view of the known weaknesses in skills and institutional capacity throughout the public sector. There will also be a need to house and equip the new councils, build communication networks, and review commune boundaries. Government officials responsible for the decentralization process are anxious to set up a substantial program of medium-term support to complement the mainly short-term aid inputs provided to date.

The government's decision to hold local council elections in 2002 was an authentically national initiative. Although the government received less external support for the commune elections than it received for the national elections in 1998 (and vastly less than for the process organized by the United Nations Transitional Authority for Cambodia in 1993), it financed the voter registration process and preparatory work from its own resources. However limited the powers and capacities of commune councils were in the early years, the decision to elect local councils was an important step toward deepening the concept of democracy and popular understanding of democratic rights and freedoms in a country that until recently had known only autocratic rule. Although the direct service role of elected local councils will be modest, they offer great opportunities for increasing local voice and representation on issues such as land-use rights, common property and natural resource use, and the efficiency of government service delivery. Increased transparency and accountability of resource use will help to promote investment and reduce vulnerabilities, in addition to the intrinsic value of democratic systems in promoting participation and social inclusion.

To underwrite decentralization, the National Assembly and Senate have passed two major pieces of legislation. The Law on Commune Administrative Management broadly defines the nature, functions, and powers of the commune councils and defines a modest form of decentralization of responsibilities and resources to elected commune councils. The Commune Election Law regulates commune elections. A policy of deconcentration of powers and functions to the

provincial and district levels is also under consideration within the framework of the National Program for Administration Reforms, which was presented to the aid community at the consultative group meeting in February 1999 in Tokyo. Government policy recognizes the essential complementarities and the need for a parallel implementation of decentralization reforms. Decentralization of government to the communes will work only if supporting functions are also deconcentrated to the provinces and districts.

The Seila program is planned to cover all rural provinces by 2005. Under the program, commune development committees, chaired by a commune chief and including representatives from all villages, are responsible for the development of the commune. After the elections, commune councils will progressively replace the committees. The commune councils will have four to eight elected representatives with a five-year mandate. For at least the first year, planning and priority-setting mechanisms in place for the commune development committees will be carried forward by the commune councils, including the local planning process, commune development plans, and commune investment plans and budgets.

The Law on Commune Administrative Management called for the establishment of a national committee to support the commune councils, comprising representatives from six ministries and the Council of Ministers, chaired by the Ministry of the Interior and supported by the Department of Local Administration as secretariat. The life of the national committee is limited to the first term of office of the elected commune councils (2002–07), and its composition and duties are set out in the royal decree issued in May 2001.

Indonesia

Given its large and diverse population and geographical area, international experience would suggest that Indonesia is a decentralized country.² However, Table 2.2 indicates that when Suharto stepped down, Indonesia was highly centralized. The Suharto government regularly postponed major reforms in fiscal decentralization. Although

² This section draws on Buentjen (2000).

Law No. 5/74 on regional government was drafted in the late 1980s, adoption required the revision of Law No. 32/1956 on fiscal balance, and a political deadlock prevented this from happening. Yet in the late 1990s, pressures were mounting for action, not least motivated by claims for secession by West Papua, Aceh, Riau, East Kalimantan, and certain districts in Maluku. Given the lack of legitimate institutions, the manner in which concerns were raised was frequently not orderly. Although there were frequent demonstrations, sometimes violent, against the existing political system down to the village level, precise concepts of an alternative system were largely missing. Decentralization terminology did not play a major role until the recent unitarism/federalism debate. This makes it difficult to identify the major proponents of the decentralization reform.

What seems clear is that provincial interest groups used the atmosphere of reform following the downfall of Suharto to raise their demands for improved human rights and sharing of national wealth. The discussions that took place were not transparent to the general public. The Indonesian People's Consultative Assembly's November 1998 decision, which provided the political mandate for the administration to reform the decentralization framework, seems to have been influenced by the provinces.³ Since then, three new laws have been enacted:

- Law No. 22/1999 on regional government (UU Pemda/Undang-undang Nomor 22 tentang Pemerintahan Daerah), which replaces Law No. 5/74 on regional government and Law No. 5/1979 on village administration. The law revises the assignment of functions and redefines the roles of institutions at all levels of government, including villages. (See Box 2.1.)
- Law No. 25 on fiscal balance (UU PKPD/Undang-undang Nomor 25 Tahun 1999 tentang Perimbangan Keuangan antara Pemerintah Pusat dan Daerah), which replaces Law No. 32/1956 on the fiscal balance between the central level and the regions. The essence of

³The Indonesian People's Consultative Assembly is the highest state institution. It usually meets once every five years. It consists of 1,000 representatives, including the 500 representatives from the Parliament and 500 others nominated by the provinces or appointed by the president as representative of various groups in society.

Box 2.1. Major Changes in Indonesia: Law 22/1999 on Regional Government

- The principle that all functions that are not specifically assigned to the central or provincial level automatically belong to the districts has been introduced. However, the functional assignment to the central level and the provinces is vague and open to interpretation. Much depends on implementing regulations.
- Regions are to be given more control over finances, the planning process, civil service organizations, and cooperative bodies.
- Central ministries are in general no longer allowed to maintain independent, deconcentrated offices in the provinces or in the rural or urban districts for purposes of executing central-level projects/programs. The deconcentrated offices will be absorbed into regional organizations.
- Rural and urban district heads are now fully autonomous and no longer report hierarchically to provinces. They function solely as the head of the autonomous local government and are directly and solely responsible to the local parliament.
- The regional executive arm is to be more accountable to the regional legislature, particularly at the district/city level, where the regional parliament will elect the head of the district/city and deputies with no interference from the center.
- The laws anticipated a two-year implementation time frame, with subsidiary legal instruments ready by May 2000 and field implementation by May 2001.

the new law is the definition of sources of finance for decentralized, deconcentrated, and coadministered functions.

- Law No. 34/2000 on regional taxes and regional levies, amending Law No. 18/1997.

Law No. 34/2000 introduces new regional taxes and regional levies, and specifies allocation amounts for each jurisdiction. Previously, Law No. 18/1997 on regional taxes and levies had limited the number of provincial taxes to three, and the number of district taxes to six. In addition, the number of provincial and district levies was limited to 30. Earlier studies showed that the revenues of the more than 200 regional taxes and charges that were abolished by Law No. 18/1997 did not contribute meaningfully to regional revenues. Yet, the large number of

taxes and levies contributed to a lack of transparency and thus facilitated corruption at the regional level.

Although Law No. 34/2000 potentially allows for new taxes and levies, the results are not yet clear. Competition among the regions for limited investment resources and a working political process are likely to moderate the eagerness to tax over time, but in the short run excesses may occur. Beyond taxes, charges and user fees could become fertile ground for raising revenues. Although increasing fees and levies may be good policy to reduce (implicit) subsidies that burden the budget, they could also deprive the poor of the services they need to help themselves. Therefore, any revenue mobilization strategy that relies heavily on user charges should be accompanied by measures that protect the poor.

The regulatory framework for revenue sharing (natural resource revenues and land and building taxes), general-purpose grants (DAU, *dana alokasi umum*), and specific-purpose grants (DAK, *dana alokasi khusus*) is provided by Law No. 25 of 1999 and by Government Regulation 104, which was passed into law in November 2000. The precise provincial and *kabupaten* allocations of the DAU for 2001 were authorized by presidential decree (KEPPRES 181) in December 2000 (Lewis and Umum 2001).⁴

The 2001 allocation of the general-purpose transfers was based on an allocation mechanism approved by the Regional Autonomy Advisory Council in 2000 and outlined in PP 104 in 2000. In total, Rp. 60, 514 trillion were allocated to provinces and *kabupaten*, of which Rp. 6,052 trillion were allocated to the provinces and Rp. 54,465 trillion to the *kabupaten*. Compared with the 2000 allocation, the *kabupaten* received an additional Rp. 24 trillion, while the allocation to the provinces remained almost constant. Although the amounts actually required by regional governments to finance the delivery of decentralized services are not known with any degree of certainty, according to Lewis and Umum (2001), these amounts appear to be sufficient to fund both provincial and *kabupaten* requirements in the aggregate. This statement is made with somewhat less confidence regarding the provinces than regarding the *kabupaten*.⁵

Although the amounts may be sufficient in the aggregate, it appears that only 20 percent of the DAU have been allocated based on the for-

⁴ The *kabupaten* are autonomous village governments.

⁵ Details on the 2002 allocation can be found in KEPPRES 131/2001, which is (in Indonesian language) at www.gtzsfdm.or.id.

mula that was designed with an equalization effect in mind. This poses risks to the government's equalization goals. In fact, 80 percent of the DAU were allocated according to the hold-harmless condition. Although not explicitly acknowledged anywhere in DAU regulations and guidelines, the idea is first to ensure each *kabupaten* and *kota* (small neighborhood) receives at least as much as it did the year before in regional grants (*subsidi daerah otonom*, SDO) and presidential instruction grants (INPRES). Second, the hold-harmless condition ensures that the possible new expenditure requirements that result from the transfer of staff from the central government and its deconcentrated agencies (Kanwil and Kandep) to *kabupaten* and *kota* will be funded. These new requirements are assumed to be covered by a 30 percent increase in SDO and a 10 percent increase in INPRES grants from the previous year. As a result, mismatches between fiscal capacities and expenditure needs are problematic in many individual provincial and *kabupaten* governments. These horizontal imbalances across regional governments can be seen most clearly in the large DAU transfers to provinces and *kabupaten* that are resource-rich relative to other locations, which might be more needy.

In 2001 the DAK was not particularly important in the state budget, amounting to only Rp. 900 billion. This was actually the minimum amount of DAK, as required by law, and was based on shared portions of the reforestation revenues. These revenues are returned to the place of origin. Although routine expenditures have effectively been transformed to regional budgets, the system of allocating development funds through central government projects for government responsibilities that have effectively been transferred to the regions is still in place. Development partners pressured the government to formulate mechanisms and criteria for DAK to channel additional funds to the regions to support national priority programs. It is unclear whether that led to any changes for the DAK in 2002.

Since the decentralization program was launched in January 2001, achievements have included the following:

- The majority of regions have drafted regulations concerning authority, organization, and personnel.

- Most departments and other units have finalized regulatory frameworks in accordance with Law No. 22 of 1999 (for example, on forestry and mining).
- Eleven departments and agencies have completed initial development of minimum service standard guidelines.
- Fiscal allocation criteria have been changed to address fairness and sufficiency concerns based on the recommendations of an independent evaluation. (However, it was not certain that these criteria would be used in determining 2002 budget allocations.)
- Work is ongoing to revise and update Law No. 22 (Ministry of Home Affairs 2001).

Two surveys that are underway focus on implementation of the new laws at the district/municipality level. The first phase of the Indonesia Rapid Decentralization Appraisal, a project conducted by the Asia Foundation and funded by the U.S. Agency for International Development, was conducted in 13 districts and municipalities between December 2001 and January 2002. The second phase will add another 20 districts/municipalities to the sample.⁶ The Governance and Decentralization Survey, which was supported by a variety of donors (including Partnership for Governance Reform, the World Bank, and Partnership for Economic Growth), was scheduled for implementation between August 2001 and July 2002 (Kaiser 2002).

There are two initial findings on fiscal decentralization at this stage. First, the transfer of large numbers of civil servants to the regions has resulted in high portions of the budget spent on salaries, squeezing the available funds for service delivery and capacity building. Second, although largely dependent on central government transfers, local governments are seeking ways to increase their own sources of income in the form of taxes and levies. In some instances, local governments have imposed local taxes and levies that have become a burden to citizens and businesses. Citizens are demanding more open dialogue and consultations about budget allocations.

⁶ For details of the preliminary findings, see GTZ decentralization notes, issue 24, 1 March 2002, www.gtzsfdm.or.id. The report is available at www.asiafoundation.org.

People's Republic of China

The People's Republic of China has achieved one of the fastest growth rates of any country, with average per capita growth of real gross domestic product of 7.5 percent in 1981–90 and 9.2 percent in 1991–99.⁷ There was corresponding success in addressing poverty during this period, with a reduction of poor households to an estimated 18.5 percent of the population (or about 250 million people) surviving on US\$1 a day or less.⁸ China achieved its rapid growth and poverty reduction in the 1980s and 1990s for many of the same reasons as other countries in the region, including sharp increases in labor-intensive exports, market-friendly policies, large inflows of foreign capital, rapid development of physical and social infrastructure, and improvements in service delivery.

Although China is a unitary state,⁹ there are four subnational levels of government: 31 provinces;¹⁰ 333 prefectures; 2,148 counties; and 48,697 townships, towns, and city districts. Each level devolves functions to the next subordinate level. Prior to the 1980s, no subnational jurisdiction had a separate budget; the central government collected all revenues and prepared a consolidated budget for all subnational tiers. State-owned enterprises (SOEs) remitted all surpluses to the central government, which in turn covered all their expenditures by fiscal appropriation.

Starting with the market-oriented reforms beginning in 1979, the fiscal system became increasingly decentralized, and central and provincial governments and successive tiers increasingly shared revenues. There were three main reasons for the changes. First, the growth of township and village enterprises, joint ventures, and private firms had lessened the importance of SOEs. As SOE losses mounted, the government was forced to look for alternative revenue sources. Second, the economic reforms shifted the balance of political power toward local

⁷ World Bank (2001, 2002). Most analysts endorse these estimates. However, Rawski (2001) argues that growth has been exaggerated beginning in 1998.

⁸ UNDP (2001, p. 149). The official poverty line in China places about 4.6 percent of the population (or about 60 million people) in poverty.

⁹ This paragraph draws on Lin and Liu (2000) and Rao (2001).

¹⁰ The Special Administrative Region of Hong Kong, China, and Taipei (China) are not included.

autonomy. Third, the new awareness of the importance of markets and incentives was an impetus to provide local governments with incentives to step up revenue collections.

Like other reforms, fiscal reform started as an experiment. As early as 1977, Jiangsu province was chosen to try out an alternative fiscal arrangement with the central government. The province was contracted to remit a share of its total revenues each year to the central government. In 1980, broader revenue-sharing arrangements were adopted. Revenues were classified by source and divided into central fixed revenues (such as customs duties and revenues remitted by centrally owned SOEs), local fixed revenues (salt taxes, agricultural taxes, industrial and commercial income taxes, and revenues remitted by locally owned SOEs), and central-local shared revenues (profits of large-scale enterprises under dual ownership, industrial and commercial taxes, or turnover taxes).

In 1985, the tax system was again reformed, including a change calling for income taxes from SOEs rather than profit remittances. Although revenues were still divided into the same three categories, the new categories were related to type of tax collected rather than ownership (for example, ownership of SOEs). The government contracted 14 provinces, including three municipalities, to remit a share of their local fixed and shared revenues. Five provinces received lump sum transfers from the central government, and the others received central subsidies. Under this new system, shared revenues were by far the largest of the three categories. Thus, the central government relied on local governments to increase total revenues, and local governments had an incentive to boost their revenue collection (since they could retain some of the shared revenues).

The tax system changed again in 1994 due to a sharp fall in the ratio of revenues to gross national product (from 35 percent in 1978 to 12 percent in 1996), which was caused by the falling profitability of SOEs and the inability of the tax system to capture the expanding tax base arising from economic prosperity. There were also disincentives for subnational authorities to generate revenues and transfer them to the center. The differential sharing mechanism introduced in the 1980s served to enhance the powers of more affluent provinces and reduced the central

share in revenues. This reduced the ability of the center to undertake redistribution and stabilization functions effectively. It encouraged the center to push expenditure responsibilities down to adjust to lower revenues, and encouraged the use of extra-budgetary financing, with correspondingly diminished transparency and accountability.

The 1994 reforms included the introduction of a value-added tax, changes in the distribution of shared revenues, establishment of separate tax administrations for national and subnational governments, and earmarked transfer schemes. Yet, despite these reforms, the budget still is not comprehensive; it has large extra-budgetary financing and spending. This problem is greatest at the subnational levels, where revenues were recentralized, but expenditure functions have continued. The result has been both under-provision of services and extra-budgetary financing, both of which have adverse consequences on accountability, efficiency, and equity in spending. Tax sharing also does not address the problem that more affluent provinces get to keep more revenue than the poorer provinces. The central government has provided hundreds of types of earmarked grants to offset this, but they are allocated in an arbitrary and opaque manner, and thus do not adequately address the problem.

Analysts have tried to estimate the consequences of this series of decentralization initiatives on economic growth, with mixed results. Zhang and Zou (1996) estimate that fiscal decentralization has lowered economic growth in the provinces with the greatest degree of delegated spending. Lin and Liu (2000), using a different measure of fiscal decentralization, find that it has promoted economic growth at the county level, but has had an insignificant effect at the province level.

The Philippines

The Local Government Code (LGC) of 1991 affects 77 provinces, 72 cities, 1,548 municipalities, and more than 42,000 villages (*barangays*). Between 1991 and 1994, 61 percent of the field personnel of relevant agencies were devolved to local government units (LGUs). Regular elections were required for local officials and legislatures. Although devolution has affected particularly the health, agriculture, social wel-

fare, and natural resources sectors, all aspects of public service delivery have been affected in some way.¹¹

The Autonomous Region in Muslim Mindanao (ARMM) has a separate Local Government Code of Muslim Mindanao, enacted in 1993. The ARMM code, while similar to the national LGC, includes guidelines relating to Muslim institutions and organizational structures in ARMM. In practice, the regional ARMM government and its agencies maintain direct control and supervision of all devolved functions.

A Devolution Master Plan (1993–98) was formulated to further implement the devolution process. The LGC was amended to abolish unfunded sector mandates, improve LGU financial resources, and rationalize LGU and national government agency functions based on the subsidiary principle, with the extension to LGUs of responsibilities for national roads and power generation and transmission, administrative reorganization, reform of personnel functions, bottom-up planning, and electoral reforms.

Implementation of the LGC has led to more integrated delivery of services, with greater focus on local priorities and cost effectiveness. LGUs are interested in providing more investment and maintenance support for projects they have formulated and implemented. They are also more actively looking for cost-sharing arrangements with the private sector and nongovernmental organizations (NGOs), as well as seeking fees or user charges for services provided.

In agriculture, pre-LGC delivery of extension services was viewed as nonstandardized, poorly managed, and often not adapted to local conditions. With devolution, a rationalization of personnel took place, resulting in more area-specific programs and more productive fieldwork. However, there are serious concerns from LGUs that the Department of Agriculture is continuing to execute national projects and is reluctant to provide LGUs access to technical assistance. LGUs have limited control over planning, implementation, monitoring, and evaluation of projects funded from the national budget and from official development assistance. As a result, LGUs typically source their own technical assistance outside the Department of Agriculture structure. Unlike the Department of Agriculture, the Department of Agrarian

¹¹ This section draws on Bauer (1998).

Reform, whose functions are not devolved, cooperates closely with LGUs to implement their projects and helps build governance capacity at the local level.

In the health sector, LGUs have assumed 62 percent of the Department of Health's staff and 41 percent of its budget, including 12,560 rural health units, municipal health centers, and *barangay* health stations, as well as 595 hospitals. Devolution in the health sector has resulted in the following benefits:

- Significant improvement in the timely procurement of medicines and supplies
- Reorientation toward more flexible basic health programs
- More innovative mechanisms for revenue generation
- More integrated and client-relevant, area-focused planning and delivery of services.

On the negative side, funding shortfalls and increasing inequity between richer and poorer jurisdictions endure as major concerns. Less developed LGUs often find it difficult to maintain quality health standards due to lack of funds.

Unlike agriculture and health, the devolution of social welfare functions is perceived in most respects as successful. There were four reasons for this smooth devolution. First, the Department of Social Welfare Development carefully managed the devolution of its personnel into local organizational structures. Second, along with the devolution of responsibilities, the department has devolved substantial funding to LGUs and provided further opportunities to access external funds.¹² Third, the department's personnel were equipped to immediately work at the local and field level. And fourth, LGUs (often together with NGOs) have expanded the demand for social services. Implementation of the Minimum Basic Needs data system and the thrust given to poverty reduction under the localized Social Reform Agenda have further accelerated the process of sound decentralization.

¹² For example, the Early Childhood Development Program, supported by the Asian Development Bank, channeled funds directly to LGUs with the Department of Social Welfare Development as the executing agency.

Management of environmental and natural resources offers the greatest new challenge to LGUs. There is growing concern over the effectiveness of the Department of Environment and Natural Resources in carrying out its functions, and over the lack of LGU involvement in the planning and management of national programs. LGUs have an increased interest in exercising greater authority over solving environmental problems. There is growing awareness at the LGU level that environmental management skills are lacking. And there has been a rapid rise in ad hoc efforts addressing multi-sector environmental issues at the local level.

Sources of LGU financing are the internal revenue allotment (IRA), local taxes and revenues, loans and grants from donors, and borrowings. The LGUs are classified according to their income levels. Although the LGC provides for the allocation of significant national revenues to LGUs, a large unfinished agenda remains to ensure the real autonomy of LGUs. For example, the officials most involved in LGU financial management remain appointed by national agencies. And although the LGC limits the control of central agencies over the local planning process and tax policy, it does not eliminate it.

The major source of LGU finance is the IRA. LGUs receive 40 percent (up from 11 percent in 1991) of the IRA based on total collections in the third fiscal year preceding the current fiscal year. However, this 40 percent share is less than 15 percent of total public expenditure (as of 1997). There are moves to increase the IRA to 60 percent and to change the calculation procedures to be based on the current year's collections. The IRA is allocated among different levels of LGUs, giving 23 percent each to provinces and cities, 34 percent to municipalities, and 20 percent to *barangays*. Each LGU level gets its share based on population (50 percent), area (25 percent), and equal sharing (25 percent). The criteria favor cities, as well as municipalities with small populations and large land areas. In addition to the IRA, LGUs receive a 40 percent share of the gross collection derived from mining taxes, forestry charges, and other sources.

Although the IRA remains the main source of LGU revenue, selected LGUs increasingly have been tapping their own sources, including the issuing of municipal bonds. However, the IRA has become a more important share of LGU income under devolution.

Whereas the share of locally generated resources declined from 49 percent of total LGU income to 37 percent in 1994, the IRA share increased in the same year from 37 to 61 percent. In less developed LGUs, the IRA share can reach 95 percent of the total.

Some cities are taking loans from government finance institutions, normally of less than US\$1 million and with interest rates exceeding 20 percent. LGU loans from this source have increased from P1 billion in 1992 to about P18 billion in 1997. However, LGUs obtain less than one-fourth of their estimated capital requirements from this source, with poorer LGUs getting much less than this.

The LGC provides LGUs with the authority to access private capital markets. A few build-operate-transfer (BOT) and build-operate-own arrangements have been used so far. In 1997, the BOT center in the Department of Finance had identified 79 potential local BOT projects.

Although LGUs can legally borrow from donors such as the Asian Development Bank, they cannot access these funds directly because the national government does not give its sovereign guarantee. Whereas a number of functions have been devolved to LGUs, the funds often remain at the national level. Particularly in health and agriculture, LGUs have the devolved staff, but central agencies still control the funds.

To summarize, devolution appears to have improved the capacity of LGUs to carry out new functions, including intergovernmental cooperation. However, there are still major concerns regarding the capacity of LGUs to prepare comprehensive urban development plans, effectively link the local planning exercise with public investment plans and expenditure surveys, form more efficient economic planning units, organize effective participatory consultation, reengineer local bureaucracies, and develop quantitative indicators to measure the efficiency and effectiveness of local institutions.

Thailand

Thailand is divided into 76 provinces (*changwat*). Bangkok has an elected governor, while the Ministry of Interior appoints governors for the other provinces. Provinces are subdivided into 811 districts (*amphoe*), each administered by a chief district officer who is appointed

by the Ministry of the Interior. The districts are further divided into 7,409 subdistricts (*tambon*), which are broken down into approximately 67,581 villages (*muban*), both traditionally headed by local chiefs and village headmen. In addition, a number of special municipal or local authorities operate semiautonomously. Policymaking and major policy implementation functions are centralized in Bangkok, but some responsibilities are decentralized to local governments. Some functions are the joint responsibility of the central and local governments, while others are either provided by or monitored and controlled by the central government. Local governments are allowed to obtain revenues from a limited number of sources, primarily property taxes.

Provincial governors and their deputies and assistants are appointed from the staff of the Department of Local Administration of the Ministry of the Interior. *Tambon* councils are made up of village headmen, department officials, and local notables. Scott (1996) points out that the councils have the symbolic power of bringing together key figures in a forum that appears to have authoritative status, but they generally have little income or real power. Since centrally appointed officials dominate the councils, they help to strengthen central control and maintain national unity.

Thailand achieved rapid growth and poverty reduction in the 1980s and 1990s for many of the same reasons as other countries in the region, including sharp increases in labor-intensive exports, market-friendly policies, large inflows of foreign capital, rapid development of physical and social infrastructure, and improvements in delivery of services. These improvements were achieved in a highly centralized administrative and fiscal structure.

Yet, despite the gains, there has been growing public desire for political change and democratic government, widely characterized as “turning government by the politicians to government by the people” (Uwanno and Burns 1998, p. 241).¹³ Following the military takeover and violence of 1992, consensus crystallized in support of fundamental reforms of the political system to halt the 60-year cycle of military coups overthrowing elected governments. In 1993, the House of Representatives set up the

¹³ The discussion of the constitution draws heavily on Uwanno and Burns (1998) and Klein (1998).

Constitutional Reform Committee, which in 1995 presented a reform constitution that was approved by Parliament in 1997.

Several unique features of the new constitution set it apart from its predecessors, including strengthened rule of law and human rights; enhanced accountability mechanisms and enforcement of stronger conflict-of-interest standards; and improved transparency, participation, and decentralization. The constitution also provides one of Asia's most liberal codes of individual freedom, including both political rights (freedom of speech, religion, association, and assembly) and social rights (the right to receive health care and 12 years of education at the state's expense).

The constitution embraces decentralization but is vague about specifics, which are to be addressed through separate legislation and administrative actions. It seeks to end the practice of guided democracy at the local level by specifying that most local government bodies will be elected. This contrasts with previous practice, whereby many local employees were appointed from Bangkok and owed their allegiance to individual ministries. In the past, the only elected officials were councilors in the municipalities of Bangkok and Pattaya. Under the new arrangements, elected councils will replace each of Thailand's 7,951 appointed local councils when their current terms expire. The power to transfer, promote, increase salaries for, and punish local officials will be vested with local governments, with the approval of a local officials committee. This committee will consist of an equal number of representatives of relevant government agencies and local government organizations (LGOs). Public services such as health, education, and police will be placed under local control. Local governments will also be responsible for conserving local arts, customs, knowledge, and culture, and for managing and preserving natural resources and the environment.

The National Decentralization Act came into effect in November 1999. This act defines the role of the National Decentralization Committee, which is responsible for preparing the decentralization framework. The National Decentralization Committee has 36 members and is chaired by the prime minister and the deputy prime minister. It recommends procedures for decentralizing administrative power to local administrations by preparing an action plan. Once the Cabinet has

approved the plan, it will be submitted to Parliament for consideration and announced in the Government Gazette. After it has been signed into law, it will be legally binding in terms of agency operations.

To comply with the Decentralization Act, the government proposed the gradual increase in budgetary allocations to and the responsibilities of LGOs in three phases as follows:

- *Phase 1, FY2001.* During this period, the Bureau of Budget would ensure that LGOs have the equivalent of 20 percent of national revenues (approximately B160 billion) to finance local activities.¹⁴ Of this amount, LGOs would manage B40 billion under the Procurement Management Regulation, whereby the central government provides local governments with training in estimating future budgets. This phase has been completed. Impressionistic evidence indicates that although the targets may have been met in terms of spending at the local level, most budget implementation was fully controlled by central ministries, as had been the case in the past.
- *Phase 2, FY2002–FY2004.* During this period, local governments will be required to respond to increased budgetary allocations by providing strategic plans and the staff to manage them. The Bureau of Budget will ensure that LGOs have a percentage of national revenues.
- *Phase 3, FY2005–FY2009.* During this period, all activities to be decentralized will be transferred to local governments. The Bureau of Budget will ensure that LGOs have the equivalent of 35 percent of national revenues by the end of the ninth plan period (2006).

Lao-Araya (2001) points out potential risks to macroeconomic stability if these budgetary allocations are met, and the need for increased revenues. However, the central ministries could address such risks by retaining control over budget implementation at the local level.

¹⁴ National revenues exclude revenues raised by LGOs, administrative fees charged by the Revenue Department to collect taxes, and government borrowing.

Overall, the Department of Local Administration estimates that as of early 2000, less than 10 percent of total government spending in Thailand took place at the municipal level, compared with 14 percent for all local governments. If Bangkok is excluded from the calculation, municipalities are responsible for only about 2 percent of total government spending. Approximately 60 percent of municipal spending is dedicated to recurrent expenses, with salaries and supplies accounting for almost two-thirds of this amount, or approximately 40 percent of the municipal budget. The remaining 40 percent of municipal budgets is used for public works spending. However, since most local expenditures are not linked to a specific revenue source, municipalities tend to finance a large portion of their capital projects from recurrent revenues in a pay-as-you-go fashion.

In general, central and local governments have overlapping expenditure functions and responsibilities, which usually result in the central government dominating administration. Due to these overlapping functions and responsibilities, the central government usually assumes responsibility for most large expenditures. The National Decentralization Committee supports mandates for assigning more direct responsibility to local governments for specific, well-defined expenditures. These expenditure assignments should result in minimal administrative overlap of responsibility among central and local governments.

Fiscal decentralization in Thailand is in its early days. Whether the proposed measures will contribute to economic growth and poverty reduction is unknown. Results will depend, in part, on how implementation proceeds with respect to seven issues: local revenue authority, central government transfers, local expenditure, citizen participation, civil service reforms and personnel, public auditing of local accounts, and borrowing.

Preliminary Conclusions

In terms of revenue raising and expenditure powers, governments of developing countries are generally less than 50 percent as decentralized as governments of OECD countries. East Asian nations, in particular, have a history of strong central rule, although it is also true that the

roots of local government and decentralized arrangements in some cases reach back to the early period of state formation. It is certainly the case that some countries, such as Vietnam, have maintained long-standing arrangements for fiscal equalization across a highly diverse national terrain and in some of the most difficult political and economic environments imaginable (Porter 1995).

It is uncertain whether the decentralizations applied in East Asia will have positive or negative results for citizen participation, economic growth, or poverty reduction. Decentralization policies and the variety of forms policies take in practice are adopted for several and at times incompatible reasons. Some underpinnings to policies echo past experiments (see, for example, Rondinelli 1983); others clearly reflect recent global pressures on the nation-state that are played out in changing state-society relations in East Asia in particular country-specific ways (Kerkvliet and Porter 1995). The recent upsurge in interest in intensifying these arrangements seems to have occurred in the case study countries for a mix of four main reasons.

First, in East Asian nations undergoing the expansion of democratic models of governance, there is an emerging middle class and consensus that decisionmaking should be located closer to the people. The increasing prominence of democratic movements—for example, in Indonesia, the Philippines, South Korea, Taipei (China), and Thailand—has affected the evolution of decentralization in the region. Initially in most countries, central governments attempted to cope with these pressures through consultative forums rather than elected or empowered local governments. Where there were elected local officials, they were usually supporters of the central regime. In recent years, this pattern has started to change in some countries.

In Taipei (China), for example, an opposition party received 41 percent of the vote in mayoral and county magistrate elections in 1993; six years earlier, the country had been under martial law and ruled by a single party. The 1991 Local Government Code in the Philippines promised to increase democratization, and probably would not have been passed under the Marcos regime. In the case of Cambodia, the 1991 UN peace accords included a provision for elected local government (first realized in 2002) as a step in the transition to a liberal, market-oriented, democratic country.

A second trigger for decentralization has been the belief that assignment of functions to lower-level, smaller administrative units (provinces, districts, and municipalities) would bring efficiency gains, thus benefiting both service delivery and cash-strapped central government budgets. There are typically two aspects to this. The economic efficiency argument claims that shifting to local governments decisions about the level and mix of taxes and expenditures would ensure that people would get more of what they want and pay taxes against value received, and services would be provided more efficiently. The revenue mobilization argument claims that a decentralized tax structure would lead to an increase in the overall rate of revenue mobilization. In China, for example, market reforms and the growth of township and village enterprises as sources of revenue prompted fiscal decentralization in the 1980s. It was so successful for some prosperous provinces that the share of revenue passed on to the central government needed to be renegotiated upward in the 1990s.

In other countries, changing international economic conditions, including structural adjustment programs, led to serious fiscal difficulties for central governments and the often rather desperate need to pass on service obligations to local governments. The disappointing performance of centralized systems has directed attention to untapped fiscal and other local resources that could be exploited through greater disbursement of state power. More positively, decentralization could foster greater responsiveness to local situations and possibilities than may be possible for decisionmakers in a distant capital. Related technical arguments also extend to the devolution of authority, which is said to increase accountability and participation and result in improved performance, including allocative and financial efficiency. Allowing local governments to raise funds through taxation or borrowing makes them more accountable for the fiscal and financial consequences of their policies. When obliged to compete among themselves for access to financial resources, local governments fully experience the costs of unsound economic policies and decisions.

Third, there are many examples in the region where government agencies at all levels have delegated authority to private firms, NGOs, and implementation units funded by development agencies. This

includes a variety of public-private partnership arrangements to provide water, electricity, communications, refuse collection, municipal markets, toll roads, urban transport, airports, and shipping ports, among others. There are also partnership arrangements in rural areas, and in many countries NGOs manage and directly finance a large share of public services, including health and education, farmer extension, and environmental and natural resource management initiatives.

Some countries have delegated to professional associations responsibility to license, regulate, and supervise their members. Urban groups have been delegated tasks in the implementation of sites-and-service housing schemes. These contractual arrangements are made on the understanding that government units lack sufficient managerial and technical capacity or equipment to effectively provide such services, and are overly hampered by bureaucratic politics and practices, or that nongovernment agencies have access to sources of funds and legitimacy that are not available to the government. Private businesses and NGOs are thought to be able to provide services more effectively and efficiently than the government because they are not as hampered by constraints. These contractual arrangements usually include user charges, although governments must often provide hefty subsidies in addition. Service provision with some competition among public, private, national, regional, and local providers could provide incentives for good performance.

Fourth, aside from electoral pressures and arguments on technical grounds, there has been an increase in demand from subnational groups for autonomy, and decentralization may be promoted for reasons of central regime stability. In some cases, geographical areas in countries become more closely economically linked to the markets of other countries than to the national market, thus leading to calls for greater devolution of authority. By contrast, it is a fact of contemporary geopolitics that not all areas are equally well connected and favored by regional economic growth or endowed with public services available elsewhere in the country. The demands of some regions for greater autonomy backed up by ongoing civil conflicts (for example, Mindanao Philippines, Aceh Indonesia, Bougainville, and Solomon Islands) have encouraged central regimes to adopt various types of decentralization

in order to maintain wider stability. Yet there is always the risk that transferring decisionmaking power and resources to fractious localities may destabilize the regions, and possibly fuel demands for full independence. There is also evidence—for example, in China—that fiscal decentralization serves to enhance the powers of more affluent provinces, and thus may exacerbate tensions in poor provinces with large minority populations.

These preliminary findings underscore how simple definitions of decentralization belie an extraordinary range of relationships, meanings, and forms, which are often overlaid and simultaneous. Decentralization has become acceptable to governments of all political persuasions—consider the range from Thailand, to China, to the Philippines—such that leaders advocating decentralization may not quite know what it is, even less how it might work, but they do know that decentralization is regarded worldwide as a good thing. Hopefully, lessons from case studies and the comparative literature on decentralization will encourage an appreciation of the slippery and polysemous nature of this policy instrument. In the Asia Pacific region, there is no convergence toward one type of center-local, state-society relations, although there is universal interest in these matters and they are typically framed in the discourse of decentralization.

Trends in Decentralization

The case studies presented in this chapter show that fiscal decentralization varies depending on circumstances and institutions. Typically, several forms of decentralization coexist within a country. No one form is inherently better or worse than another; what matters is that the form selected is appropriate to the cultural and administrative context where it is applied, and that responsibilities are balanced by accountability, resources, and institutional capacity.

Has decentralization affected economic growth and poverty reduction in the region? Over the past 20 years, the East Asia and Pacific region recorded the highest growth rate and best performance on poverty reduction of any region in the world. Numerous studies have shown that this strong performance has resulted from many fac-

tors, including market-friendly policies, fiscal balance, macroeconomic stability, sharp increases in labor-intensive exports, and large inflows of foreign capital. Economic growth has not been attributed to decentralization.

Rapid development of physical and social infrastructure and improvements in service delivery were important, but these public goods and services were delivered largely through central institutions. China is perhaps an exception, but its experience is idiosyncratic to that country and not easily transferred. Indeed, it could be argued that the low level of decentralization in most countries has helped to promote fiscal balance and macroeconomic stability by avoiding the soft budget constraint and moral hazard evident in some countries with greater decentralization. Fiscal balance and macroeconomic stability have, in turn, contributed to the market-friendly environment in Asia Pacific countries, and to high rates of growth and poverty reduction.

Further Case Study Research

There is a great deal of disagreement about decentralization and the larger economic policy convergence of which it is a part. However, there is some evidence, albeit more conjectural than empirical in nature, pointing to a number of possible benefits of decentralization in East Asian nations. Further case study research should be done to pull together this evidence for particular countries. Yet it would not be possible, given the constraints bearing on the case studies, to resolve significant issues of causality and attribution.

Some definitional disputes about decentralization have been sufficiently resolved for cross-country comparisons, but the concept of citizen participation requires more work. Although some recent studies (for example, Blair 2000) positively associate decentralization with citizen participation (according to various measures), it is by no means a necessary condition or outcome. There are many instances where national governments have initiated decentralization as a centralizing strategy, and not primarily to foster local participation (see Apthorpe and Conyers 1982). Furthermore, Guess, Leohr, and Martinez-Vazquez (1997) point out the challenges of comparing decentralization experi-

ences with varying objectives across countries of various sizes, historical backgrounds, social cohesion, and cultural values.

Despite these challenges, it may still be possible to analyze patterns in decentralization across country case studies using comparable methodologies. With this in mind, each case study should achieve two things: provide a mapping of key descriptive parameters, and analyze the evidence on decentralization, highlighting fiscal devolution and the impact of decentralization on citizen participation.

Analysis of the evidence on decentralization should draw on available empirical evidence, building on the methodology in Guess, Leohr, and Martinez-Vazquez (1997) and Blair (2000) to explore the associations between fiscal decentralization and citizen participation. The analytical findings would provide the basis for exploring patterns in East Asian experience and examining the extent to which they correspond to patterns in experience in other regions.

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CHAPTER 3



FISCAL DECENTRALIZATION IN LATIN AMERICA AND THE CARIBBEAN

Luiz Villela

The main characteristic of the decentralization process in Latin America has been that in many countries it has occurred very much in parallel with the democratization of government, when military regimes crumbled and gave place to direct elections not only for presidents but, more significantly, for governors, mayors, local legislators, and council members. The result has been that not only are subnational governments playing a larger role in the management of local affairs, they are becoming more democratic because citizens have a greater voice.

Since Musgrave's (1959) classic work, fiscal decentralization has been an important topic in the public finance literature. It has become a major political and economic issue for most Latin American countries in the past two decades. Nations throughout the region have extended power-sharing arrangements to local governments together with revenue transfers that have, in some countries, quadrupled local government income compared with 10–15 years ago. Even in already highly decentralized countries such as Brazil, the proportion of central to subnational government net revenues (after transfers) has changed from 70 to 30 in 1980 to around 58 to 42 in early 2001 (BNDES 2001).

Fiscal decentralization is both an economic and a political process, involving many technical issues and raising an array of questions. This chapter, which is based on IDB (2000, 2001), presents some basic information on the main issues of fiscal decentralization and how it has

evolved in Latin America. This should level the playing field and allow those involved with correlated matters, such as community development, citizen participation, and local management, to better understand how these processes interact.

Reasons for Decentralization

The motivations underlying the decentralization process in Latin America and the Caribbean often do not coincide with the theoretical propositions that support decentralization as a mechanism to improve and democratize the allocation and use of public resources. One of the main features of fiscal decentralization in the region in the past two decades has been that it has occurred in parallel with the democratization of government, significantly changing the way local affairs are run. Subnational governments not only are becoming more democratic, but they are also playing a larger role in the management of local affairs.

The number of countries in the region with democratically elected central governments increased from 13 in the mid- 1980s to 26 in the late 1990s. Democratization also has taken place in subnational governments. Elected officials run municipal governments in 23 countries, up from only six two decades ago. In most of them (17), mayors are elected by direct vote; in the others, through an elected council (IDB 1997).

In less than 15 years, the average share of public expenditures managed by subnational governments increased from 8 percent to almost 15 percent. However, there are significant variations among countries in the degree of decentralization. While Argentina, Brazil, and Colombia are highly decentralized (with more than 40 percent of total government expenditures managed by subnational entities), others are still highly centralized. For instance, in Costa Rica, the Dominican Republic, and Panama, subnational governments manage less than 5 percent of total government expenditures. Still others have not decentralized at all. In Barbados and the Bahamas, the central government is in charge of all expenditures (see Table 3.1).

Decentralization has become fashionable in the past couple of decades and it is not difficult to explain the reasons for its popularity in Latin America. The excessive power of central governments had become

Table 3.1. The Level and Focus of Decentralization by Country

Focus of decentralization	Level of decentralization (subnational public expenditures as a percentage of total public expenditures)		
	More than 20 percent	Between 10 and 20 percent	Less than 10 percent
Intermediate level (state or provinces)	Argentina (49.3) Brazil (45.6) Mexico (25.4) Venezuela (19.6)	Peru (10.5)	
Local level (municipalities)	Colombia (39.0) Bolivia (26.7)	Uruguay (14.2) Chile (13.6) Honduras (12.3) Guatemala (10.3)	Ecuador (7.5) Trinidad and Tobago (7.2) Paraguay (6.2) El Salvador (6.0) Nicaragua (5.2) Panama (3.2) Dominican Republic (2.9) Costa Rica (2.3) Barbados (0.0) Bahamas (0.0)

Source: IDB (1997).

a target for both the left and the right of the political spectrum. In spite of recognition that the term *decentralization* disguises a complex and highly varied set of phenomena, many changes in constitutional, financial, and intergovernmental relations have taken place in the name of decentralization. It is a concept with an ideological attraction, especially as a reaction against processes that have promoted centralization (Souza 1996).

Fiscal decentralization, political participation, and democracy are processes that complement and strengthen each other. In Latin America, these processes have been overdue in relation to developed countries, leading to greater problems and challenges to be faced by the region. The fact of the matter is that citizens form their first expectations about how government should work by observing it at the local level. If they are able to take part in setting priorities for municipal budgets and to hold public officials accountable for their performance, the experience is likely to strengthen participatory democracy at all levels (Peterson 1997).

The influence of the system of government on decentralization does not conclusively explain the degree of decentralization attained in a country. In principle, federal systems of government would grant more autonomy to subnational levels of government than unitary systems, the latter tending to exercise a greater degree of central control. However, autonomy seems to be determined more by the political circumstances and size of the country than by the way the government is organized.

Argentina, Brazil, Mexico, and Venezuela are all federal republics, but differ in the autonomy enjoyed by their subnational governments. At one end of the scale of political and fiscal autonomy, the Argentine provinces have their own constitutions and legislatures, which regulate many aspects of local political and economic life (including the responsibilities and resources assigned to municipalities). They enjoy a fair degree of flexibility in allocating the block transfers (*coparticipaciones*) they receive from the central government. At the other extreme, Venezuelan states have only nominal responsibilities and manage a small proportion of public resources.

Similarly, countries with unitary systems of government vary significantly in the level of decentralization. Colombia, a unitary state, has a greater degree of decentralization than Mexico, a federal government system.

Measuring decentralization as the percentage of total public expenditure managed by subnational governments, Argentina, Brazil, and Colombia are the most decentralized countries in the region (more than 30 percent), followed by Bolivia, Mexico, and Venezuela (between 20 and 30 percent), as shown in Table 3.1. This represents a mix of both federal and unitary states.

There are also differences in the focus of decentralization. Some countries have transferred responsibility and resources to intermediate levels of government, and others directly to the municipal level, often to the detriment of the intermediate level. Argentina has emphasized devolution to the intermediate level (provinces), through which it has transferred resources and responsibilities to municipalities. Peru has strengthened the provincial level of government at the expense of the municipal level, while Bolivia, Brazil, and

Colombia have done the contrary, transferring resources and responsibilities mostly to municipalities.

The Decentralization Process

Decentralization is the result of a process with determining influences that vary from country to country according to the institutional and political configuration and economic circumstances. Fiscal decentralization in Latin America is occurring both in countries formally organized as federations and in those with unitary political systems.

Looking back in history, Latin American federal nations (and even unitary ones) as a general rule were not born of a unifying movement of already existing autonomous units, as was the case for the United States. The few (four) federations in legal terms were imposed by the dominant national classes as supposed alternatives for political and financial independence from Spanish or Portuguese centers. Even during the more recent periods when more decentralized fiscal systems were adopted, it was common for these movements to constitute policies formulated and directed from central government or the national legislative power to subnational levels (top down).

To some degree, in the majority of Latin American countries, particularly in the initial phases, economic factors took priority in determining the process of fiscal decentralization. The greatest motivation was to seek more efficiency and efficacy in the allocation of public resources as countries attempted to reduce spending, adjust the central government's finances, and encourage self-financing by subnational governments (Aghón and Casa 1994). Fiscal decentralization was seen, above all, as an instrument of economic policy; it was a program of the central government, obeying stages of planning, execution, and evaluation of actions. It was usually carried out by strong central governments in a top-to-bottom movement, and was characterized by *supply decentralization*. The following are examples of supply decentralizations:

- Decentralization of political-administrative reforms in Colombia in the early 1980s, which was aimed at reducing fiscal pressure on the central government

- Education reform in Mexico in 1993, which was aimed at breaking excessive union power and influence
- Decentralization in Chile in the 1970s in order to spread government activity more efficiently over the national territory
- Decentralization in Venezuela (begun in 1989) and Bolivia (in 1994) to overcome the generalized crisis over government legitimacy (Albuquerque and Knopp 1995).

In these cases, decentralization was usually a part of a process of modernization of the state. In unitary countries, such as Colombia, Chile, and Bolivia, it resulted in the creation or reorganization of intermediate government tiers.

In other situations, political factors predominated. The main objective was to strengthen subnational governments and at the same time to purposely weaken the central government. In this case, decentralization does not arise from fiscal or economic policy, but it is based on a reaction by the subnational governments, or on their behalf, against the so-called excessive powers of central government. The process is implemented basically through political instruments, such as building detailed fiscal regulations into the constitution and enacting national laws or agreements.

Working from the bottom up, so that provincial/municipal pressure and interests end up gaining additional resources and autonomy, can be called *demand decentralization*. Examples of demand decentralization would be the new constitutions in Brazil, Colombia, and Ecuador (in 1988, 1992, and 1996, respectively). It should be noted that in the case of Brazil, the political leaders of the constituent assembly that voted for the new constitution clearly stated that the purpose of the devolution movement was to weaken the federal government to prevent the reinstallation of a centralizing or dictatorial government. In Colombia and Ecuador, the power of regional political leaders was also a main driving force behind the decentralization process.

In practice, these two paradigms—supply decentralization and demand decentralization—tend to blend and overlap each other. They generate contradictions and conflicts, partly because central governments almost always attempt to recover their former powers and

resources, and partly because the subnational governments attempt to retain or even increase their new autonomy and resources.

Basic Issues

When fiscal decentralization occurs, an intergovernmental relationship is established between government tiers. This new relationship raises some basic questions (IDB 1998, 2001). For example, what should be the optimum division of responsibilities among the government tiers? This division is referred to in the technical literature as expenditure assignment.

In order to finance the different responsibilities that are designated to each level of government, there should be adequate revenue sources. Who should levy what taxes? The answer to this question is the revenue assignment (see McLure 1999).

Since the revenues collected by the corresponding subnational governments do not always cover their expenditure responsibilities, the resulting imbalances must be resolved. This financial shortfall is the vertical imbalance. How should it be covered? Since subnational governments are heterogeneous in their fiscal capacity and needs, some fiscal arrangement has to be established to bridge the gap between the needs and means of the different government units at the same level of government. This is a question of horizontal imbalance or equalization. How can this be done in order to promote solidarity within the nation?

Investments are needed to expand public infrastructure and services, and for allocative efficiency and intergenerational equity reasons, there are strong arguments in favor of their financing through loans. Questions arise about whether subnational governments can borrow, and under what conditions. What level of autonomy should they have?

Another question that has attracted some attention in Latin America has to do with local institutional capacity: Are local governments up to the job? In fact, lack of adequate institutional capacity at the subnational level has been identified as the most important obstacle to decentralization (IDB 1997).

Expenditure Assignment

The essence of decentralization is the reassignment of responsibility among levels of government. The issue is complex and involves a variety of factors, including who pays for what, who provides what, who executes the activities, and who supervises the delivery of public services. A thorough analysis of these questions is not possible within the scope of this chapter.¹

History and the systems of government have significantly influenced the present expenditure assignment observed in the region. In Latin America and the Caribbean, some functions have remained at the subnational level of government since colonial times, like the control of markets, abattoirs, and cemeteries, which has always been a municipal responsibility. Other functions have been transferred from the central or intermediate level of government as a result of decentralization programs. The net result of this process is that the present distribution of responsibilities varies significantly among countries, and only partially reflects what could be considered an optimal allocation (IDB 2000).

A review of the distribution of responsibility for the execution of public services for 24 functions in 18 countries in Latin America indicates that in the more decentralized countries (Argentina, Brazil, and Colombia), execution of a larger number of functions is shared across government levels in a concurrent or overlapping manner (IDB 1997). This is typically the case for social services, including primary and secondary health and education, as well as housing. Conversely, in countries where the subnational level of government executes a smaller portion of total public expenditure, the division of functions for execution is fairly clear, with the central government taking responsibility for the majority of services. In these cases, municipalities concentrate on the traditional functions of street maintenance and responsibility for markets, abattoirs, and cemeteries.

The Latin American experience shows that central governments usually retain more power in decisionmaking in the allocation of

¹ IDB (1997) contains data concerning the distribution of responsibility, the amount of resources allocated by function, delivery structure, execution, and supervision of delivery for 20 services in 18 countries.

resources for more services than they do for their execution. Data for 14 public services in 18 countries show that with the exception of Argentina, Brazil, and Colombia (and to a lesser extent Mexico and Venezuela), central governments allocate the resources for most local services. For example, the allocation of funds for housing and primary education is totally determined by the central government in 12 of the 18 countries, and for welfare services and primary health care in 14 countries.

Sharing execution responsibilities among levels of government may be efficient in certain circumstances and a waste of resources in others. When overlapping is the result of the legitimate need for support, it may be efficient for weak subnational governments that were put in charge of services that need to achieve a nationwide standard (such as primary and secondary education) to share execution responsibilities. However, when overlap is the result of incomplete or unclear transfer of responsibility and represents a duplication of effort, it is wasteful and may lead to an undersupply of services. This also makes accountability diffuse and hampers citizen participation in decision-making and oversight that could help assure that decentralization results in improved service delivery.

The joint provision of public services by several layers of government calls attention to the coordination issue. This is not simple and demands two basic elements: willingness and knowledge. The government tiers must put aside political differences and prioritize for the common good. Citizen participation has an essential role because citizens vote and pay taxes to all government tiers. Coordination is also a technical issue, and frequently governments are not adequately trained to coordinate their activities. Government officials at all levels need to be trained to perform this essential activity.

There is no standard or optimal distribution of responsibilities across government tiers. Distribution is determined, among other things, by historical, economic, and cultural factors. However, a basic rule of efficient expenditure assignment is that, whenever possible, each function should be assigned to the lowest level of government consistent with its efficient performance (the *subsidiarity principle*). Since tastes and costs vary from place to place, it is argued that there are efficiency gains from carrying out public sector activities in the

most decentralized way possible. The assignment of responsibilities to local governments could be asymmetric and based on population size, rural/urban classification, and fiscal capacity criteria. Thus, large cities may be responsible for some services that are provided directly by the central or regional government in other areas.

Once the expenditure assignment is decided, the crucial question that should arise is who will pay for it. The problem is that most Latin American decentralization processes did not follow this logical sequencing. The revenues were transferred first, and only after that came the devolution of service functions or negotiations over service devolution (Peterson 1997). This happened in Brazil when the 1988 constitution reassigned a large part of the federal government's revenues as transfers to states and municipalities without any corresponding additional responsibility. Colombia (Decree 77) and Venezuela had a similar experience when they significantly increased the share of value-added tax transfers to subnational governments. Bolivia, Ecuador, and Guatemala followed the same track.

Revenue Assignment

The appropriate way to pay for collective goods, which benefit the entire local community (but not those outside), is through local taxes. As in the case of expenditures, there is no such thing as the correct tax assignment in a multilevel government structure. The traditional theory of fiscal federalism prescribes a limited tax base for subnational governments. The only good local taxes are said to be those that are easy to administer locally, are imposed solely (or mainly) on local residents, and do not raise problems of harmonization or competition among subnational governments or between subnational and national governments (Bird 1999). Following this proposition, the only major revenue sources would be the property tax, the vehicle tax, some excise taxes, taxes and levies on local businesses, and user fees. Furthermore, since in most countries the central government is reluctant to provide subnational governments access to more lucrative taxes, it is not surprising that this theoretical proposition has become conventional wisdom.

Subnational governments almost everywhere are thus urged to make more use of property taxation, and criticized when they do not exploit it adequately (Bird 1999). Although it is true that property taxes are seldom fully collected and the revenue potential is not well tapped, heavy reliance on property taxes at the local level is not easy and may lead to some problems. First, property taxes are costly and difficult to administer and have high visibility, which fosters accountability but also creates political resistance that limits revenue potential. Second, and perhaps more importantly, even a well-administered local property tax cannot finance major social expenditures (education, health care, and social assistance) except perhaps in the richest communities. Third, the problem of the insufficiency of conventional subnational revenue sources becomes more severe in the case of larger countries with important intermediate levels of government (states and provinces). Even if local governments could significantly finance local services through property taxes and user fees, intermediate governments (provinces, states, or departments), which are usually responsible for social services, as a rule could not. Given the fact that subnational governments are becoming increasingly responsible for social services, the appropriate subnational revenue structure requires reexamination.

Brazil is the only country in Latin America that has a subnational value-added tax. This tax is the major source of revenue for the country's states, and 25 percent of the value-added tax is shared with the municipalities. The fact that the states regulate this tax results in serious economic distortions due to harmful tax competition among the states ("fiscal wars") in the quest for attracting investors, as well as high compliance costs. This arrangement is not recommended, although it should be recognized that it has been instrumental in making Brazil one of the most decentralized countries in the world.

Other Latin American countries have problems with financing intermediate levels of government. The provinces in Argentina, the departments in Colombia, and the states in Mexico are all extremely dependent on central government transfers. Even in Western Europe, most local governments are highly dependent on central government transfers, even when local taxes, such as those on property, are well collected. Property taxes correspond to only 16 percent of local revenues in

Spain, 5 percent in Germany and Finland, and 3 percent in Denmark. In fact, the most important source of tax revenue in the Nordic countries and Belgium is surcharges or piggyback taxes on the personal income tax (Dexia 1998).

Subnational governments should have some significant degree of liberty to make changes in the level and composition of their revenues. Without this freedom, it would be difficult to adequately respond to local needs and decisions, and there would be no local autonomy and consequently no local accountability. Subnational governments should be able to set fee charges and tax rates and have the freedom to make mistakes and to bear their consequences, which in a democracy would be reflected by the electoral process.

Another important issue related to subnational revenue assignment is how to finance local services that have a private benefit. Since many services provided by local governments clearly benefit identifiable persons (or businesses or properties), the levy of user charges, where administratively feasible, would result in government spending that is more in accordance with what citizens want and are willing to pay. There are at least three types of local user charges: service fees, public prices, and specific benefit taxes or charges.

There are several difficulties in dealing with user charges: collection, setting them at a level that allows the recovery of the costs of services provided, and getting the prices right. Low or nonexistent charges are usually defended by those concerned about the poor. Nonetheless, the fact remains that there is no such a thing as a free service; somebody has to pay for it, in some way or another, or the service will cease to exist. Underfinanced services are the major cause of low quality and scarce availability. Providing wrong or inefficient public services is no way to improve income distribution and help the poor. Moreover, upper-income households frequently benefit disproportionately from the consumption of free or low-cost public services.

Therefore, the question that governments have to address is: Who pays the bill? And how should the government adequately charge for services and, if necessary, subsidize the cost? The decision on who should bear the cost of services should be taken democratically rather than demagogically. Subsidies should be well focused in order to

avoid benefiting those who were not intended to benefit. Whenever feasible, even the poor should pay something in order to establish a bond of ownership that is essential to create the proper environment for accountability.

Bridging the Gap: Transfers and Grants

Regardless of the revenue sources made available to local governments, transfers from central to local governments will continue to be an important source of funds for the latter in most countries. This is because it would be almost impossible to have a perfect match between the cost of expenditure assignment and the funds that could be raised through taxes. Another reason is that the local government may not want to be solely responsible for financing services that involve externalities, that is, services that benefit people other than those who bear the cost. Furthermore, a country may wish to mitigate interregional differences in needs, in which case transfers would be needed. Therefore, a well-designed system of intergovernmental transfers should constitute an essential component of any decentralization process.

One of the challenges of a properly designed transfer system is to ensure the provision of adequate incentives for inducing fiscal responsibility at the local level. Unless made accountable, local public sector decisionmakers would be unlikely to make effective and efficient resource allocation decisions. There is an ever-present risk involved in local government spending. Therefore, it is important to establish a well-designed, formula-based transfer that imposes accountability at the margin. This means that local actions to raise or lower local revenues will directly and significantly affect disposable net revenues, an essential element for ensuring political accountability.

Three aspects of intergovernmental fiscal transfers need attention: (i) the source and amount of funds; (ii) the criteria for distribution; and (iii) possible conditional terms (Bird 2000). For efficiency and accountability purposes, it is essential that transfers be, as much as possible, stable and predictable in order to permit local governments to budget properly. For that reason, ad hoc transfers should be avoided because they are subject to political pressures from powerful regional lobbies.

First, a system that provides some degree of stability to local governments and some degree of flexibility to the central government is one that establishes a fixed percentage of all central taxes or current revenues to be transferred. Experience has shown that sharing specific national taxes is less desirable than sharing all national taxes because the latter may lead central governments to increase more those taxes that they do not have to share. In Brazil, for instance, since more than 50 percent of the federal taxes on income and industrial goods are distributed to states and municipalities, the central government has been pursuing ways to circumvent this sharing obligation. This has been done through creating a social contribution on profits and reducing the corporate income tax.

The second challenge to a sound transfer system is to devise a method to fairly or reasonably distribute funds among the various recipient jurisdictions. Discretionary or negotiated transfers are clearly undesirable. This type of transfer is unstable, unpredictable, and prone to political manipulation. It can also induce fiscal irresponsibility if local governments perceive that they can spend beyond their means and then receive supplementary funds as a bailout. A formula-based method for distribution is desirable if funds are allocated in a reasonably consistent way over time, creating the possibility of a reliable forecast of revenues that will accrue to the local government. The essential ingredients of most formulas for general transfer programs are needs and capacity (Shah 1996). Some combination of population, social indicators, and type or category of municipality (rural, urban, or regional) may adequately reflect needs and financial capacity. Caution is necessary to avoid introducing too many refinements in defining the formula because it should be simple and transparent to protect it from manipulation.

Frequently, the transfer formulas are designed to produce some degree of redistribution among subnational governments in order to mitigate poverty differentials. But even when they are effectively directed to the poorest regions or municipalities, there is no guarantee that transfers will reach the poorest individuals in those jurisdictions. In addition, many poor families live in the richer regions. Therefore, territory-based transfers are inherently inefficient in reaching the poor.

Direct individual transfers are more effective than indirect transfers to localities—even poor localities—in helping poor households (IDB 2001). For example, Chile provides citizens with education vouchers that can be used directly in either private or public schools. This is a form of providing money to the consumers of decentralized public services instead of funding the producers.

Another distribution method is to use derivation. This means that local governments may retain a portion of what is collected within their boundaries of some central government taxes as a piggyback, and the funds are available to the local governments without conditions or earmarking. The amounts to be received can be predicted with more or less certainty. The problem is that this method does not achieve inter-regional solidarity, and the richer subnational entities benefit more than the poorer.

The third aspect of transfers is that if the central government is using local governments as agents in executing national policies, it is reasonable to make the transfer conditional on the funds being spent for the desired purposes (Bird 2000). As a general rule, some conditionality seems desirable in most developing countries. This is particularly true when local governments provide important national services, such as education and health, where monitoring of performance should be a key element of policy design. Commonly, monitoring is done through reports and audits. However, the most efficient means is through the direct participation of the local stakeholders, such as supervisory committees. The experience has been successful in Brazil, where the central government, as a precondition for making transfers for poverty alleviation in the municipalities, requires the formation of a committee of prominent locally appointed citizens to monitor the process.

Access to Borrowing

A clear case can be made for subnational governments to have some capacity to borrow. This can be defended in terms of both distribution efficiency and intergenerational equity because it makes sense to finance long-term investment projects by borrowing rather than relying solely on either current public savings or transfers. For this reason, most

Latin American countries allow subnational borrowing, at least for investment purposes.

But there are also shortfalls to borrowing. In some cases, for example, local officials have reaped the political benefits of expenditure financed by borrowing, while leaving the political pain of excessive debt service to their successors. Such practices can raise a major issue of accountability. This is a case in which transparency is one of the most important forms of protection because it creates awareness on the part of lenders and citizens, and can limit credit operations to prudential levels and ensure that funds are used appropriately. In most Latin American countries, loan contracts have to be approved by the respective local legislative bodies, and this helps to assure that citizens' representatives have the opportunity for analysis and consideration of the benefits versus the costs of borrowing.

Another unintended consequence of subnational borrowing occurs whenever there is an expectation of a central government bailout. Subnational governments would borrow beyond their payment capacity if they thought they could shift part of the cost of debt repayment to others, such as the central government. Moreover, if the possibility of a bailout existed, the lender would not refrain from providing credit to potentially bad clients. In these cases, constraints on subnational government borrowing may be the right policy (Ter-Minassian and Craig 1997).

There are several reasons why the central government may find it hard to avoid bailing out subnational governments. First, the central government cares about the welfare of the population of the jurisdiction in question, and knows that in the absence of bailouts adjustment would be painful. Second, the central government may be concerned about negative externalities to other local governments in the absence of a bailout. And third, the central government may make a bailout in the case of external debt because default would affect the country as a whole.

Imposing strict subnational borrowing restrictions may pose some difficulties. First, it may not be easy or even feasible. This is especially true in the case of federal countries, where the central government has a limited scope for imposing the rules of intergovernmental fiscal relations. Second, central limits to subnational borrowing may have an unintended perverse result. Potential lenders could receive a wrong sig-

nal and not consider the potential risks they are taking with their money when such loans have received a seal of approval from the central government, which lenders may consider an implicit guarantee. The same would happen if transfers were used as guarantees, and lenders would have the capacity to intercept them.

Given the impossibility of formal bankruptcy being applied to governments, central governments should reduce the risks of moral hazard that may result from their control systems or debt workouts. To promote accountability, all subnational borrowings should be reported immediately and in a transparent fashion, so that no government can shift hidden debts to the next administration, and so that local voters, the central government, and the financial market clearly understand what is going on.

Many countries in the region have adopted some kind of ex ante limits on subnational borrowing and follow the golden rule that permits borrowing only for investment purposes. In practice this may be difficult to enforce in the absence of good financial classification and reporting systems.² In regard to foreign borrowing, most Latin American countries require the central government's prior approval, given the foreign exchange implications. Mexico follows a market approach, and subnational access to credit ultimately depends on the rating obtained from specialized agencies. Colombia has adopted a semaphore system that classifies subnational entities and gives the red light to those that have no repayment capacity. Brazil has controls over the supply of credit (how much banks can lend to subnational entities) and limits debt service as a proportion of current revenues; the Ministry of Finance rates all entities, considering past records and projections of future financial status.

It should be pointed out that inappropriate borrowing behavior by subnational governments should be seen not only as a problem of decentralization, but as a clear symptom of the existence of important inadequacies in the country's intergovernmental fiscal system. Problems may arise due to the revenue or expenditure assignment, transfer system, political representation, or lack of transparent, timely, and reliable reporting systems.³

² Some arrangements may have to be made to permit in-period borrowing to smooth out cash flows over the budgetary year.

³ For further implications, see Kraemer (1997).

Avoiding Macroeconomic Distortions

An important concern about fiscal decentralization is that it may have a negative impact on macroeconomic performance. There are six main causes of excessive spending or deficits.

First, the central government may increase transfers to subnational governments without increasing their expenditure responsibilities. Central government revenue transfers ideally should be roughly equivalent to the cost of the transferred responsibilities to ensure that, in the absence of behavioral distortions, subnational expenditures will only increase by exactly the same amount as subnational revenues. However, it has been frequently seen in Latin America that revenues have been transferred but not the corresponding responsibilities. Although it is possible that these increased transfers could reflect the fact that resources previously available to subnational governments were insufficient to carry out their tasks, in most cases the increase in resources has led to central government deficits and/or overall government expansion.

Second, the central government may transfer expenditure responsibilities but continue to provide them in a concurrent manner. Thus, the potential for macroeconomic impacts depends not only on the behavior of the central government, which should reduce its own spending in response to the transfers, but also on the effect the transfers will have on subnational governments' own revenues. Subnational revenues may decrease as a result of decreased fiscal effort (fiscal laziness), they may remain roughly the same, or they may actually increase, as happened in Brazil (Afonso and others 1999). In the 10 years following Brazil's decentralizing constitution (1988–97), federal revenues increased by 44 percent, state revenues by 65 percent, and municipal revenues by 190 percent. In an empirical study of Latin America, Burki, Perry, and Dillinger (1999) suggest that most macroeconomic problems arising as a result of increased transfers are due either to the spending behavior of the central government or to improper design of intergovernmental relations (such as transferring resources without corresponding responsibilities), rather than to irresponsible behavior by subnational governments.

Third, the central government may reassign revenue sources to subnational governments, but they may fail to exert adequate fiscal effort.

Since macroeconomic stabilization is essentially a national government task, it is important for the central government to have full control over all fiscal policy instruments needed to carry out this task properly. In the case of highly decentralized countries, such as Argentina, Brazil, and Colombia, subnational governments are responsible for such a large part of total revenues (including transfers) and expenditures that this restricts the central government's capacity to make adjustments. In addition, as a result of the design of the transfer system, if the central government increases taxes in order to help balance the central accounts, part of the increase in revenues will go to subnational governments, which can then increase expenditures.

Fourth, when transfers are increased, subnational governments may reduce their efforts to collect from the revenue sources they already control.

Fifth, there may be a high degree of decentralization, thus not leaving the central government enough room to exercise adequate macroeconomic management. The association between autonomy and bad performance is not coincidental. It must be recognized that under certain circumstances, borrowing autonomy can potentially lead to soft budget constraints for subnational governments. Local autonomy should exist within the limits of prudence and responsibility, preferably imposed by the immediate stakeholders and supported by appropriate incentives that come from the central government's firm commitment not to bail out subnational governments if they have financial trouble.

And sixth, the central government may fail to impose hard budget constraints on subnational governments, which incur excessive indebtedness. Imposing a hard budget constraint is not an easy task, but there are some design characteristics in the intergovernmental fiscal relationship that could promote it. It would be more difficult for subnational governments to get themselves out of financial trouble if they had no control over their revenues, making a bailout a more likely event. The same considerations apply to expenditures. If subnational governments did not have flexibility to cut expenditures, it would be difficult to carry on the necessary fiscal adjustments without help. The sheer possibility that discretionary transfers may be made increases the possibility of bailouts

because they provide the easiest means for the central government to provide financial assistance. The degree of borrowing autonomy of subnational governments also plays an obvious role in bailouts. The lack of autonomy to borrow does not eliminate all possibilities of indebtedness or bailouts, but reduces the scope to situations such as the accumulation of debts owed to suppliers and workers. Perhaps the main concerns with decentralization, from a macroeconomic perspective, relate to subnational government borrowing. The rules regarding borrowing by subnational governments in Latin America vary considerably across countries. Some, such as Chile and Venezuela, restrict borrowing almost completely, and others, such as Argentina, Brazil, and Colombia, allow a high degree of subnational borrowing autonomy.⁴ These countries have also experienced some of the most notable subnational deficits and debt levels in the region (Dillinger and Webb 1999), although a lot has been learned from experience and strict controls have now been established.

The correct revenue assignment is important not only to ensure adequate funding, flexibility, and accountability to local governments, but also to avoid distortions that would arise if local governments attempted to obtain revenues from sources for which they were not accountable. Fiscal decentralization should avoid predatory tax competition, invasion of the tax bases of other jurisdictions, and tax exportation. It is desirable to limit the access of local governments to taxes that could persistently fall on nonresidents, such as most natural resource levies, pre-retail sales taxes, and, to some extent, nonresidential property taxes.⁵

Making Subnational Governments Accountable

In order for decentralization to work properly, those charged with providing local services must be accountable both to those who pay for such services and to those who benefit from them. Therefore, the division of responsibilities among government tiers must be clear, respected, and enforced. In addition, local officials need to have sufficient authority to perform the roles assigned them and to bear signifi-

⁴ See IDB (1997) for an index of subnational borrowing autonomy by country.

⁵ Some level of tax spillover will always exist—for example, in the case of business taxes that allow a shift of taxes to nonresidents.

cant responsibility for financing the expenditures for which they are politically responsible. Otherwise, local citizens will not know who to blame for poor performance and will not perceive that there are trade-offs with respect to their public spending needs and desires and the associated costs in terms of taxation (Dillinger 1994).

The success of decentralization depends on accountability and good democratic practices and institutions, and could lead to more liberty and better government. Success clearly depends on the structure of local political institutions, which create incentives that determine the extent to which elected and nonelected government decisionmakers carry out their duties transparently, responsibly, and in a manner that responds to citizens' needs and preferences. Good incentives result when municipal elections are held on different dates from the national ones, so that voters can focus on local matters. Mayors' terms of office have to be long enough to permit them to establish a track record to put before the voters. Likewise, accountability could be improved by eliminating the prohibition against mayoral reelection. That is what happened when Bolivia increased the period in office from two to five years to allow new mayors to become more familiar with government, enact a program, and campaign for reelection as a result of the program (Peterson 1997).

There is also a role for other political institutions, such as non-governmental organizations, civil society organizations, and the media. These organizations should ensure that elections serve to communicate citizens' preferences over local policy issues, including their approval or disapproval of public officials' performance in office. And they should help city councils and other subnational legislative bodies to represent the full range of citizen and group preferences and to act as a counterweight to the executive branch to ensure that it does not abuse its authority or ignore citizen concerns.

It is also important that governments enforce laws and central government regulations on open access to reliable information. This could include matters such as local legislation, the level and distribution of expenditures and revenue collection, indebtedness, comparative unit costs for public services, and other performance-related evaluations of government activities.⁶

⁶ This refers to both existing activities and those under consideration. Moreover, once laws are enacted, citizens should be informed about which legislators voted for approval and which were opposed.

Citizens and civil society organizations can articulate their preferences, present their complaints, and influence policy and investment decisions beyond election day in various ways (IDB 2000). These include community advisory boards, regulatory commissions, open town meetings, public hearings, citizen complaint centers or assistance offices, and judicial and legal proceedings.

Latin America has several interesting examples of mechanisms for formalizing community participation in the local agenda. The best known are the local Mesas de Concertación in Colombia, solidarity groups at the municipal level in Mexico, Organizaciones Territoriales de Base y Comités de Vigilancia formed under the Popular Participation Law in Bolivia, participatory budgeting in Porto Alegre and various other cities in Brazil, and municipal government partnership with community groups in La Florida, Chile (Peterson 1997). Such forums have great potential, but they are still underexploited and are more emblematic than systematic. This needs to be addressed; otherwise, the danger will persist that decentralization will only result in decisionmaking being moved from the national to the local elite.

Town meetings are a legal obligation in several countries.⁷ However, town meetings have a limited role when citizens and groups have to decide about project proposals without adequate information about costs, budgetary constraints, and technical options, resulting in a one-way flow of information. In fact, citizens may be informed about the projects but not given a part in the decisionmaking process. Caution is needed to avoid political manipulation of popular movements, which may be conducted in order to give a democratic appearance to decisions already taken by local elites. In spite of this risk, when citizens express their demands in such forums, they raise the chances that their interests will be taken into account.

The experience of organized citizen participation in the city of León, Mexico, is instructive. Citizen participation was highly structured and complex, leading to more than 1,000 meetings between 1992 and 1994. It turned out that citizens of modest means were most interested in participating in order to obtain public works. In the words of the organizing municipal official, "people are more interested in results than in roles" (Peterson 1997).

⁷ This is the case, for example, in Honduras and El Salvador.

In some cases, community groups face resource constraints and compare the costs of alternative project proposals. Since this involves a tradeoff, the groups have a strong incentive to build consensus behind a common set of objectives. Participatory mechanisms of this kind can significantly increase efficiency in resource allocation and productivity. They can promote the development of neighborhood-based organizations and a greater degree of civic engagement and empowerment, with implications beyond the accountability and efficiency of subnational government.

Institutional Capacity

Even when citizens' demands are clearly expressed and local governments wish to respond to them, they might not be able to do so. One of the most important obstacles to effective decentralization is the poor quality of local administration due to lack of adequate institutional capacity. This issue is especially important for small and poor rural local governments, but also for large subnational governments that need to tackle the increasing infrastructure and social problems of urbanization.

Deficiencies in the capacity of local government or individual organizations or agencies undermine their performance and responsiveness to citizen demands and social needs. The resulting imbalance between citizen demands and government performance could erode the legitimacy of the decentralization process. These deficiencies may affect, among other things, the capacity of subnational governments to design policies and undertake strategic planning, oversee the budget and collect revenues, manage human resources, maintain and use information, or exercise control and evaluate performance. The main deficiencies are related to inadequate organizational structures, operational procedures, and personnel. There are three areas of special concern: (i) civil service institutions and human resource management systems, (ii) legal and financial procedures for revenue and expenditure management, and (iii) information, control, and evaluation systems (IDB 2001).

Staffing costs are usually the greatest expenditure item for local governments and may reflect the fact that most traditional local assign-

ments are labor-intensive. However, the area of staffing suffers from low qualification and payment levels, high rotation of personnel, and the hiring and promotion of staff on political rather than merit grounds. These deficiencies may result in widespread clientelism in which politicians treat public employment more as an instrument to reward supporters than as an essential resource to carry out the government's responsibilities. Investing in recruitment, training, career development, and adequate compensation packages is a must if the necessary organizational capacities are to be built.

Likewise, to be effective, local governments must adequately manage their revenues and expenditures. This task is usually constrained by limitations on selecting tax bases, setting tax rates, and choosing how to spend funds transferred from the central government. These problems can be partially mitigated by expanding subnational capacity to optimize local tax administration and maximize fulfillment of tax obligations, harmonizing subnational financial management systems among themselves and with the central government, and promoting more transparent and accountable resource allocation procedures, especially regarding budget preparation and execution.

At the same time, control and evaluation mechanisms have to be reinforced to allow subnational governments and local civil society to monitor public activities, learn from past experience, and change directions. It is important to establish mechanisms to enable government to supervise and audit the resources that are employed. Likewise, the degree of compliance with rules, norms, and procedures, and the results obtained (outputs) as well as the consequences of these results or the final impact (outcomes), are important factors.

However, creating a capable public administration staffed by well-trained, motivated, and directed individuals requires reform. It is necessary to prevent patronage and develop systems of human resource management that are clearly linked to the strategic goals of local public sector institutions. These institutions critically depend on professional knowledge and experience to address the demanding challenges of public service. Therefore, investing in recruitment, career development, adequate payment, and, above all, training is essential to strengthen local governments and agencies and enable them to face the challenges

of decentralization. Training should not be provided only on an ad hoc basis, but should constitute a permanent procedure to achieve solid institution building.

Another measure that could help improve institutional development would be to establish an intergovernmental cooperation agency. Such an agency could supply reliable information to all actors and establish a benchmark for performance evaluation and comparison purposes. It could also function as a bulletin board for successful experiences and best practices, creating far-reaching possibilities for horizontal assistance. Overall, such an initiative would be to help create an informed public and promote citizen participation, both of which are needed in dealing with the many challenges faced by decentralization.

Preliminary Results of Decentralization

After almost two decades of decentralization in Latin America, it is possible to have a preliminary image of what has happened in the region, especially considering the relatively more advanced experiences of Argentina, Bolivia, Brazil, Chile, and Colombia.⁸ It is not easy to draw a general picture of what has happened, and perhaps that is why this has not yet been done in a systematic way. Only disparate research, mainly concerning country or sector experiences, has been done, and it has had various motivations, timing, processes, and approaches.

Table 3.2 synthesizes some of the effects of decentralization on regional disparities in wealth, efficiency of service provision, local fiscal situations, equity, and citizen participation. It is not a comprehensive summary of what has taken place, but an indication of trends observed in some countries in the region.

Conclusion

After about 20 years of fiscal decentralization experience in Latin America, the region faces a great challenge to sustain this process and at the same time promote fiscal stability while consolidating the democratization process through enhanced citizen participation. These elements

⁸ This section is based on the findings of Finot (2001).

Table 3.2. Fiscal Decentralization in Latin America

Aspect	Indicator	Results
Growth disparities	Evolution of the dispersion of GDP per capita among the intermediate tiers of government (states, departments, and provinces) in seven countries	<ul style="list-style-type: none"> • Argentina, Brazil, and Peru have the greatest disparities. • Chile, Mexico, and Colombia are at the intermediate level. • Bolivia had the smallest regional wealth disparities. • Decentralization did not promote the reduction of regional wealth disparities. • Brazil had some improvements before decentralization and not after. • Colombia showed an increase in regional disparities after decentralization.
Service provision efficiency	Service coverage and unit costs in seven countries for primary education and basic health services	<ul style="list-style-type: none"> • Primary education coverage improved only in Colombia. • Productive efficiency (lower unit costs) improved only in Nicaragua and Chile. • Colombia and Bolivia had increased costs per student without improved quality. • Health service coverage improved in all countries, but the costs also soared. • Financing of health care services remains highly centralized in most countries. • Recently in Colombia and Argentina, with decentralization at the level of the health establishments, unitary costs have started to decline.
Fiscal efficiency	Evolution of the gap between local revenues (excluding transfers) and expenditures in four countries	<ul style="list-style-type: none"> • There has been ongoing growth in own revenues in Argentina, Brazil, and Chile, but own revenues have stagnated in Bolivia since decentralization. • In all four countries, expenditures have been growing at a faster pace. • The gap is increasing, resulting in more transfers and/or higher deficits and indebtedness. • Local government indebtedness is a serious problem, except in Chile, where subnational governments cannot borrow. • Increased indebtedness is a problem in other Latin American countries, such as Colombia.

Aspect	Indicator	Results
Equity	Interterritorial distribution of education and health expenditures, and correlation of these expenditures and poverty or income in seven countries	<ul style="list-style-type: none"> • Transfer systems improved the distribution of central government funds among regions within all countries, but were generally unable to solve previously existing distortions. • There has been an increased dispersion of the quality of services and inequity in the per capita distribution of funds for health and education across regions in Argentina, Brazil, and Mexico. • Distribution criteria were recently changed in many countries, but results are not yet known. • In most countries, no significant correlation was found between social expenditures and poverty levels, with the tendency of slightly progressive transfers being compensated by regressive provincial own-source expenditures.
Participation	Local government elections in 18 countries and occurrence of participatory experiences	<ul style="list-style-type: none"> • Countries with direct elections for mayors jumped from three in 1980 to 17 in 1997. • Political participation remains largely restricted to elections. • There are many interesting participatory experiences, but they are more emblematic than systematic in most countries, and are limited to important but episodic cases. • In countries like Brazil, with various and well-known examples of direct citizen participatory experiences, less than 4 percent of the population is actively engaged.
Source: Finot (2001); CEPAL (1998).		

are interdependent and equally important. Fiscal stability is a precondition for a sound economic environment in which the other elements can prosper. The processes of fiscal decentralization, political participation, and democracy complement and strengthen each other. These processes have occurred later in Latin America than they did in the developed countries, which settled these issues a long time ago. This tardiness has led to greater problems and challenges faced by the region.

In addition to political motivations, countries seek decentralization because it brings allocative efficiency by enabling locally elected leaders to better match the set of goods and services offered by the government with the preferences of the local population. Decentralization can also promote greater levels of community involvement in and ownership of local programs. Democratic practices bring greater accountability and better governance as decisions are adopted closer to the community's scrutiny. Decentralization may also improve the management of public services because, through sheer proximity, local officials can be held more accountable for their performance.

Decentralization also has many downsides, and every effort must be made to avoid or mitigate them.⁹ The first, of course, is the risk that local service delivery could decline; merely granting political autonomy to local governments would not guarantee an improvement in public services. A second problem has to do with the technical capabilities of local government staff to efficiently take over many responsibilities. Third, decentralization may widen regional disparities in the provision of public services. A fourth and important risk is that decentralization may pose a macroeconomic threat in the form of recurring deficits, excessive indebtedness, an over-expanded public sector, or the inability of central government to adequately use fiscal policy to promote economic stability. Last but not least, decentralization risks the possibility that the democratic process at the local level will fail to work properly and ensure the necessary accountability of government actions to citizens, a process that is critical in order for decentralization to result in better governance and increased welfare.

The available evidence indicates that decentralization failed to reduce regional wealth disequilibria, especially in large countries like

⁹ For a comprehensive analysis of this matter, see Prud'homme (1995).

Argentina, Brazil, Colombia, and Mexico, where great disparities remained or even increased. However, decentralization has had a positive effect in terms of territorial and social equity by increasing the funds available to the less developed regions and by improving the coverage of some basic services, such as primary health care. Regarding service provision, decentralization has helped improve allocation efficiency and made basic services available to more people, but most of the time at the expense of higher unit costs. Moreover, experience in the region has shown that in the health sector, where the central government has to a great degree retained the responsibility for funding allocation, the results have been better than in other sectors, such as primary education, where this function has been significantly devolved. This evidence may cast doubt on the overall advantages of decentralization in some areas.

Regarding the fiscal impact of decentralization, local expenditures have persistently tended to grow faster than local revenues, and this gap has either been covered by increased central government transfers or resulted in deficits and high subnational indebtedness. Either way, serious macroeconomic implications could jeopardize the whole process and offset the benefits that decentralization could bring. Fortunately, many countries are responding with fiscal responsibility legislation. These laws generally introduce measures to control the situation, promote transparency, and reestablish subnational fiscal discipline. Only time will tell if legislation will succeed in establishing a sustainable intergovernmental pact of fiscal prudence and create an environment that fosters growth and democracy.

The economic efficiency benefits of fiscal decentralization are linked to local preferences, responsiveness, satisfaction, involvement, ownership, accountability, and governance. Thus, decentralization will produce the potential benefits only if people have voice and democracy is functioning. Furthermore, it should be pointed out that the potential efficiency gains of decentralization and the link between decentralization and democracy are not self-executing.

To consolidate the decentralization process in Latin America and increase the chances that it will promote more equity, efficiency, and growth, a lot of work still has to be done, especially to enhance citizen participation and improve local institutional capacity. These are key ele-

ments for ensuring that local preferences are taken into account, and that local public sector decisionmakers make effective and efficient resource allocation decisions based on the full range of citizen and group preferences. Moreover, not only do citizens' demands have to be clearly expressed and local governments motivated to respond to them, adequate institutional capacity is also crucial.

Most countries in the region already have legislation establishing alternative forms of social and political participation, but this is not a general practice and is limited to emblematic but episodic cases, with the exception of Bolivia. Even in countries like Brazil, which has many years of successful participatory experience, it is estimated that less than 4 percent of the country's population belongs to a popular organization. Moreover, even when citizens are called to participate, their role might be constrained when they have to decide about project proposals without adequate information on coverage, impact, costs, financial and budgetary implications, and possible technical options. Several levels of participation are possible, ranging from relatively more passive to increasingly active modes that go from information sharing to consultation, collaboration, and joint decisionmaking, and could reach empowerment. This means that not only a horizontal expansion of citizen participation must be pursued, but also a vertical upgrade of its forms.

Although the experiences of citizen participation in local governments are still not widespread and well known, many of them constitute best-practice examples of democratization of governance, contributing to more efficient and accountable local governments.

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CHAPTER 4

MULTI-STAKEHOLDER
PARTNERSHIPS IN ASIA*Joaquin L. Gonzalez III*

This chapter provides background on citizen participation in development planning, implementation, and evaluation in Asia. Beginning with a discussion of the rapidly evolving multicentered regional context of governance reforms, it examines the shift in focus from increasing citizen participation through various forms of administrative decentralization to the current emphasis on multi-stakeholder partnerships involving actors and assets from government, business, and civil society. The chapter presents some lessons and caveats based on Asian case experiences.

Evolving Regional Context

During the past four decades, Asia has experienced dramatic changes—an economic miracle period, the economic crisis years, and a slow turn-of-the-millennium recovery. From the mid-1960s to the early 1990s, four countries in Northeast Asia—Japan, South Korea, Taiwan (China), and Hong Kong, China—and four countries in Southeast Asia—Indonesia, Malaysia, Singapore, and Thailand—became the celebrated high-performing Asian economies (HPAEs).

In its best-selling book *The East Asian Miracle*, the World Bank (1993) tells the story of the HPAEs. So spectacular were their sustained growth records that the HPAEs became economic models for the struggling geographic regions of Sub-Saharan Africa, Latin America and the Caribbean, South Asia, the Middle East, and even the transitional

economies in Central Asia as well as Central and Eastern Europe. The Asian model of development—liberalize, decentralize, and privatize—which was backed by the International Monetary Fund, World Bank, and Asian Development Bank, seemed rock solid. Other bilateral and multilateral development institutions took notice and joined in the accolade, especially praising the Asian public managers, policymakers, and governance institutions that made it possible to plan and implement tough public policies that spurred and maintained the meteoric rise of the HPAEs.

But by the late 1990s, rapid globalization exposed the dysfunctional aspects of liberalization, decentralization, and privatization. Ironically, this precipitated a domino effect of collapse in the region's financial sectors that seriously affected newly deregulated banking systems, stock exchanges, and currency markets (see Appendix 4.1 for more details). And just as regional analysts thought that Asia was finally turning the corner, the already volatile global context underwent further complications with the demise of the world dotcom economy, the declaration of an international war on terrorism after the September 11, 2001 attacks on the United States, and stock market downturns caused by ethics investigations that brought down corporate powerhouses Enron, Andersen Consulting, and WorldCom, among others. These international events have had serious ripple effects on Asian economies and their administrative structures.

Citizen Participation

Overshadowed by these economic ups and downs inside and outside the region, many political changes were taking place in national and municipal levels of Asian public administration. Citizen participation efforts were evolving from increasing community participation (or beneficiary participation) to crafting innovative government-business-civil society (or multi-stakeholder) partnerships.

In the 1970s and 1980s, the state dominated development efforts through its numerous agencies and public enterprises. Exercising political power and governing were exclusively the role of the government. Administrative reforms emphasized the reorganization of existing pub-

lic institutions or, at most, the creation of parastatal bodies that acted on behalf of government. Restructuring was needed to reduce the structural and managerial problems associated with over-bureaucratization and centralization. These included elimination of overlap and duplication, increased integration and coordination, and creation of avenues to facilitate community consultation and participation. Specific examples ranged from the reorganization of the South Korean Office of Monopoly, the Ministry of Transportation, and the Ministry of Communication, to the national administrative reforms initiated by the Indian Department of Administrative Reforms in the Union Ministry of Home.

When reform agents from international agencies or in-country consultants invoked citizen participation, it meant varying degrees of community involvement in the following forms of decentralization: deconcentration, delegation, devolution, and divestiture (the four D's).¹ The first involves the deconcentration of levels of decisionmaking to subunits or field units of central government ministries. For instance, a regional or district office of the Ministry of Education based in a capital city is allowed to determine textbook requirements for the provinces. The second strategy calls for the delegation of administrative authority to an entity or attached body outside the regular central office line bureaucracy, for example, public enterprise, government-owned or -controlled corporations, or state-owned enterprises. The third form entails the devolution of substantive administrative and fiscal duties and resources to subnational or local government units. These could be provincial, municipal, county, town, district, subdistrict, city, or village authorities. Finally, the fourth mode of decentralization is the divestiture of public service delivery to nonprofit, nongovernmental, community-based, or voluntary organizations.

These decentralization strategies not only address structural issues, but also improve process efficiency, effectiveness, economy, and responsiveness. Power and influence were seen to emanate from state institutions; therefore, reforms should focus on reengineering government and its functions to diffuse and redistribute power within the many offices and bureaus. The most favored extreme prescribed by many Asian reformers was called devolution, since it afforded greater fiscal,

¹ See the classic work by Cheema and Rondinelli (1983).

legal, regulatory, and resource control to public bodies that were still an integral part of what was considered to be state apparatus. Devolution also promised increased community participation in development planning and implementation (Appendix 4.2).

By the 1990s, however, there seems to have been a paradigm shift in citizen participation in the region. The economic crisis exposed the fact that Asians live in a rapidly changing, interconnected, and unpredictable globalizing and regionalizing environment. Increased access to education and the Internet have empowered more people with the skills and knowledge to choose their futures and to make sure their governments fulfilled their promises.

Dominance of the Public Sector

Historically, with the exception of a few countries, like Thailand, Asian countries were once prized colonies of Western powers. A centralized political and economic system was put in place to enable the colonial power to govern and reap the economic potential of the Asian colony in an efficient manner. Even after independence, local political elites argued that it would be in the best interest of the new nations to maintain the colonial-style administrative system. Classically Weberian in character, the strong hand of government bureaucracy permeated all aspects of the development process, from planning to implementation, from the village level to the national level. The national development function of the business and civil society sectors was to comply with the strict bureaucratic rules and procedures crafted by government institutions to regulate the market and the public sphere.

However, the dysfunctions of government-dominated, bureaucratic, political-economic systems became obvious by the late 1970s. Faced with practical financial, managerial, technical, and resource constraints that went with highly centralized structures and processes, governments in the region were not always effective in assuming the multiple roles that were needed for large-scale development planning and administration. Government viewed citizen participation to mean citizen compliance with the rules, regulations, and pronouncements that government officials enacted as benevolent elected or appointed leaders.

Rise of the Private Sector

Citing the achievements of public policies in the United Kingdom and the United States, many scholars and practitioners argued that the weaknesses of the predominantly centrally planned economies in Asia and other parts of the developing world could be addressed by adopting a more liberalized, open trade and investment regime. Thus, the 1980s saw a noticeable shift in the balance of power in Asia between the government and the private sector.

The role of the market and the corporate community in national development was seriously reexamined and emphasized. Many countries in the region, especially in South and Central Asia, were inspired by the relative successes of their East Asian neighbors who adopted private sector-led public policies. Soon after reengineering their governments and reinventing their economic policies, the results of market-led growth and privatization became quite evident. Heavy inflows of international capital in the form of portfolio and foreign direct investments on top of official development assistance further buoyed growth in the region.

Interestingly, not only did business become the primary engine of growth and economic development in the 1980s, but also public-private partnership arrangements became more common. Public-private partnerships were introduced in various configurations of national and sub-national (municipal) build-operate-transfer and cofinancing schemes to develop Asia's infrastructure, transportation, communications, tourism, and industrial sectors. But these public-private partnerships were not always fruitful. In some cases, the business sector remained wary of the government's intentions. Interestingly, a number of governments in the region were convinced to go into business on their own through government-owned, -linked, or -controlled enterprises.

Growth of the People Sector

At the height of Asia's regional economic boom, groups representing civil society became critical partners in development governance. Their expansion was bolstered by many factors, including the generous shift of financial and other resources from government organizations to non-

governmental organizations (NGOs). Support was being channeled from all levels—national, regional, and international. Organized groups representing segments of NGOs, community-based organizations, and private voluntary organizations often became useful alternative service delivery agents, especially in the provision of health care and agricultural extension services. Many also became strong political advocates of women's, environmental, social, human rights, and consumer issues. Tired of the dominance of big business and multinational interests, some NGOs even focused on entrepreneurship and financing targeted at assisting the growth of small and medium enterprises and community-based credit cooperatives. Compared with their government and commercial sector counterparts, civil society groups broadened their operations beyond trade, investment, infrastructure, finance, and other economic issues. South, Northeast, and Southeast Asian NGOs, community-based organizations, and private voluntary organizations delved into issues related to poverty, human settlements, equity, education, health, population, and the environment, as well as many other social concerns (Yamamoto 1996).

Civil society and *sustainable human development* became buzzwords of the 1990s in Asia. Despite this trend, some Asian governments took cautious stands and closely monitored the development activities of civil society groups. This was especially relevant for those countries with NGOs suspected by state internal security agencies of being radical fronts for extralegal and destabilizing political and social changes, like in Singapore and Sri Lanka. This was also true in countries where the challenge of ensuring racial harmony was particularly dominant. In order to emulate the ad hoc nature of NGOs, which seemed to give them greater flexibility, responsiveness, and trust at the community level, a number of government institutions set up organizations that functioned like NGOs. At the same time, many businesses were suspicious of NGOs. Nevertheless, there were companies in the business sector that learned to build alliances with NGOs as part of their corporate governance and community outreach strategies.

These factors combined to dramatically alter the context in which public policies are crafted and social, economic, and environmental programs, projects, and services are delivered. Not only have public con-

cerns in Asia taken on a new complexity and interconnectedness, the methods to address these concerns are of necessity changing. Sources of power and legitimacy to address public issues are increasingly fractured. Asians no longer live in a region where the nation-state is regarded as the sole legitimate decisionmaking actor. In fact, the number of domains in which governments can credibly claim to hold overwhelming preeminence in terms of power, authority, and influence is experiencing a relative decline. Thus, the focus of citizen participation has moved from emphasis on the four D's in the 1970s and 1980s to partnerships among groups representing the public (government), private (business), and people (civil society) sectors, or multi-stakeholder partnerships. Various forms of business-government-civil society partnerships are being carried out in countries within the Southeast, Northeast, Central, and South subregions in Asia.

Many radical political changes have facilitated these multi-stakeholder partnerships in Southeast Asia; Table 4.1 presents key economic and social country indicators. Overall, it seems that in many parts of Asia there is noticeable movement from a purely state-centered arrangement to a more multiple-centered structure in which power, authority, and influence emanate not from a single source (such as the government, business, or civil society groups), but from a variety of sectors representing public, private, and civil interests. There is a simultaneous shift upward, downward, outward, and inward. It is upward to international governmental organizations (like the Association of Southeast Asian Nations [ASEAN] and Asia-Pacific Economic Cooperation [APEC]), multinational corporations, and international NGOs; downward to state, provincial, district, and municipal levels of government; outward to the private sector; and inward to individuals and civil society.

In a region where issues are complex and the power to address those concerns is diffused, the biggest challenge facing Asian governments and communities is to find a way to bring together all power shareholders, to find common ground and combine their strengths and resources to effectively address issues of public concern through a broader view of citizen participation. The following sections describe changes in some of the countries in the region.

Table 4.1. Key Economic and Social Indicators in East Asia

Country	Land area (sq km)	Population (millions)	GNP per capita (US\$)	Gini index
Indonesia	1,904,569	216	2,407	36.5
Malaysia	329,758	24	7,699	48.5
Philippines	300,176	76	3,725	46.2
Thailand	514,000	62	5,524	41.4

Source: World Bank (2000); UNDP (2000).

The Philippines

In the Philippines, the inspiring 1986 People Power revolution and the rise of NGOs, the overwhelming approval of the 1987 Constitution, the unprecedented enactment of the 1991 Local Government Code and Build-Operate-Transfer Law of 1993, and the implementation of the pro-people Philippine National Development Plan: Directions for the 21st Century (1998) are important events that made a significant impact on the interaction of groups representing Philippine government, business, and civil society. These events came after decades of suppression under martial law and heavy centralized control by the national government.

Thailand

In Thailand, the landmark passage of the Tambol Authority Organization Act of 1994, the enthusiastic approval of the 1997 New Thai Constitution, the swift launching of the Eighth National Economic and Social Development Plan (1997), and the recent passage of the National Decentralization Act (1999) were critical turning points that enhanced power sharing among the public, private, and civil society sectors. A major result of the legislation has been increased citizen participation, most notably at the subdistrict level (*tambon*). Prior to these major events, Thai and Filipino political oppositionists and public interest groups fought a protracted battle with repressive regimes for greater

democratization, power sharing, and partnerships among the various individuals and institutions within their political systems.

Malaysia

The general trend in Malaysia and its counterparts in mainland Southeast Asia was somewhat different. Although a number of past policies called for government, business, and civil society to be represented, including Malaysia Inc. (1983) and Vision 2020 (1991), government and business dominated multi-sector representation. The composition of the Malaysia Business Council was a classic example. However, this was not the case in all of Malaysia. In the State of Penang, which is the home of ALIRAN (a progressive, issues-based publication) and the Consumer Association of Penang, the state government has been more supportive of genuine social tripartism. Other Malaysian states are also examining the Penang model seriously. And recently there seems to be a new trend nationally with the implementation of the Communications Act of 1998, which requires the unprecedented creation of discussion groups that encourage representatives of Malaysian civil society to actively participate and even act as facilitators and agenda setters.

Indonesia

In Indonesia, post-Suharto leaders have pushed for greater citizen participation in the political process, including at the district level. Local assemblies, which did not have much power in the past, have gained greater importance, especially in terms of addressing concerns at the regional level. The central government used to corner a large majority of revenue from the provinces. Recently, however, the Ministry of Finance has initiated a movement to devolve more than 50 percent of financial resources from a virtual national government monopoly position to the provinces and districts. National legislation helping to ensure further fiscal and administrative devolution includes Law No. 22 (1999) on regional government, Law No. 25 (1999) on fiscal balance, and Law No. 34 (2000) on regional taxes and levies.

Multi-Stakeholder Partnerships

Citizen participation through multi-stakeholder partnerships is heavily anchored in the right blend of actors and assets. In the multi-stakeholder partnerships I examined and evaluated in Asia, a wide range of actors exerted various forms of influence and resources toward solving development issues they themselves identified. No single actor tended to have absolute power. Broadly speaking, these actors can be categorized as follows: the public sector (government), the private sector (businesses), and the people sector (civil society). The public sector includes the executive, legislature, judiciary, public service, military, and police. The private sector encompasses small, medium, and large enterprises; multinational corporations; and financial institutions. Civil society includes NGOs, community-based and people's organizations, religious and ethnic groups, women's and youth groups, professional associations, and donor agencies.

When a multi-stakeholder partnership is formed, each actor brings a set of assets to the new relationship. These assets make up the following categories (see Table 4.2):

- Physical assets (financial, technical, and material resources)
- Organizational assets (personnel, structure, leadership, and capacity to manage, plan, implement, monitor, evaluate, and train)
- Political assets (power, authority, influence, legitimacy, lobbying, and access)
- Intellectual assets (knowledge or know-how in certain fields of expertise)
- Sociocultural assets (trust, networks, social bonds, friendships, willingness to collaborate, community traditions, and ideals or values).

Each actor or group is endowed with a mix of the five asset types, although it seems that in practice each is only able to contribute certain kinds of assets to the multi-stakeholder partnership. The mix of contributions and commitments varies depending on the nature of the problem, the particular context and timing, and the capacities of the various participants.

Table 4.2. Decentralization Actors and Assets in Asia

	Public sector National government agencies and corporations, provincial, municipal, city, district, subdistrict, village, and other local government units	Private sector Small and medium enterprises; local business, trade, and investment associations and cooperatives; and chambers of commerce	People sector Nongovernmental organizations, community-based organizations, private voluntary organizations, academic and research institutions, media, and religious groups
Assets			
<i>Physical assets:</i> financial, technological, and material resources	Budget allocation and infrastructure	Investments, donations, and materials and supplies	Local technology and resource mobilization
<i>Organizational assets:</i> human resources, capacity to manage, core team, membership, structure, leadership, and training	Formal vertical and horizontal links and coordination; bureaucratic structure; and creation of rules, procedures, and directives	Entrepreneurial skills, formal-informal networking, results and profit-driven management, performance-based product marketing, and advertising	Formal networking, ad hoc structure, community-based training, social marketing, and communications
<i>Political assets:</i> power, authority, influence, interest articulation, and legitimacy	Political will and support, formal authority, access to the political system and internal political and administrative influence and control, horse trading, and lawmaking	Leveraging resources for business-related policies/laws, campaign contributions, and money politics	Lobbying, advocacy, and representation for social issues that affect poor and marginalized groups and ethnic communities
<i>Intellectual assets:</i> knowledge and know-how	Mastery of relevant laws, policies, and legal and institutional context; technical expertise on specific subjects	Information on products and services, trade, specific knowledge of comparative advantage, operation procedures, and how to make money	Wisdom of village elders; indigenous methods and ways of doing things
<i>Sociocultural assets:</i> feelings/spirit of trust, friendship, and willingness to collaborate; community ideals or values	Government ideals, values, and ideology; patriotic fervor (respect for flag, country, rule of law, and constitution, which builds community cohesion); and loyalty, cooperation, collaboration, civic mindedness, and democratic society	Corporate and business ideals that encourage responsibility to shareholders and community, and transactional and client-oriented beliefs and practices	Social relations, informal networks, kinship ties, emotional commitment, local traditions, beliefs, customs, and practices that promote and produce community self-help and self-reliant attitudes and behaviors

For instance, a government institution would typically have strong political and organizational assets, that is, policy or program control and coordination, providing institutional stability, and harnessing critical political will and support. The government sector is unique because of its power to create and enforce laws and exact taxes. But each case illustrates that it cannot provide an effective solution to the development concern on its own. By itself, the government cannot create social energy and civic involvement, but groups in the civil society sector can do this.

Similarly, in many cases, the private or business sector exhibits strengths in the areas of organizational assets and physical assets, that is, profit making, labor productivity, private sector competitiveness, and entrepreneurial growth. However, the business sector cannot provide political legitimacy or institutional security, which is best done by the government sector. And the business sector cannot guarantee social equity and economic rationality. In fact, many of the case experiences show that the market left solely on its own tends to generate economic and income inequalities. Except for their fiscal obligations (taxes) to the government and token social outreach programs, businesses seldom joined the community in addressing local development concerns. Hence, there is a compelling need for the civil society and government sectors to check and balance the operations of the free market with regulatory activities and programs to reduce inequities.

In the same way, the civil society or people sector often contributes significantly to multi-stakeholder partnerships through sociocultural and intellectual assets, that is, advancing participation, promoting self-help, and increasing cultural awareness. These assets go toward addressing social inequalities in a manner that is socially and culturally acceptable to the local community. Yet civil society tends to be weak when it comes to ensuring political stability and institutionalization, and often lacks authority and administrative capacity. Civil society does not have the legal, judicial, and regulatory authority to require the business community to be more accountable and responsible, since that is best accomplished by government agencies or quasi-judicial authorities. Moreover, civil society groups have to learn from the business sector about the entrepreneurial skills and technical know-how required to mobilize local financial resources, which are critical to sustaining com-

munity development. Actors in any sector operating independently typically do not have all of the needed resources, public faith and confidence, and knowledge to address effectively issues of public concern.

Experiences

The Canada-ASEAN Governance Innovations Network (CAGIN) has studied and supported the emerging decentralization arrangements that make up multi-stakeholder partnerships. The CAGIN team examined the following municipal-level experiences in the Philippines, Malaysia, and Thailand to document the growing participation of citizens and the decentralization trend (see Table 4.3).

Guimaras Solid Waste Management Project

Implemented in Guimaras Island, one of the poorest provinces in the Philippines, the Guimaras solid waste management project brought together relevant municipal and provincial government departments with groups from local businesses and civil society to plan and implement an integrated solid waste management approach. Organized into provincial and municipal implementation task forces, project participants have developed and implemented a comprehensive waste management plan and policy for the province. The project has also spearheaded a number of new small-scale business ventures through which citizens and businesses are not only helping to keep Guimaras Island clean, but also generating income to support their own livelihoods. The Guimaras Island case offers a useful and relevant model for communities around the world that are looking for more sustainable and holistic approaches to waste management and that see the potential of government-business-citizen partnerships.

Baguio Regreening Movement and the Eco-walk Project

Shortage of water has always been a chronic problem in Baguio, a city in the northern Philippines. This serious environmental issue is being

Table 4.3. Multi-Stakeholder Partnerships in Asia

Project location	Project title	Governance innovation	Level of government	Lead organization	Partners (government-business-civil society)	Development concern
Philippines (Baguio)	The Baguio Regreening Movement and the Eco-walk Project	Strengthening the institutional capacity of an existing multi-stakeholder partnership for the effective management of an ecological walk for school children	Subnational (city)	Baguio Regreening Movement	<ul style="list-style-type: none"> • Five national agencies • City government • Government corporation • Benguet Electric Cooperative • Six nongovernmental organizations 	Environment – forest and watershed management
Philippines (Guimaras)	Engaging Communities in Waste Management: A Holistic and Integrated Approach	Creation of a multi-stakeholder partnership for the effective planning and implementation of provincial solid waste projects/interventions	Subnational (provincial)	Provincial Government of Guimaras and the Canadian Urban Institute	<ul style="list-style-type: none"> • Two national agencies • Municipal governments • <i>Barangays</i> (villages) • Guimaras Chamber of Commerce and Industry • Five community-based organizations 	Sustainable development and solid waste management
Thailand (Khon Kaen)	Democratic Planning Using a	Strengthening the capacity of the newly created Khon Kaen Civic Assembly for dis-	Subnational (provincial or Chang Wat)	Khon Kaen University, Institute for	<ul style="list-style-type: none"> • National agencies • Local business groups/individuals 	Multiple (microenterprise, environment,

Provincial Civic Assembly	cussion of solutions to city and provincial socioeco- nomic issues	Dispute Resolution	<ul style="list-style-type: none"> • Nongovernmental organizations and private voluntary organizations • Academia 	health and culture, financial, and human resources)
Thailand (Bangcha- kren)	Tambol Civil Society Participatory Local Governance Project	Subnational (subdistrict or <i>tambol</i>)	Local Development Institute	Multiple (com- munity forestry, water and wet- land resources management, women's and community enterprises, and microcredit)
	Creation of civil society forums that will support newly created Tambol Authority Organizations for discussing solutions to <i>tam- bol</i> -level socioeconomic issues		<ul style="list-style-type: none"> • Three national agencies • Nongovernmental organi- zations and community- based organizations (Women's Foundation, Thai Volunteer Service, Union of Civil Liberty) 	
Malaysia (Penang)	Sustainable Penang Initiative	Subnational (state)	Socio- Economic and Environmental Research Institute (SERI)	Multiple (ecol- ogy, social jus- tice, economic productivity, cul- ture, and popu- lar participation)
	Organization of a series of roundtables for sustainable development planning, monitoring, and action (via community indicators)		<ul style="list-style-type: none"> • State government • Local businesses • Environmental and other nongovernmental organiza- tions • Academia 	

alleviated through the Baguio Regreening Movement, a unique, multi-stakeholder partnership composed of national and local government agencies, the Catholic Church, community-based organizations, civic groups, entrepreneurs, and businesses. The Baguio Regreening Movement emerged two years after the 1986 People Power Revolution, and its partners jointly designed and implemented an indigenous community-driven program called Eco-walk. The program promotes regular and organized walks by school children into a watershed area to explore and to plant and tend tree seedlings under the guidance of forestry volunteers and personnel. In addition to their efforts in watershed rehabilitation, Baguio Regreening Movement members seek to address the need for children to help rehabilitate the local environment they will inherit and manage in the future.

Sustainable Penang Initiative

The Sustainable Penang Initiative pioneered a community-based indicators project aimed at creating a process for more holistic and sustainable development planning in the state of Penang, Malaysia. The project involved five roundtables on different areas of sustainable development: ecological sustainability, social justice, economic productivity, cultural vibrancy, and popular participation. Government, business, and civil society participants at the roundtables identified community-based indicators through which they could monitor development in Penang over time. Initial monitoring results were presented at a People's Forum, through a People's Report Card and a State of Penang Report. The Sustainable Penang Initiative process increased participation, accountability, and transparency in Penang. It spearheaded the creation of new organizations to address specific issues, including sustainable transport, access for disabled people, and water conservation.

Tambol Civil Society Participatory Local Governance Project

A level of Thai local government that was significantly affected by the passage of the 1997 Thai Constitution and implementation of the Eighth

National Development Plan is the *tambol* (subdistrict). At Tambol Bangchakreng in central Thailand, community members identified the preservation of razor clams as a critical livelihood issue. To address this concern, they created a multi-stakeholder partnership that would formulate a more effective strategy to permanently eradicate problems. Government, business, and community members banded together to protect the dwindling population of razor clams in Tambol Bangchakreng. Factors that the research team found to be critical for sustaining the multi-stakeholder partnership were creating process facilitators, creating change agents, utilizing effective consultative techniques, and promoting civic culture.

Khon Kaen Civic Assembly

Thailand's Eighth National Economic and Social Development Plan (1997–2001) emphasizes people-centered development and prioritizes a decentralized, participatory planning approach. The National Economic and Social Development Board, the central planning agency, has designated four provinces (in the northeast, northern, southern, and central regions) to serve as test cases for the development of participatory planning through the creation of a civic assembly. Within this supportive policy context, the Khon Kaen Civic Assembly was born. It is a loose, multi-stakeholder group, dominated by middle-class civil servants and socially engaged academics. The group has fluid borders and an evolving identity.

Barriers to Successful Partnerships

In spite of the inherent logic and strategic importance of forming multi-stakeholder partnerships to address issues of public concern, there are deep-seated barriers to doing so. Many case studies documented by development agencies, policy analysts, and researchers provide colorful examples of barriers and how they operate. The cases show that barriers may exist in the broader contextual environment or closer to home among the actors of the partnership itself.

Most compelling is the inherent lack of trust among partners from various interest groups. Deeply ingrained attitudes of blaming govern-

ment for its inefficiency, criticizing civil society for its narrow and biased interests, and viewing business as only after its own profit-oriented bottom line do not auger well for strong, supportive relationships among these groups. Additional barriers to effective multi-stakeholder partnerships are the strong desire for power and control and the accompanying reluctance to share power. In many cases, government actors, after years of taking the lead, still believe that people expect them to do so. And leading means influencing agenda setting and implementation. Finally, the comfort and security of maintaining the status quo is a significant force mitigating against the formation of new partnerships.

Initially, it could be a daunting challenge to change relationships that have historically been based on adversarial roles to ones that are supportive. The cases in Asia demonstrate that barriers are always present. Creating innovative decentralization arrangements also has financial costs, although the long-term payoffs are well worth it. Central governments have to deal with reduced budgets when municipal governments take over local sources of revenues. Multi-stakeholders seem to work better with some concerns than with others, for instance, environmental issues. Some experiences also illustrate that centralization is still critical to sustainability. This is what Philippine reformers found when introducing such decentralization arrangements in the health care sector as mandated by the Local Government Code (1991). The inability of municipal units to maintain the salary and benefit levels of health workers led to calls for a return to central government control. Leeway must be given for mistakes, experimentation, and transition. However, these barriers could be overcome with increased revenue generation and resource mobilization from the various stakeholders. Each country case provides insights into strategies that could be used to overcome constraints.

Conclusion: Lessons from Asian Citizen Participation Experiences

Lessons and conclusions from the Asian multi-stakeholder partnership experiences revolve around the following questions: What made these

multi-stakeholder partnerships successful? What kinds of people were involved and what critical roles did they play? How were citizens motivated to sustain their participation? How were the contributions of the partners combined to address the social or economic development concern effectively?

Champions, Change Agents, and Core Group Members

A pattern in some of the more apparently effective Asian multi-stakeholder partnerships was a distinct division between three kinds of actors—champions, change agents, and core group members. Each is essential to the success of the multi-stakeholder partnership, and each brings complementary strengths and contributions.

Champions

Champions are individuals in the community who command respect as well as authority. Champions can provide vision, direction, endorsement, and inspiration to legitimize a governance innovation in an environment in which others view new approaches to power sharing and decisionmaking as risky or even dangerous. Champions normally do not get involved in the day-to-day activities of a partnership, but they create an environment in which a multi-stakeholder partnership may be successfully launched and sustained.

Two charismatic and credible individuals, the Bishop of the Archdiocese and the city mayor, were champions in the Baguio Eco-walk case. The previous governor of Guimaras province was a champion for participatory decisionmaking; her endorsement of the involvement of civil society in public interest questions created an environment that made the Guimaras waste management pilot project possible. The former president of Khon Kaen University brought together the people and mobilized the resources to start up the Khon Kaen Civic Assembly and its allied activities. A leading government official (a member of the Penang State Executive Council) and a long-time community leader in Penang both played champion's roles in the case of the Sustainable Penang Initiative.

Change Agents

Change agents may emerge throughout the life cycle of a multi-stakeholder partnership. They may come from any walk of life and from any social group. They identify strongly with the issue on which a particular multi-stakeholder partnership is focused, and, through their enthusiasm and commitment, help raise awareness of the issue at hand, help people see issues in unconventional ways, and inspire others to participate in the new governance mechanism.

The association of local village leaders, media persons, and school children were key change agents in the Baguio Eco-walk. In the Sustainable Penang case, change agents emerged from the community of disabled persons. In Khon Kaen, the governor's wife, who heads the local Red Cross chapter, became heavily involved. Moreover, individuals from the slum communities and an official from the Bank of Thailand led activities for the betterment of Khon Kaen. In another part of Thailand, national government representatives at the district level were the first to endorse decentralization at the *tambol* level and participate in a new and a more participatory process of decisionmaking.

Core Group Members

If champions and change agents are the heart and soul of Southeast Asian multi-stakeholder partnerships, then core group members are the brains, muscles, and facilitators. They guide the partnership from point to point, ensuring that momentum is maintained, issues are addressed as they arise, conflicts are resolved, and objectives are met. They ensure that the day-to-day work of a multi-stakeholder partnership gets done. They oversee the formulation and execution of strategies and plans, ensure that progress is monitored, problems addressed, and meetings held. In short, the presence of a core group is essential for sustaining a partnership through the completion of the objective that inspired its formation.

Strong core groups, which were built around mutual trust and personal affinity, were apparent in several of the cases. The Baguio Regreening Movement was sustained by the enthusiasm and commitment of a core group of five people drawn from the public sector, the

private sector, and civil society. The work of the implementation task forces in the Guimaras case was sustained by strong core groups that, among other things, played a key role in keeping the multi-stakeholder partnership alive during a difficult transition period after the provincial elections. In Tambol Bangchakreng, a facilitator played a crucial role in helping to mobilize a core group, essentially providing a backstop for the core group during its formation.

Making Voluntarism Work

Committed voluntarism is at the heart of Asian multi-stakeholder partnerships. Citizens contribute their time and energy to the partnership because they believe in the need for concerted action on a particular public issue. But the case studies also demonstrate that, as a purely practical matter, voluntarism has its limits. This is particularly true in cases in which individuals from the lower socioeconomic strata have a high degree of involvement (which was not the case in Sustainable Penang).

Monetary and other tangible incentives—whether in the form of salary payments, grants for micro projects, or opportunities to participate in study tours—proved significant factors in inducing or sustaining core groups or broader networks of participation in the case of the Khon Kaen Civil Assembly and the Guimaras waste management project. The Baguio Eco-walk project was an interesting counterexample. No monetary or tangible incentives were provided to core group members or participants. As one participant put it, “the biggest incentive is to help make Baguio a better place for their children and the generations to come.” Significantly, Baguio stood out as the case with the clearest and most immediate development impacts. This allowed participants to see, over a relatively short period of time, that the project was making a difference. This powerful intangible asset may have outweighed the need for physical, monetary, or other tangible assets.

Developing a Supporting Operating Style or Culture

Successful multi-stakeholder partnerships are likely to be structured and managed in ways that pay attention to basic human needs and

some rough rules of thumb about human nature. Given the particular circumstances of the innovative governance arrangements in Asia, participants appeared to work most effectively when the partnership operated in a way that accounted for trust and safe spaces.

Many parts of Asia have not had a recent tradition of free and easy discourse around questions of alternative forms of power sharing and decisionmaking. In societies used to regarding political authorities as having a firm decisionmaking monopoly on questions of public interest, and where debate is conditioned by respect for hierarchy and formal authority, ordinary citizens may be apprehensive about getting involved in multi-stakeholder partnerships.

Under such circumstances, an atmosphere of trust is essential to encourage adhesion to a partnership and active participation within it. Several of the case studies provide clear examples of trust building. Often an environment of trust results from the fact that the multi-stakeholder partnership was built on preexisting networks of long-standing, informal, personal and/or professional relations. This was clearly so in the Baguio and Guimaras cases. In addition, the presence of a champion who by virtue of reputation or social position is perceived to be apolitical and uninterested in personal aggrandizement is also an important factor contributing toward trust. The Bishop's role in the Baguio case exemplifies this. Conversely, participants' uncertainty about the possible political ambitions of the chairman of the Khon Kaen Civic Assembly undermined the development of trust in that partnership.

An environment of trust is conducive to the creation of a safe space for multi-stakeholder dialogue and debate on questions of public interest. If multi-stakeholder partnerships are to function as forums where all stakeholders can contribute to the resolution of public interest issues, then all must feel that the partnership provides a forum in which they can speak freely, challenging accepted ideas and introducing new ones, without fear of recrimination and without violating cultural norms regarding public confrontation or respect for elders and authority figures. The presence of a safe space was a key feature in many of the case studies.

Citizen participation can no longer be viewed as simply a government sector reform program to increase community participation.

Given the emerging multi-centered nature of governance in Asia, decentralization must now be seen as a dynamic process that creates multiple-stakeholder partnerships that address public concerns. However, each country's experience depends on its blend of government, business, and civil society participation.

In countries like the Philippines and Thailand, where there is a vibrant civil society sector, it seems that government has stepped aside to accommodate greater empowerment of citizens and engagement of businesses. Indonesia is following closely as it continues to democratize and nurture citizen involvement through newly established NGOs. Meanwhile, in Malaysia, the government still controls civil society and business spaces, although the state of Penang has opened up more space for citizen involvement in development planning and implementation through its pioneering roundtables.

Appendix 4.1.

The East Asian Miracle and the Context for Crisis

Even before the World Bank's 1993 publication, *The East Asian Miracle*, a plethora of works had been penned on the miraculous performance of the East Asian economies. Written by an elite team of economists, social scientists, and policy experts, the World Bank-sponsored study was backed with statistical information from the Bank Economic and Social Database, probably the most comprehensive collection of economic and social data in the world. Because of its qualitative and quantitative rigor, *The East Asian Miracle* easily became one of the World Bank's best-selling recipe books on economic development.

Nearly two decades ago, four countries in Northeast Asia—Japan, South Korea, Taiwan (China), and Hong Kong, China—were joined by four Southeast Asian countries—Indonesia, Malaysia, Singapore, and Thailand—in being showcased as eight high-performing Asian economies (HPAEs) in World Bank publications. The HPAEs' sustained growth records were so spectacular that they became sought-after economic models for the struggling geographic regions of Eastern Europe, Sub-Saharan Africa, and Latin America. The World Bank and its supporters argued that one of the main reasons why the HPAEs were so successful was because they adopted public policies that promoted growth with equity. Hong Kong, China, South Korea, Singapore, and Taiwan (China), achieved average growth in per capita gross domestic product (GDP) between 6.5 and 7.1 percent in 1965–90. These four East Asian tigers were followed by Japan, Malaysia, Thailand, and surprisingly Indonesia, with between 4.1 and 5.0 percent growth in per capita GDP for the same period. Reaching this high plateau is an amazing feat. But the record-breaking did not end there. The eight HPAEs were also able to reduce significantly social inequality according to the average ratio of household incomes of the top 20 percent to the bottom 20 percent. Seven countries recorded a ratio of less than 10 percent. This is what made their accomplishment miraculous: never before has the world seen a group of countries perform in such a robust manner.

Policymakers and academics argue that there is no easy way to achieve outstanding performance. According to *The East Asian Miracle*, the HPAEs introduced public policy interventions that emphasized the following: (i) an export-oriented and market-friendly (or business-friendly) environment, (ii) significant private sector investments, (iii) high savings rates, (iv) education and other human capital enhancements, and (v) high labor productivity.

Even before the East Asian crisis occurred, a number of academics—led by Professors Paul Krugman of the Massachusetts Institute of Technology, Dani Rodrik of Columbia University, Lawrence Lau of Stanford University, and Alwyn Young of Boston University—had been providing dissenting views about East Asia’s miracle. These skeptics asserted that economic growth did not necessarily raise total factor productivity in some of the HPAEs (for example, Hong Kong, China, Singapore, South Korea, and Taiwan (China)). They argued that the Asian miracle was not heavily anchored in true total factor productivity, but rather in the intensive use of inputs, such as the high growth rate of capital due to high rates of investment and the high growth rate of labor inputs due to increased labor force participation in the region. Krugman further predicted that this may not be feasible in the long run to sustain economic growth and that the HPAEs should concentrate more on increasing total factor productivity instead of just mobilizing its resources at a faster rate. Hence, the boom fizzled out as factors of production—labor and capital—dwindled. Krugman added that there were many similarities between the HPAE model of input-driven growth and that of the former Soviet Union and Warsaw Pact nations during their economic peak in the 1950s.

During 1985–94, Thailand was the world’s fastest-growing economy, at an unbelievable 8.2 percent annual growth in real GDP per capita. By July 1997, the country’s economy went into financial meltdown. The Thai government, with the support of the other central banks in the region, managed to support the Thai baht. However, with estimated foreign exchange losses as high as US\$15 billion, an adjustment in the international value of the baht became unavoidable. On July 2, 1997, Thai monetary authorities announced that they were weakening the baht peg to the U.S. dollar. This led the baht to lose 16

percent of its value that day, and it lost another 11 percent in the following four weeks.

Loss of confidence in the Thai economy led to a series of value declines in neighboring countries. Other Asian currencies, such as the Malaysian ringgit, the Philippine peso, and the Indonesian rupiah, came under a similar attack as nonresident portfolios retreated from investment in the region. The peso and ringgit lost about 25 percent of their end-of-June value, and the rupiah lost about 40 percent of its July 2nd exchange rate. Even the normally resilient Singapore dollar lost about 6 percent of its starting value. The Japanese yen, Hong Kong, China, dollar, Taiwanese dollar, and South Korean won were not spared.

Eventually, this loud burst of the East Asian economic bubble silenced the prophets of East Asian boom. As a result, the sudden economic, social, and even political decline of a number of countries in the region spawned an even larger collection of works debunking East Asia's economic miracle. These attacks described the effects of rapid globalization on weak and unprepared financial structures, which in effect led to a series of events—banking crises, stock market crashes, and radical currency devaluations. Other regional specialists added their theories about investment saturation, excessive external borrowing, current account deficits, foreign creditors' willingness to lend to domestic agents, refinancing of debts through external borrowing, poorly supervised and regulated financial systems, and the entry of China, India, and other low-cost producers into international export markets, causing the countries to lose their competitive advantage.

Appendix 4.2.

Why Should Countries Decentralize Central Government Functions?

1. Decentralization can be a means of *overcoming the severe limitation of centrally controlled national planning* by delegating greater authority for development planning and management to officials working in the field, closer to the problems.
2. Decentralization can *cut through the enormous amounts of red tape and the highly structured procedures* characteristic of central planning and management in developing nations that result in part from the overconcentration of power, authority, and resources at the center of the government in the national capital.
3. By *decentralizing functions and reassigning central government officials to local levels*, these officials' knowledge of and sensitivity to local problems and needs can be increased.
4. Decentralization could also allow *better political and administrative penetration* of national government policies into areas remote from the national capital, where central government plans are often unknown and ignored by the rural people or are undermined by local elites, and where support for national development plans is often weak.
5. Decentralization might allow *greater representation of various political, religious, ethnic, and tribal groups in development decisionmaking* that could lead to greater equity in the allocation of government resources and investments.
6. Decentralization could lead to the development of *greater administrative capability* among local governments and private institutions in the regions and provinces, thus expanding their capacities to take over functions that are not usually performed well by central ministries.
7. The *efficiency of the central government* could be increased through decentralization by relieving top management officials of routine tasks that could be more effectively performed by field staff or local officials.

8. Decentralization could provide a *structure through which activities of various central government ministries and agencies involved in development could be coordinated more effectively* with each other and with those of local leaders and nongovernmental organizations in various regions.
9. A decentralized government structure is needed to *institutionalize the participation* of citizens in development planning and management.
10. By *creating alternative means of decisionmaking*, decentralization might offset the influence or control over development activities by entrenched local elites, who are often unsympathetic to national development policies and insensitive to the needs of poorer groups in rural communities.
11. Decentralization can lead to more *flexible, innovative, and creative administration*.
12. Decentralization of development planning and management functions allows local leaders to *locate services and facilities more effectively within communities*, to integrate isolated or lagging areas into regional economies, and to monitor and evaluate the implementation of development projects more effectively than can be done by central planning agencies.
13. Decentralization can *increase political stability and national unity* by giving groups in different sections of the country the ability to participate more directly in development decisionmaking, thereby increasing their stake in maintaining the political system.
14. By *reducing diseconomies of scale* inherent in the overconcentration of decisionmaking in the national capital, decentralization can increase the number of public goods and services—and the efficiency with which they are delivered—at lower cost.

Source: Cheema and Rondinelli (1983).

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CHAPTER 5

CITIZEN PARTICIPATION AND LOCAL
GOVERNMENT IN LATIN AMERICA*Isabel Licha*

This chapter analyzes public administration at the municipal level and fiscal decentralization as a condition for the sustainability of government action at the subnational level. It discusses local development and the process through which individuals, institutions, and networks formulate best practices in social development policies and the delivery of social services. In Latin America, it is particularly at this level of government that the current processes of strengthening participatory democracy, designing and implementing social development policies, and constructing the public realm are most evident.

The chapter explores participatory practices of local government that have emerged recently within the framework of decentralization in Latin America. Thus, it complements Marulanda's (chapter 1, this volume) contribution on fiscal decentralization. The main challenge faced by local governments is that of promoting participatory processes of public administration that help strengthen local governance through efficient, fair, sustainable, and democratic development policies within the framework of the new rules for fiscal management.

**New Institutional Perspectives on Local
Development**

During the 1990s, international development agencies made a radical shift in their aid strategies toward strengthening local governments. In so doing, they responded to the rise of sociopolitical movements for the

reform and democratization of government in Latin America, and helped propel decentralization and citizen participation in government decisionmaking.

International agencies have advanced significantly in developing participatory approaches for the design and implementation of policies, programs, and projects at the local government level. These agencies have left behind the emphasis on aspects related to development financing as a condition for the sustainability of local governments. This shows recognition of the political dimension of local government capabilities and institutions. The fiscal issue is subsumed by the importance henceforth attributed to the proper exercise of authority.

The new institutional perspective is based chiefly on citizen participation in local administration, depending on how each agency defines citizen participation. Nevertheless, they all converge on the importance of building local democracy. Governments at this level have two major tasks: building networks of actors and creating local institutions. Local government development priorities are primarily strategies and policies aimed at strengthening participatory political processes, which are viewed as absolutely necessary for democratic local governance. Thus, innovations in local development policies, programs, and projects encompass technical and political aspects of government management, and community participation mechanisms are being institutionalized to a significant extent at the local level.

New actors and leaders with accountability to the community itself are emerging in the new institutional realm. New types of association are emerging between the public and private sector, and, most importantly, the community is experiencing new ways of participating in government administration.

Raising the issue of participatory democracy has helped prompt local officials to define objectives and levels of activities in the main areas of service delivery. So as to obtain and maintain the participation and cooperation of the community, local governments have found themselves increasingly pressured to demonstrate their ability to step in and deal with key municipal issues. Likewise, the mechanisms of control over their tasks have been enhanced, and by electing local government authorities, the community has increased the pres-

sure on local authorities to keep the promises and strategies for which they were elected.

Another significant aspect of this process is that local governments cannot by themselves guarantee democratic governance in their respective areas because this is an intergovernmental and interorganizational task. The autonomy and sustainability of local governments rests on a framework of interdependent relations, the intertwining of municipalities with community associations and social movements, nongovernmental organizations (NGOs), private sector organizations, and municipal associations. Associations of mayors in particular have succeeded in decentralizing power by defending local autonomy and making mayors more independent of national party politics.¹

Local Government and Social Management

Citizen participation is regarded as the primary element of innovation in local governance. Since the late 1980s, the region has been debating this issue. The debate has provided a fuller understanding of the processes, logic, and institutions that have helped achieve better levels of fairness and led to the construction of what the Inter-American Institute for Social Development (INDES) has come to call participatory social management.

Social management seeks to foster processes through which citizen participation succeeds in having an impact on democratization of the process of shaping social policies. In that sense, participatory social management is an innovative practice that strengthens the following processes and objectives:

- Establishment of rules and institutions for citizen monitoring and involvement
- Conditions whereby citizens can construct the public realm, a process that takes place through the culture and practice of deliberation, which is a process that promotes individual and group practices for pondering, consulting, debating, and carefully ana-

¹ Meeting of the Consulting Group for the Reconstruction and Transformation of Central America and the Caribbean (1998).

lyzing the consequences of options and considering the points of view set forth

- Processes of deliberation and decisionmaking that enable citizens to influence public policies
- A sense of community and social commitment that is absent from the traditional (technocratic) system for shaping and implementing policies, and citizen participation in the government decisionmaking process.

For all these reasons, in addition to contributing to people's self-development, participatory social management forms citizens by fostering their involvement in the decisions that affect their lives. In short, citizen participation helps build public space democratically on the basis of civic commitment, social equality, solidarity, trust and tolerance, and respect for diversity and difference (Rimmerman 1997). Citizen participation in local governance enhances democracy and social equality by creating channels and mechanisms inscribed in the new political and institutional framework of participatory democracy. The participatory approach requires new domains, actors, institutions, and mechanisms that can generate consensus and articulate group action in a democratic context.

Institutional Innovation in Latin America

Identification of a set of best practices of participatory management of development policy on the local level assumes that they will meet a specific set of requirements. That is, they will need to link financial management with efficiency, transparency, and accountability. Additional criteria for the allocation and handling of fiscal resources include fairness, sustainability, participation, and citizenship building.

During the 1980s, the theme of citizen participation became more prominent in the political agendas of the countries of the region. Urban social movements and some political parties contributed to this theme, demanding democratization and modernization of the state. In almost all the countries, group action resulted in constitutional reforms that established the framework for decentralization and citizen participa-

tion. Thus, the scope of government policies was broadened and strengthened at the territorial and municipal levels, and stimulated the development of new forms of citizen participation.

Since the creation of this new environment, experiences of institutional innovation have increased substantially in Latin America. Civic movements that pressured for new constitutions also pressured for reforms based on territorial decentralization and participatory democracy. They sought to achieve a greater level of citizen participation in local and national development and to consolidate democratization. The main approach was to redesign government in order to make it more democratic and more competent, that is, more committed to law and justice, more decentralized, and more capable of achieving development with equity. Hence, the reforms aimed to change the political-electoral system and pressed for political, administrative, and financial decentralization.

Against this backdrop, “municipalization” has become the cornerstone of decentralization. The municipality is the institution most closely connected to citizens and the fundamental structure for organizing government services. The primary aim of the reforms over the longer haul is to strengthen democratic culture by institutionalizing processes of participation at various levels of government.

Local governments have been strengthened through processes of citizen participation in many countries in the region. Nonetheless, it must be pointed out that citizen participation in municipal policies has run into major obstacles, which explains why community participation has not deepened democracy as much as would be expected. Perhaps the main reason for that lies in the fact that the municipalities, most of which are poor, do not have the necessary resources and capacities to carry out their initiatives.

Two examples of institutionalizing citizen participation in public administration are the Bolivian Law on Popular Participation and social assistance councils in Brazil.

The Bolivian Law on Popular Participation

The Bolivian Law on Popular Participation was enacted in 1994 as part of a process of government reform. The country has undertaken major

changes in the foundation and conception of government, particularly in the approach and practices of municipal administration in the exercise of local democracy, the distribution of fiscal resources, and the redistribution of power to local actors (Ministerio de Desarrollo Humano 1996). Complementing that law is the Law on Administrative Decentralization (1996). Together they make up the main thrusts of the process of state reform and modernization in Bolivia. The two laws aim to strengthen local governments through decentralization, fostering change in the delivery of public services in keeping with a new territory-based logic. The reforms have enabled indigenous and rural populations, which were economically, politically, and socially marginalized, to gain legal recognition and establish better relations with government institutions.

The major institutional reform demonstrates an effort to strengthen local governments. That reform has been centered on putting in place elections for mayors and municipal councils, increasing municipal resources, strengthening municipal autonomy, allowing local governments to collect their own revenues, and institutionalizing the participation of community organizations in government decisionmaking. The following are the main instruments of the popular participation law:

- Twenty percent of central government tax revenues are distributed among municipal governments.
- Where there are indigenous governments, the municipal governments have created indigenous municipal districts and appointed assistant mayors. Consequently, of the 311 existing municipalities, 200 have elected 400 indigenous persons to the municipal councils.
- The new law grants legal standing to around 19,000 grassroots territorial organizations encompassing more than 12,000 rural, indigenous, and peasant organizations, and more than 5,000 urban neighborhood boards.
- Oversight committees represent rural and urban interests in defining and carrying out development actions. They are called to examine the actions of the local government in delivering

services and building local infrastructure, and to participate in municipal development planning exercises. The oversight committees are able to monitor funds allocated to municipal governments for citizen participation.

- Participatory planning is an instrument for discussion and for reaching agreement and cooperation between the municipal government and civil society.

The participation law has enhanced both local governments and citizen organizations at the community level and fostered new relationships between government and civil society. However, the current balance sheet of this process in Bolivia reveals not only the most important achievements, but also the principal problems and challenges of participation (Thévoz 1998).

Achievements

The law sought to have implementation take place uniformly and simultaneously throughout the country. Administrative steps were taken for shaping the municipal governments, and the administrative territorial division was rearranged with the participation of local communities. The government prioritized investments in rural areas and increased investments that were controlled at the regional and municipal levels. Citizen organizations made extensive use of the provisions set forth in the law.

Problems and Challenges

Municipalities and communities have not responded uniformly. Analysis of the effects of this law at the urban and rural municipal levels reveals that behavior has varied around a set of interrelated factors, namely the following:

- The effectiveness of the law depends on the municipal actors. Citizen participation is set within preexisting local dynamics that are characterized by potentially conflictive or cooperative rela-

tions between actors, and these relations affect the quality of the decisions made.

- Municipal ability to deal with conflicts is crucial for taking advantage of the law. Where the dynamics are predominantly conflictive, poor relations are likely to get worse. Relations characterized by the dynamics of reaching agreement tend to foster the creative capacity of the actors to generate consensus responses to problems.
- Citizen participation requires significant levels of mobilization and organization of communities in order to demand that the law be applied and that the commitments of local governments to the population be fulfilled.

The institutionalization of citizen participation faces the following problems and challenges:

- Inasmuch as the process is aimed at transforming relationships between local governments and communities, it requires rules and conditions that favor reaching agreement among actors.
- Success entails developing a sociocultural and sociopolitical process that transforms the prevailing authoritarian culture into a democratic culture by spreading the benefits and best practices of participation and the advances achieved with the development of deliberative processes in public decisionmaking.

Social Assistance Councils in Brazil

In the 1980s, Brazil and many other countries in the region created new public spaces to strengthen democratic relationships between the government and civil society. These changes took firm hold in the 1990s, as an outgrowth of the struggles for democratization and the social crisis that deepened during that period (Raichelis 1998). Brazil encouraged citizen participation by transferring power from the government to organized civil society by setting up councils. The councils were the experimental design of a new institutional arrangement to increase

transparency, produce reliable and publicly available information for guiding government deliberations on problems and policies, establish greater social control over government decisions, democratize government decisions, and develop a culture of the public realm based on open social and political involvement.

In Brazil, as social conditions worsened and the authoritarian character of the state was increasingly questioned, the citizens' struggle to democratize the government and society intensified and was reflected in an impassioned debate on social policies. The upshot was a new constitution in 1988, which defined the rules guiding relations between government and society to create a new democratic institutional arrangement. The constitution established councils for working out social policies, and they are regarded as one of the main democratic innovations in that domain.

The councils for managing social policies operate at three levels of government, allowing for the active participation of organized civil society in government decisions and the exercise of social control over government actions. The councils manage policies in the areas of health, social assistance, and child and juvenile rights. An equal number of representatives from civil society and the government make up the councils, and their main function is to deliberate on the policies in each sector and to monitor their execution. It is precisely this deliberative function that demonstrates the councils' influence on the democratization of social policies. The councils transform traditional state practices based on authoritarianism, patronage, and personal appropriation of public assets.

The most important aspects of the councils as experiences of citizen participation in social policy are the following:

- New relationships between citizens and government
- Participation that influences government decisionmaking
- Changes in the government and society
- More democratic public realm
- Many social subjects acting collectively, primarily in the municipal domain
- Broader and stronger local power.

The experience of the councils has unleashed a broad process of social mobilization involving citizen movements, community associations, NGOs, business organizations, and welfare and philanthropic groups, thereby creating new space for debate and interconnection around social policies and programs.

The development of the councils has brought major challenges for citizens and the government. First, the government has to open up to participation by changing its organizational culture and institutional practice. A second challenge lies in the need to articulate the demands and interests of civil society, generating networks and encouraging forums and public debates. A third challenge has to do with the fact that increasing citizen participation in political decisions makes it necessary to have a set of (analytical and proposal-making) capabilities and to keep developing them, just as it demands ethical attitudes and values consonant with the process of shaping and managing public policies. Finally, the councils should be accountable to society and hence they must open up and promote broad debate.

Preliminary Conclusions

In the new context of decentralization, local governments increasingly have the enormous responsibility of contributing significantly to building equitable and democratic societies. In order to develop and take firm hold, local governments must generate new knowledge, skills, and abilities in the following areas:

- Management of processes for reaching agreement, managing conflicts, and bringing about consensus
- Encouragement and development of community organizations
- Cultural change and learning at the organizational level
- Management of networks of government and social actors
- Handling and coordination of relations with the community
- Handling and coordination of participatory spaces: assemblies, forums, and workshops

- Strategic planning tools
- Tools for management and participatory evaluation of programs and projects.

Management of social policies, programs, and projects at the local level is a participatory process full of complexities, uncertainty, and conflicts. But it is a road that must be taken in order to achieve equity and quality in the development of local democracies.

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PART II

CITIZEN PARTICIPATION IN ASIA

CHAPTER 6

CITIZEN PARTICIPATION
IN PENANG, MALAYSIA*Tan Pek Leng*

Participatory democracy is not part of the natural order of things in Malaysia, nor is fiscal decentralization anywhere in evidence. However, citizen participation in municipal governance is being experimented with in isolated locations. Penang can be regarded as one of the front-runners in this respect in Malaysia, but the process is in its infancy and progress has been intermittent in comparison with global best practices.

Nonetheless, lessons can be learned from failings, and small beginnings are better than none. Penang embarked on this journey of citizen participation with the Sustainable Penang Initiative (SPI), which sought to engage trisector partnership in identifying and monitoring community indicators of sustainable development. Through a series of roundtable discussions, representatives of the public, private, and community sectors identified and prioritized burning issues that needed urgent resolution. The roundtables generated a tremendous amount of energy and fervor because it was the first time that such a vast array of community groups had gathered together with public officials, political representatives, and private sector delegates to address head-on the threats to Penang's sustainability.

The tangible outputs of the SPI include an agreed set of 40 sustainable development indicators for Penang, a *Penang People's Report* documenting these indicators, a model consultative process that has been replicated, and three new advocacy groups. But the more elusive, intangible outputs—such as increased acceptance of consultation and part-

nership, relationship building between community-based groups and the public sector, and the greater currency of concepts like sustainability and good governance—are no less important.

These intangible outputs have spawned a number of other initiatives and processes, including the People-Friendly Penang Initiative, the Penang Local Government Consultative Forum, and the introduction of pre-budget dialogues by one of the two municipal councils in the state. Good intentions motivated these initiatives, but effective implementation is never as easily achieved. Obstacles have thwarted efforts and bureaucratic officialdom has sometimes dampened spirits, but the committed continue to soldier on and citizens continue to devise avenues for participation.

Penang's journey to participatory democracy has only just begun. There have been some milestones, but also twists and turns. However, the signs indicate that enough of the citizens are prepared to take the road less traveled, and they will make a difference.

Small Steps

Some might argue that greater centralization of power has been occurring in Malaysia, in both the political and the fiscal realms. The country is a federal state with three tiers of government: central (the federal government), state, and local. There are 13 states and 144 local authorities, of which 7 are city councils, 33 town councils, and 104 district councils. Only the federal and state governments are elected, local council elections having been abolished in the 1970s. Despite periodic agitation for the restoration of local elections, this option has not been entertained by the federal government. The same coalition of political parties has ruled the country since independence in 1957, with a two-thirds majority that allows amendment of the constitution at will. Hence, although it is a representative democracy in practice, there is little room for maneuver by the opposition. The present prime minister has been at the helm of the government for the past 21 years, and his consolidation of power despite repeated challenges has meant continued diminution of the space for dissent.

Central control of fiscal planning and allocations also remains strong. The federal government has jurisdiction over all spheres

except land and water resources. Hence, nearly all taxes collected go to the federal government. The state governments collect revenue only from land tax (quit rent) and water rates. Each state is also allocated a per capita grant by the federal government and can apply to the federal government for budgets for development projects. The municipal councils draw their revenue from property tax (assessment), entertainment tax, licensing, and parking charges. They are also entitled to development budgets from the federal government. As an indication of the centralized budget control of the development expenditure in Penang in 1996–2000, 75 percent of the budget was from federal allocations, 13 percent from state funding, and 12 percent from local funds.

Malaysia is experimenting with citizen participation in isolated locations. The government is sponsoring a number of initiatives jointly with international organizations, for example, the Healthy Cities and Local Agenda 21 (LA21) pilot projects. In these instances, the consultative process has been set apace but has yet to become integral to the institutional structure of the municipality. But these internationally sponsored programs do produce results. The local authorities recently received directives from the federal ministry for local government that they were to implement LA21 by 2003. However, the majority of the municipalities have little knowledge of what this means and capacity building will be crucial for its success. It will be well worth observing how the LA21 initiative plays out—whether it will institutionalize and internalize the participative process within the municipal structure and whether it will lead to the extension of participatory democracy to the higher levels of government.

Penang possesses unique assets that have made possible a greater propensity for citizen participation. A historical legacy of the early introduction of English education by the colonial government is the existence of a westernized middle class imbued with liberal democratic ideas and values. A direct consequence of this has been the proliferation of nongovernmental organizations (NGOs) and other civil society organizations, quite unmatched by any other cities or towns in the country with the exception of the federal capital, Kuala Lumpur, which in recent years has also become a hub of civic activities.

Civil society organizations are engaged in issues that include consumer rights, heritage, the environment, women's concerns, civil liberties, and squatter evictions, among others. For example, the following issues have grabbed the headlines over the years:

- In the mid-1970s, industrial wastewater discharged into the Juru River affected the livelihoods of the fishermen by reducing the fish population and the market for the available fish, which were tainted by oil and industrial solvents. A massive protest movement, led by the Consumers Association of Penang, was launched and the fishermen organized a cooperative to undertake the cultivation of shellfish.
- In the early 1990s, plans to develop Penang Hill, the only extensive forested area and catchment on Penang Island, into a theme park for tourism elicited widespread protest that was galvanized into a movement named Friends of Penang Hill, which succeeded in persuading the Penang state government to abandon the development plans.
- Over the years, groups have campaigned for the abolition of the Internal Security Act, which allows detention without trial. This draconian legislation has been used repeatedly to suppress political dissent.
- A coalition of women's organizations has made significant gains in securing protective legislation for women, such as the Domestic Violence Act and regulations against sexual harassment at the workplace.

Hence, civic engagement is not new, but in the past it often took the form of NGOs lobbying the government on issues that required resolution, and sometimes resorting to confrontation to put their views across. There was no established channel for consultation.

Fortunately, the global movement toward good governance has not fallen entirely on deaf ears in Penang, and there is now a greater acceptance of the participatory process by those in authority. To use one of the many typologies of participation that have been developed, Penang can be considered at the stage of consultation participation (Plummer

2000).¹ The state government has established a number of forums and councils through which civil society representatives can communicate their views on pertinent development issues.² However, information, decisionmaking, and especially budgetary allocation are still controlled by the government. But the government, in collaboration with civil society groups or individual volunteers, has adopted and implemented a number of programs and projects proposed by the councils. That the state has arrived at this junction is the result of a combination of changing mindsets from the top, civic pressure from the bottom, and catalytic external influences.

The Start of the Journey

The Sustainable Penang Initiative

Although the participatory process had been set in motion earlier in various ways, the SPI brought the discourse of citizen participation into prominence in 1997. The project came about largely because the citizens of Penang had become increasingly concerned that their relatively high quality of life was being threatened by rapid growth and development trends. Penang had enjoyed relative prosperity and experienced high annual growth rates in the years preceding the economic crisis of 1997–99. However, rapid urbanization and intense development had caused problems like the collapse of hills, floods, traffic jams, sacrificed heritage, social ills, and many other side effects and tensions of development.

It had become widely recognized that the planning mechanism in Penang was largely bureaucratic and strongly biased toward the government and business sectors. The link with civil society was significantly weaker. Citizens felt that they were disempowered by a top-down development planning process that did not allow for their direct input. This also led to a model of development that was overly inclined toward economic advancement to the exclusion of other considerations. The SPI was conceived as a means to put some balance back into the development process; to ensure that it was ecologically, socially,

¹ See Appendix 6.1 for more on Plummer's typology.

² See Appendix 6.2 for a list of the councils.

and culturally sound; and to promote popular participation involving civil society, government, and the private sector.

The SPI was initiated at an opportune time because the state government was making preparations to formulate its Strategic Development Plan for 2001–2010. The alternative indicators and more holistic approach developed by the SPI could be adopted by the formulators of the new plan to make it more comprehensive and integrated (see Table 6.1).

Moreover, the Socio-Economic and Environmental Research Institute (SERI) had just been established to undertake policy research for the state, and had been appointed to undertake the preparation of the Strategic Development Plan. Hence, SERI was well placed to integrate the results of the SPI with the formulation of the new development plan for Penang. SERI regarded the SPI as an opportunity to pioneer the development of the first systematic and popular approach to planning and monitoring of sustainable development in a Malaysian state. In pursuit of this aim, SERI sought the financial support of the Institute of Governance to implement the SPI under the auspices of the Canada-ASEAN Governance Innovation Network Program.

The objectives of the SPI were as follows:

- To develop a series of indicators for gauging sustainable development
- To develop the model for a holistic and sustainable development plan that takes into consideration social, cultural, and environmental dimensions in addition to the conventional economic ones
- To establish a mechanism for public input and consensus building based on partnership between government, the business sector, and civil society
- To channel the output of the consensus process to relevant authorities in order to influence development planning and policy formulation
- To educate the public about sustainable development and how to achieve it.

Table 6.1. Selected Socioeconomic Indicators for Penang State and Malaysia, 2000

Indicator	Penang State	Malaysia
Gini coefficient	0.4131	0.443
Incidence of poverty (percent)	2.7	7.5
Unemployment rate (percent)	2.0	3.1
Telephones per 1,000 population	320	199
Life expectancy at birth (years)		
Male	69.8 ^a	70.2
Female	74.8 ^a	75.0
Infant mortality rate (percent)	5.67	7.9
Preschool participation rate (percent)	94.36	52.7
Secondary school participation rate (percent)	66.2	58.9
Housing units with piped water (percent)	99.4	92
Housing units with electricity (percent)	99.7	98.3

^a Data are for 1998.
Source: SERI (2001).

These objectives were to be achieved through roundtables to seek the views of a wide spectrum of Penang society on the five themes of the SPI:

- Ecological balance
- Social justice
- Economic productivity
- Cultural vibrancy
- Popular participation.

Process

Roundtables were held on each of the five thrusts of the SPI. “The generic program for most roundtables began with three plenary speakers addressing the roundtable theme and introducing pertinent issues at the international, national and local levels respectively. A panel discussion further helped to crystallize the key concerns before the gathered participants dispersed into small groups for more interactive sessions” (Gonzalez and others 2000, p. 134).

In these facilitated, interactive sessions, participants enunciated their visions and identified burning issues related to the roundtable

theme. A participatory approach was fostered and “workshop techniques such as mental mapping, voting through green dots, planting power trees and visioning through fish bone diagrams were used to better articulate and share ideas, build consensus, team spirit and common vision.” (SERI 1999, p. 7) The process was fairly informal and, on the whole, succeeded in eliciting vibrant and free-flowing participation with no evident gender bias or consciousness of hierarchy.

At the first roundtable, which was on ecological balance, the participants formed break-out groups to discuss issues pertaining to air pollution, coastal resources, hill forests and ecosystems, transport, urban development, waste, and water. The break-out groups brainstormed and prioritized issues and identified indicators and sources of data. The results of the discussions were then presented at the plenary session, where comments were invited. “The participants were asked to discuss approaches and solutions, and identify champions who would adopt the indicators for further monitoring and campaigning.” (Khoo 2001, p. 15)³ This roundtable “stirred up much enthusiasm, partly due to the fact that it was the first time Penang people were introduced to participatory-type workshops. Academics, scientists and engineers were initially skeptical about having to draw, pin things up on the board, and role play, but in the end all got into the swing of things and enjoyed themselves.” (Khoo 2001, p. 15) As a testimony of the enthusiasm generated at this inaugural roundtable, two action groups—Water Watch Penang (WWP) and Sustainable Transport Environment Penang (STEP)—emerged spontaneously.

The second roundtable focused on social justice concerns such as equity, caring, and sharing. The participants discussed issues clustered around the themes of health care, workers, disadvantaged people (aged, disabled, and displaced persons), family, social services, governance and civil society, and housing and public amenities. Participants with disabilities formed a group to champion disabled access to public facilities. Thus, a pioneering self-advocacy network of organizations for people with disabilities was born at the social justice roundtable. This network later adopted the name Sustainable Independent Living and Access (SILA).

At the third roundtable, which was on economic productivity, the participants talked about monitoring finance and capital, research and

³ Khoo Salma Nasution was the coordinator of the SPI.

development, human resource development, the environment, infrastructure and amenities, employment, land and natural resources, and governance. The facilitator took the participants through a five-stage exercise using a fish bone diagram. The final result was a list of fish bone headings for indicators of economic productivity and sustainability and their champions.

The fourth roundtable focused on cultural vibrancy. "In view of the dearth of cultural dialogue previously, two days were insufficient for the cultural vibrancy roundtable to come to terms with the many important issues. The question of culture in a multi-cultural society is a complex one, and the language limitation of the English-medium roundtable was noted. The participants...dealt with issues such as cultural diversity, built heritage, street culture and NGO involvement. The Arts group undertook a Survey of Arts Venues and compiled a cultural directory" (Khoo 2001, p. 16).

The fifth roundtable, on popular participation, discussed voter participation; the draconian Internal Security Act, which allows detention without trial; participation in structure and local plans; and complaints about the environment.

Each of the five roundtables brought together 50–80 people, and altogether about 500 participants from diverse backgrounds spent more than 4,000 people-hours at the roundtables, follow-up meetings, and workshops (SERI 1999). "After each roundtable, a Roundtable Report was produced. This report documented the proceedings of the roundtable in sufficient detail that it could be used as minutes for follow-up action, or as a guide for anyone who wanted to replicate the processes" (Gonzalez and others 2000, p. 130).

Given the social and linguistic milieu of development concerns and NGO activism in Penang, the representation at roundtables was not unexpected; that is, it was largely middle-class and English-educated people. In particular, it was heavily weighted toward academics, policy researchers and analysts, and NGO representatives.

To redress this situation, one roundtable each was organized in the Malay and Chinese languages. The Malay language roundtable saw a larger turnout of junior level government employees. Invitations for the Chinese roundtable went out to a broad cross section of Chinese civil society, including clan associations, guilds, business associations, and reli-

gious associations. For both the Malay and the Chinese roundtables, the response rate to the invitations was low, 13 and 17 percent, respectively (Chan and others 1999, p. 7). This points to the need to engage those communities more frequently and regularly in discussions of this nature.

Noticeably absent from most of the roundtables were senior members of the state government. With the exceptions of the inaugural roundtable (ecological sustainability) and the roundtable on economic productivity, government departments and the business sector had a minimal, low-key presence. It was obvious from the government's limited attendance at the roundtables that continued efforts to promote tripartite dialogue are necessary for it to become accepted as a norm of governance.

The roundtables culminated in the Penang People's Forum, a one-day forum to communicate the principal outputs of the roundtables to senior leaders of the state government, business sector, NGOs, and general public. The Penang People's Forum featured a PowerPoint presentation about the SPI followed by a session on 40 issues and indicators affecting Penang's sustainability. An accompanying eight-page brochure summarizing the 40 issues and indicators was distributed. Recapitulating the call made during the launching of the SPI almost two years earlier, five schoolchildren voiced their vision of a sustainable Penang and handed over a mock report card to the Penang chief minister. The SPI process and the assessment based on monitoring the 40 issues and indicators were documented in the *Penang People's Report 1999*, which has been widely disseminated. The *Penang People's Report* was compiled with the following objectives:

- Creating public awareness and providing a focal point for discussions about sustainable development and raising these issues to a higher level of public debate
- Providing an educational tool for teachers, private and public decisionmakers, and community organizations
- Serving as a handy reference to help journalists keep tabs on important issues
- Monitoring issues, actions, and policies that impact on the sustainability and quality of life in Penang as well as providing some benchmarks as the basis for future monitoring

- Demonstrating links among the five areas of concern: the environment, community, economy, culture, and participation
- Soliciting ideas, recommendations, and feedback that could become inputs into the Penang Strategic Development Plan for the next decade.

Results

One of the most notable achievements of the SPI was the increasing conceptual acceptance of popular participation in governance as a keystone of democracy by the community and the Penang state government alike. The SPI has been able to tap public concern over some of the development trends that have resulted in environmental deterioration and channeled such concern through the roundtable process into positive dialogue with various levels of government. The SPI has provided a forum for the discussion of diverse issues faced by various groups in the community. It has facilitated the meeting of like-minded people and groups and resulted in the formation of networks for joint activities.

The SPI generated considerable interest within Penang and created awareness regarding the issues of sustainability among the public and the authorities. Hence, issues of sustainable development are now part of the development planning agenda of the state. Unfortunately, such policy pronouncements have not often made the transition from rhetoric to reality.

Nonetheless, the SPI project management has made noteworthy progress in reaching out to key policymakers in the state. In December 1998, members of the SPI steering committee made a presentation of the SPI to the top leadership of the state government, including the chief minister, the state secretary, and the state financial officer. This was followed up with a second briefing to the state cabinet and key department heads in January 1999.

In April 1999, the SPI steering committee member Dr. Leong Yueh Kwong and other SPI/SERI staff made effective presentations to the assembled state cabinet members on the urgency of mapping out a sustainable development strategy for the state of Penang. This was the first systematic exposure to issues of sustainable development for many of

the policymakers, and it generated lively discussion and acknowledgement of the urgency of these matters.

A tangible result of these dialogues with the government leadership was the incorporation of sustainable development as the over-arching framework under which the Second Penang Strategic Plan was formulated. Roundtables were held to solicit views and suggestions for the strategies to promote ecological balance, economic competitiveness, cultural vibrancy, and social justice. The findings of the social justice roundtable were incorporated into the caring and sharing chapter of the plan.

An additional participatory mechanism has been incorporated into the state government machinery in the form of the Penang Local Government Consultative Forum, which seeks to engender exchange between civil society, the private sector, and the local authorities. SERI has been appointed the secretariat of the Forum based on its successful facilitation of public participation in the SPI.

The Penang state government has also committed itself to form a state council for sustainable development and to create a center for sustainable development. The results of the SPI would provide valuable inputs into the council and the center. A quality of life index was formulated and documented for Penang for the first time in 2001, and a number of the SPI indicators have been included in the index. A roundtable was also held to gather feedback on the indicators. The *Penang Quality of Life Report* (SERI 2001), which will be published every two years, can be regarded as the sequel to the *Penang People's Report*.

The experience of the SPI has also been shared in a number of forums, most significantly three of the four pilot cities in Malaysia that are undertaking the Local Agenda 21 program. SERI has formed a network with these cities to support each other in the implementation of Local Agenda 21 and in promoting public participation. The SPI/SERI team has been invited to numerous forums to share their experiences and methodology with similar interest groups. These achievements won the honor of the SPI being selected one of the Ambassador Projects for the Stockholm Partnership for Sustainable Cities in 2002 by the City of Stockholm to commemorate the 30th anniversary of the United Nations Conference on the Environment.

The SPI has suffered various limitations and failings, not least being the inability to sustain, over the long haul, the high level of enthusiasm

and eagerness generated during the roundtables. Although participants have been willing to attend the roundtables, engage in discussions, formulate visions, and identify indicators, not many would commit themselves to long-term monitoring of the indicators.

However, a significant impact of the SPI is that it has sparked the creation of a number of new networks. Growing out of the SPI, several groups have now formed their own identities and undertaken their own activities, as explained in the following subsections.

Sustainable Independent Living and Access

The community of people with disabilities was well represented at most of the roundtables. It was among the first clusters to emerge, specifically to campaign for disabled access to public facilities. This coalition of pre-existing groups and individuals with disabilities adopted the acronym SILA and took on as its first task the improvement of disabled access to public areas, such as the Penang Botanic Gardens, KOMTAR (which houses most of the government departments and is also a major shopping center), and the vicinity of the St. Nicholas Home for the Blind.

Among SILA's early successes was the MPPP's decision to retrofit the drain covers at the Botanical Gardens to facilitate wheelchair access within the grounds, and a commitment from the president of the MPPP to improve disabled access to priority public areas within the city.⁴ The United Nations Economic and Social Commission for Asia and the Pacific selected SILA and SERI to conduct a training workshop to promote nonhandicapping environments in Malaysia.

SILA has initiated the process of greater communication and cooperation across disabilities and availed member organizations with training opportunities. It continues to work in close collaboration with the MPPP to improve disabled access on the island.

⁴ MPPP is the acronym for Majlis Perbandaran Pulau Pinang (Penang Island Municipal Council). The Seberang Perai Municipal Council has jurisdiction over the portion of the state that is situated on the mainland of peninsular Malaysia. See Appendix 6.3 for a map of Penang.

Sustainable Transport Environment Penang

STEP was formed in response to the worsening traffic and transport situation in Penang. It held its inaugural public meeting in August 1998 on sustainable transport options for Penang. This has been followed by other activities, including the following:

- The Ideal Bus Stop Project, in which a group of student volunteers from Australia worked with the Penang Heritage Trust and STEP to come up with a conceptual design for an ideal bus stop for Penang
- Cycling Day, held in October 1999 in conjunction with the launching of the first bicycle path in Penang
- The pro tem chairperson of STEP co-chairing the State Transport Management Committee.

Water Watch Penang

Water Watch Penang is a voluntary citizens' organization. It was set up to promote awareness of water monitoring, conservation, and protection of water resources, with the ultimate goal of a water-saving society.

An Adopt a River Campaign was launched in May 1999 to encourage schools to adopt and monitor a river. The campaign was aimed at educating the young to love and monitor the health of rivers. Students from a secondary school adopted Sungei Air Terjun (Waterfall River), a tributary of Sungei Pinang (Penang River), and were briefed on the importance of water conservation and taught to test the water quality.

Water Watch Penang lays great stress on education and raising awareness through publishing press articles, pamphlets, and books; organizing field trips, educational camps, and seminars; and liaising with other societies dedicated to similar aims and objectives.

Prevailing Concepts and Values

Some people claim that *sustainability* is now a buzzword in the United States and that most people talk about it without realizing that it

means consuming less. The SPI had the same problem of getting people to think long term and be more committed to sustainability. Many think that sustainability, ecological sustainability, and sustainable development mean livability, environmental quality, and sustained economic growth. The SPI is part of an educational process about sustainability in Penang.

No Funding for Citizens

Without funding for work on indicators and projects, the SPI has had difficulty sustaining participation.⁵ Although participants are usually enthusiastic after the roundtables, their enthusiasm tends to diminish when their proposals cannot be followed with further research or action. A suggestion would be to have some funding for citizens to work together to develop the indicators. Minimal funding—such as paying for retrieval of data, expenses for meetings, and community surveys—would go a long way toward mobilizing a few groups.

Representation

Due to Penang's multilingual, multiethnic, and multicultural context, the SPI had difficulty getting equitable representation in one go. Due to the size of the roundtables and the fact that most were conducted in English, there was greater participation of English-speaking experts and activists, mainly from middle-class backgrounds, rather than non-English-speaking grassroots community leaders. Representation from business and industry was noticeably weak, whereas NGOs, policy researchers, and academia were probably overrepresented.

Representation was felt to be extremely good at the ecological sustainability roundtable. However, at the social justice roundtable, which was hastily prepared, the fact that poverty was not felt to be a pressing issue indicated that low-income groups were not repre-

⁵ The SPI could not avoid a common pitfall of externally funded pilot projects, that it could not be sustained fully after the funding period ended. Fortunately, SERI has continued it, albeit in other forms and under other auspices. Additional parties have also contributed to support this endeavor.

sented. At the economic productivity roundtable, industry professionals, policy researchers, and analysts predominated; business leaders and small traders were visibly underrepresented. Language and cultural limitations were felt during the cultural vibrancy roundtable, when issues of cultural diversity and identity were discussed. At the popular participation roundtable, again, representation from workers' groups and low-income groups was weak. Although there were roundtables in Malay and Chinese (Mandarin), they were small and not sufficiently representative.

The SPI design had certain biases, which the project team did not fully understand or make explicit. In hindsight, these biases were probably caused by the following:

- The orientation and cultural background of the project team
- The tendency to select representatives from organized groups, leaving many important low-income constituencies unorganized (for example, the tenants affected by the repeal of rent control were not sufficiently organized to take advantage of the SPI until the pilot phase was over⁶)
- Language and language orientation in a linguistically fragmented Malaysian society
- The context of a divided Penang.⁷

The key point is that the SPI was the beginning of a process. It will take some time for the state's proclamations about adopting sustainable development as a framework to guide policy formulation to be put in practice and institutionalized. The concepts and principles of sustainability will

⁶ About 12,000 units of shop houses in the inner city of George Town had been placed under rent control due to the housing crisis immediately after World War II, in effect offering a large stock of cheap housing for the residents. The Repeal of the Rent Control Act in 2000 caused significant rent hikes, evictions, and tremendous dislocation for the residents. The inner city itself has suffered a hollowing out as a result.

⁷ Khoo (2001) categorizes the society of Penang into the urban elite, poor communities, rural communities, and the corporate industrial community to underline the orientations and interests that each of these groups represents. This broad categorization does not reflect the multiple identities and overlapping alignments that communities often exhibit.

have to permeate many layers of Penang society in what will invariably be a protracted process. However, it seems that the SPI made a good effort and gave Penang a head start on the journey to participatory democracy.

The Journey Continues

The process begun by the SPI has been sustained but not necessarily in its original form. SILA, STEP, and Water Watch Penang have developed into independent, self-sustaining entities with their own agendas and programs. In these cases, the SPI acted as a catalyst for community-based initiatives that answered well-founded needs. Various other programs have used the participatory process and the roundtable methodology developed and popularized through the SPI.

The People-Friendly Penang Initiative

The SPI launched a new initiative to make Penang a people-friendly city. Partly due to recognition gained through the SPI, Penang was chosen as a “Lead City” by the United Nations Development Programme (UNDP) in order to promote good governance in the Southeast Asia region. This initiative was intended to take state-society partnership to a higher level because the MPPP was involved as a full partner from the start. This project would not only share Penang’s experience as an example of good governance through the SPI, but also initiate a pilot project to make Penang a people-friendly city that is barrier-free and accessible for children, people with disabilities, and the elderly.

Through consultation with the stakeholder groups—children, people with disabilities, and the elderly—demonstration projects would be implemented to showcase how physical environments could be made barrier-free and accessible to the three groups concerned. The contribution of the MPPP in cash and in kind to this effort would demonstrate its readiness to engage with the people. It would also demonstrate acceptance of popular participation in governance in Penang. The rest of the funding came from the Urban Governance Initiative of the UNDP.

Beginning in February 2000, after the launch of the People-Friendly Penang Initiative (PFP), workshops and consultations were organized

with the target groups, local communities, representatives from citizens' organizations, relevant government agencies, industry, and businesses, as well as individuals with long-standing involvement in the issues concerned. A roundtable on good governance and one for each of the target groups were organized. The roundtables were aimed at deciding on a demonstration project to make Penang people-friendly for the respective target groups.

The Roundtables

A total of 118 participants attended the first roundtable, which focused on promoting good governance. The participants comprised heads of departments of the Penang Island and Seberang Perai municipal councils, local government councilors, and civil society representatives. NGOs, businesses, and private citizens were also invited to participate in the roundtable. These included organizations of women's groups, people with disabilities, child welfare groups, and businesses such as the various ethnic chambers of commerce. Significantly, it was at this roundtable that the state cabinet member for local government announced the establishment of the Penang Local Government Consultative Forum, with the expressed purpose of promoting discussion and exchange between civil society and the municipalities in order to seek more effective solutions to urban management issues.

At the roundtable for people with disabilities, participants consisted of representatives of member organizations of SILA, various departments of the MPPP, the management of KOMTAR⁸, the public building that is to be the demonstration site, and the Social Welfare Department. The President of the MPPP was also present at the roundtable. Representatives from the disability groups presented their proposals for improved access in KOMTAR and its surroundings to the MPPP.

The roundtable on making Penang a friendly city for senior citizens brought together participants representing senior citizens' groups, the private sector, local authorities, NGOs, and other interested

⁸ KOMTAR is the acronym for Kompleks Tunku Abdul Rahman, a 65-story block that houses practically all the state government departments and the Penang Island Municipal Council in addition to being a major shopping center.

individuals. As a result of this workshop, a core group of senior citizens was formed to look in greater depth at the implementation of the demonstration project.

The children's roundtable was easily the most vibrant and innovative. The children and youths were from primary and secondary schools, orphanages, and youth groups. The program for the roundtable was divided into two sessions: a session for the children to brainstorm ideas on a suitable demonstration project and another for the adults. A number of the adults were so impressed by the ideas and presentations of the children that they volunteered to form the core group to oversee implementation of the children's demonstration project.

As a separate component of the PFP, a regional workshop on participatory urban governance was held in September 2001, bringing together participants from South and Southeast Asia as well as the UNDP, CityNet, the International Union of Local Authorities, the Local Government Training and Research Institute in Asia and the Pacific, and a number of other institutions to exchange experiences and strategies for promoting more participative forms of urban governance. This workshop also benefited from the support of the United Nations Center for Human Settlements.

Results and Evaluation

From the start, the PFP ran into bureaucratic red tape. The central government agency charged with vetting external aid programs did not approve the application from MPPP to be involved in the project because "proper procedures had not been followed." In addition, the mayor who had originally signed the memorandum of understanding to undertake the project was no longer in office. Fortunately, he had actually taken up a higher office as the state executive councilor for local government and could still exert his influence to keep the project going. However, much momentum was lost in trying to disentangle this bureaucratic mire. Although the new mayor pledged to continue supporting the project, the sense of ownership from MPPP had been lost. Much depended on the commitment of the individual officers concerned with specific aspects of the project.

The group of people with disabilities got off to a very good start immediately and has been able to maintain a steady pace of progress because of the commitment of SILA and the leadership of the director of the Buildings Department of MPPP. A number of access projects have been undertaken. A technical training workshop for the promotion of nonhandicapping environments was jointly organized by MPPP and SERI to help the participants understand the need to design for people with disabilities and elderly persons. MPPP has started strict enforcement of the Uniform Building By-Laws, which make it mandatory for new buildings to include disabled access in their design. SERI has published a guidebook for people with disabilities, which provides a directory of services available in the state. Although frustrations still abound and facilities are still limited, the progress made has been encouraging and disability issues have gained greater recognition in Penang.

Immediately after the roundtable, the core group for the senior citizens began meeting fortnightly to plan the establishment of the Senior Citizens' Helpline, which was aimed at assisting senior citizens from the lower income group who do not have anyone to care for them in an emergency. The Helpline provides referrals for health, emergency, and community services; transport for emergency and health needs; and home visits and home care.

The Helpline began operation about nine months after the roundtable, amidst much enthusiasm as measured by press coverage and the members of the public who volunteered to help run the service. Public talks on health issues related to aging were held and proved to be popular. The core group decided to concentrate on providing health checks and health talks for older persons at various low-cost housing schemes. The program will be conducted in collaboration with the Penang State Health Department.

The earnestness and zeal demonstrated by the children and youths at their roundtable compelled the core group to work hard at realizing at least some of their aspirations. The coordinator of the roundtable launched a program, Anak-anak Kota (Children of the Inner City), "to empower young people to explore their cultural and historical identities and understand how their identities are rooted in a living and changing heritage" (AAK project proposal 2001). The core group decided that they

would adopt Anak-anak Kota (AAK) as its demonstration project and provide it with financial and other forms of support.

AAK held its first showcase at the end of 2001 and all who attended were suitably impressed by the high quality and creativity of the dances, skits, shadow play, and exhibition. The 2002 exhibition was taken on a road show around the schools in Penang. The national heritage board was so impressed that it has sought to replicate the program in Malaysia's other heritage city, Malacca. This program also reflects the tripartite partnership with the state government—through the Penang Educational Consultative Council—and the private sector providing financial support, the Penang Heritage Trust rendering time and expertise, and many artists giving time and energy “to help children understand who they are and their role in the development of culture and heritage” (AAK project proposal 2001).

With the exception of the group of people with disabilities, MPPP's contribution to the PFP has fallen short of its original commitment. The vibrant civil society of Penang has come to the rescue and the projects are still alive, if not all thriving. Recommendations from the PFP roundtables have also been incorporated as strategies and action plans of the Second Penang Strategic Development Plan.

Penang Local Government Consultative Forum

The Penang Local Government Consultative Forum was set up in recognition of the potential benefits of community feedback and participation in urban governance. Its terms of reference were the following:

- To develop a framework of good governance for the local authorities in Penang
- To identify, deliberate on, and prioritize issues related to local government
- To provide expert input that can form the basis for policy formulation on local government
- To recommend actions, programs, and projects that can be undertaken by the local authorities to resolve problems associated with urban management and governance

- To be the focal point of community-based action for dealing with issues confronting particular localities.

Members of the Forum were drawn from relevant NGOs and professional bodies as well as prominent residents of Penang with experience and expertise in local government and related issues. Participation in the Forum is voluntary and nonremunerative. SERI was appointed as the secretariat of the Forum because it successfully played the role of a bridge between civil society and the government in previous programs, especially the SPI.

The establishment of the Forum was well received, judging from the full attendance and active participation by civil society representatives at the first meeting. Roundtable discussions were held to identify the most pressing issues of urban governance, and, based on the priorities established, five working groups were formed in the areas of governance, awareness and public education, housing, the environment, and urban services. The brief for each of the working groups was to develop an action plan for dealing with the most urgent concerns in its respective area.

The State Local Government Committee commissioned SERI to undertake a Citizens' Survey on Local Government as part of the consultative and participatory process. The survey was conducted to determine what the Penang populace perceived as the most critical service issues that needed to be addressed by the local authorities. SERI developed a questionnaire in four languages, interviewed 6,000 residents of Penang, and analyzed their responses. The findings of the survey also served as inputs for the working groups in drafting their action plans.

After a series of brainstorming meetings, the working groups presented their proposals and recommendations to the Forum. Unfortunately, there was disagreement on how to go forward, and the Forum appeared to have reached an impasse. To the credit of all, the parties involved have decided to change the modus operandi of the Forum and give it another try. The key members of the working groups met and decided to focus their efforts on a common issue, that of urban blight in the inner city of George Town. A presentation at the first Forum meeting in 2002 proposed that each of the working groups

should collaborate directly with the parallel standing committee in the MPPP to deal with the relevant aspects related to the issue of urban blight. There was agreement about a pilot area for carrying out the urban blight project.

An underlying problem in the Forum was that the municipalities lacked understanding of and capacity for citizen participation. As Plummer (2000, p. 25) notes, it is “essential that municipalities develop a more informed understanding of the objectives of participation, the potential of community participation...and what makes participation more sustainable.” Plummer also points out that the introduction of participatory processes will require time and capacity building.

The Second Penang Strategic Development Plan

The Second Penang Strategic Development Plan (PSDP2), 2001–2010, was formulated to take the development of Penang to a higher plane by combining the quantitative economic gains of the past decade with the qualitative attributes of growth, including human, social, environmental, institutional, and cultural progress. According to the plan, Penang would strive to strike a balance between economic prosperity, sustainable development, and the promotion of a just and equitable society through the realization of economic competitiveness, ecological balance, caring and sharing, cultural vibrancy, and good governance. According to the PSDP2 (Government of Penang 2001, pp. 1–2), its vision is the following: “Penang strives to achieve a fully-developed state by the year 2010, with a competitive *k*-economy, a high quality of life and environment, a vibrant culture and a united, harmonious and caring society, based upon the principles of sustainability, social justice and good governance.”

Many of the ideas generated through the SPI and the PFP have been incorporated into the PSDP2 to make it a blueprint for more holistic development. Roundtables were also held to solicit ideas and suggestions for formulating the strategies and action plans. Significantly, the thrusts of the PSDP2 have been adopted from the SPI. The obvious link was that SERI was charged with the responsibility of formulating the PSDP2 and was thus able to include many of these elements in the plan.

Although formulating the plan and getting it accepted by the state government was by no means an easy task, successful implementation of the plan will probably be many times more arduous. The next step is to ensure that both government functionaries and Penang society take ownership of the plan and work together to make it a living document that actually guides policy and practice. The plan states the following:

The successful implementation of the PSDP2 is dependent on effective partnership between the State Government and the people of Penang. This partnership has been nurtured through the consultative approach in the drafting of the plan and is consistent with the principle of empowerment as enshrined in the Vision. The focus on both the qualitative and quantitative aspects of growth will promote more sustainable development, equitable distribution of the public goods, a more vibrant civil society and better governance. (Government of Penang 2001, pp. 1–13)

The Seberang Perai Municipal Council

The Seberang Perai Municipal Council (MPSP) is one of the most progressive municipalities in the country, with a forward-looking mayor who is the president of the Malaysian Association of Local Authorities. In line with the formulation of the PSDP2, the MPSP drafted its own strategic plan emphasizing community engagement. The consultants commissioned to formulate the plan were required to adopt a participative approach in seeking input for the plan. Focus group discussions were held with representative groups from the local government and the community. Brainstorming sessions were held with all levels of staff in the local government, from the top management to the manual workers, to obtain feedback on issues such as internal management of the municipality, staff development programs, financial strength, human resource management, leadership, support from stakeholders, efficiency of service delivery, and transparency. A questionnaire survey was also conducted to seek recommendations for the strategic plan.

In order to seek community input, a brainstorming workshop was held. A total of 52 NGOs attended the workshop and presented their

candid views on the level of service delivery in their respective areas. An interesting finding from the questionnaire administered at this workshop was that 50 percent of the respondents saw themselves as clients of MPSP and 41.3 percent perceived themselves as stakeholders of MPSP (MPSP 2002, p. 43). Hence, the foundation for partnership between MPSP and the community has been laid, but half the residents still have to be won over. The participants at the workshop were asked to rate MPSP on 29 performance indicators. The satisfaction levels ranged from 14 to 78 percent depending on the type of service (MPSP 2002, p. 47). Such feedback was used to formulate strategies for service improvement within MPSP.

In keeping with the principle of community engagement, MPSP initiated pre-budget dialogues in 2001 to obtain feedback from the community on budget allocations. All the village development committees, residents' associations, neighborhood watch committees, mosque committees, and NGOs in the Seberang Perai area—totaling about 800 in all—were invited to send in their respective memorandums and attend a pre-budget hearing to put forward their views. Sixty-two organizations attended the pre-budget dialogue in 2001 and 74 attended the dialogue in 2002. The increase in number is considered by the council as a reflection of greater awareness by the community and its recognition that the dialogue is a useful means of communication. A total of 190 memorandums were received in 2002.

According to the mayor of MPSP, the dialogues alerted the council to the priority areas of service delivery that required attention.⁹ Although the budget allocations for the different types of services were not substantially changed as a result of the dialogues, the localities where the spending was allocated were fine-tuned based on the feedback from the community. For instance, the proportion of the budget allocated for drainage and flood mitigation remained about the same, but the municipality learned which localities faced more severe problems of drainage and floods and these localities were therefore accorded priority in budget allocation. The mayor was of the opinion that these dialogues were useful in building better relations between the municipality and the community. Having had this experience in seeking citizen participation in both

⁹ In an interview conducted in August 2002.

the formulation of the strategic plan and the pre-budget dialogue, the MPSP is confident that it can successfully carry out the LA21 program.

Collaboration between SERI and MPPP

Relationship building and a conjuncture of interests have laid the foundation for greater collaboration between SERI and MPPP to engage in participatory activities at the community level. Through this partnership, SERI has successfully obtained funding from the UNDP to conduct a project on public-private partnership in community waste recycling. The purpose of this project is to develop workable processes and strategies to better manage waste and promote recycling practices in a way that can benefit the urban poor. Three target groups, each representing a segment of the urban poor, will be the key champions of the project. The project Coordinating Committee of the North East District Neighborhood Association will represent civil society. A recycling agent with many years of involvement in the business will represent the private sector partners, together with other recycling agents and manufacturers. And the MPPP will provide infrastructure and other basic support. The project hopes to upgrade hygienic conditions and improve waste disposal by inculcating recycling practices and training suitable personnel from the participating communities as catalysts for future recycling programs.

MPPP is interested in this project because it coincides with a major campaign by the Ministry of Local Government to promote recycling, and all local authorities are expected to develop programs to boost the campaign. SERI has consciously designed the project such that it will be conducted at the community level to overcome its previous limitation of having worked mostly with the English-educated middle class. The project has yet to commence and will be a test case of whether the participatory process can be successfully extended to grassroots communities.

New Trails, Crossroads, and Dead Ends

Organizations such as the Penang Heritage Trust and the Consumers Association of Penang have long advocated and engaged in participa-

tive processes, and the new but prominent organization Save Our Selves has championed an even more direct and inclusive form of engagement.¹⁰ The consistent participation of so many members of the Penang citizenry in all these initiatives indicates their concern about significant issues currently affecting the state. They appreciate opportunities to meet with like-minded people in a supportive environment to network, exchange experiences, and voice their concerns to state authorities and agencies. Although they previously tended to work as separate entities, there are now more opportunities and channels to join forces and act more effectively on a common platform. The lacuna is participation by grassroots and marginalized communities, and more effective ways have to be found to include them.

SERI has played a fairly effective role as a go-between for civil society and the government—to the extent that it has developed an ambivalent image. Some see it as a government setup because it is incorporated as a think tank for the state government. Because SERI has strong links with other NGOs, it is perceived as one of them. A particularly innovative misnomer that has been used to describe SERI is that it is a government NGO. SERI has had to tread a thin line between “encouraging popular voice and maintaining government responsiveness” (Khoo 2001, p. 54).¹¹

Penang has always been an open society with a free flow of ideas from outside. However, as Warburton (1998, p. 5) notes, “the rhetoric of community participation has been rehearsed many times, but it remains the exception rather than the norm on the ground.” According to Plummer (2000, p. 11), often the state allows “some form of donor-funded pilots of participatory approaches but...falters at the suggestion of radical change to the status quo.”

¹⁰ Save Our Selves is a coalition of local groups formed with the objective of mobilizing the lower-income groups that were adversely affected by the Repeal of the Rent Control Act. The organizer of Save Our Selves also formed a group called Malaysian Local Democracy Initiative (MALODI) that champions community consultation and participation as well as the reintroduction of local council elections.

¹¹ Khoo identifies this dilemma in the implementation of the SPI, but it is equally applicable to the functioning of SERI.

The government suffers from the ills that typically plague the conventional political structure and bureaucracy. Among the steps that should be taken are the following (Plummer 2000, p. 132):

- Develop staff capacity for participatory processes
- Establish effective municipal structures for participatory service delivery
- Reform systems and procedures to incorporate participation
- Foment a change in attitudes to ensure the practice of participatory democracy.

These measures have been included in the strategies for promoting good governance in the PSDP2.

Citizen participation cannot be nurtured overnight and the road to participatory democracy has to be paved one block at a time. Penang has a long way to go in practicing and institutionalizing citizen participation. However, it looks like the citizens and public officials are prepared to do what is needed to make a difference.

Appendix 6.1. Forms of Participation in the Delivery of Urban Services and Infrastructure

Form of participation	Characteristics	Objectives
<p><i>Manipulation</i> The participation of the community is included for exploitative reasons.</p>	<p>Communities are included in the service delivery process without positive intention or meaningful end. There is no participatory decisionmaking. Initiatives manipulate communities to obtain agreement on interventions or human and financial resources.</p>	<ul style="list-style-type: none"> • Free labor • Cost recovery • Meeting donor conditionality • Political gain
<p><i>Information</i> Projects are not truly participatory; municipalities only impart or communities only provide information.</p>	<p>Communities are given information about municipal intentions. This information is controlled by the governing body and decisionmaking is unlikely to be open to change. The process is not transparent and the municipality is not accountable. Communities share information with the municipality. There is no control over the way information is used and there is no feedback process.</p>	<ul style="list-style-type: none"> • Services in place and in use • Minimizing community resistance to proposed interventions (such as communities surrendering land to widen roads) • Cost recovery
<p><i>Consultation</i> Municipalities have positive intentions but there is limited capacity building and little institutionalization of processes.</p>	<p>Forums are established through which communities can communicate their views on intended proposals. Government controls information and decisionmaking, which may be adapted to suit local requirements. Group formation is promoted. There is greater accountability.</p>	<ul style="list-style-type: none"> • Services in place and in use • Minimizing community resistance to proposed interventions • Ownership • Sustainability • Efficiency • Targeting vulnerable groups • Cost sharing • Community empowerment

Appendix 6.1. (continued)

Form of participation	Characteristics	Objectives
<p><i>Cooperation</i> This is a stronger form of community decisionmaking that municipalities normally promote after some capacity building or policy change. It may be facilitated by NGOs.</p>	<p>The municipality and the community cooperate in an alliance toward improved and demand-responsive service delivery. Communities are included in the process from an early stage. There is generally more cognizance of the needs of women and other vulnerable groups.</p>	<ul style="list-style-type: none"> • Community capacity building • Ownership • Sustainability • Efficiency • Targeting vulnerable groups • Cost sharing • Community empowerment
<p><i>Mobilization</i> Communities are in control of decision-making processes; municipalities enter into initiatives as required by the community.</p>	<p>Municipalities respond to the efforts of the communities or facilitate communities to control their own initiatives.</p>	<ul style="list-style-type: none"> • Community empowerment • Community-managed service delivery • Cost recovery
Source: Plummer (2000).		

Appendix 6.2. Consultative Councils of the Penang State Government

Economic

Penang Economic Council
Penang Human Resources Development Council
Penang Industrial Council
Penang Trade Council
Penang Consumer Affairs Council
Penang K-ICT Council
Penang Tourism Council
Entrepreneurship Development Council
Penang Construction Consultative Council

Social

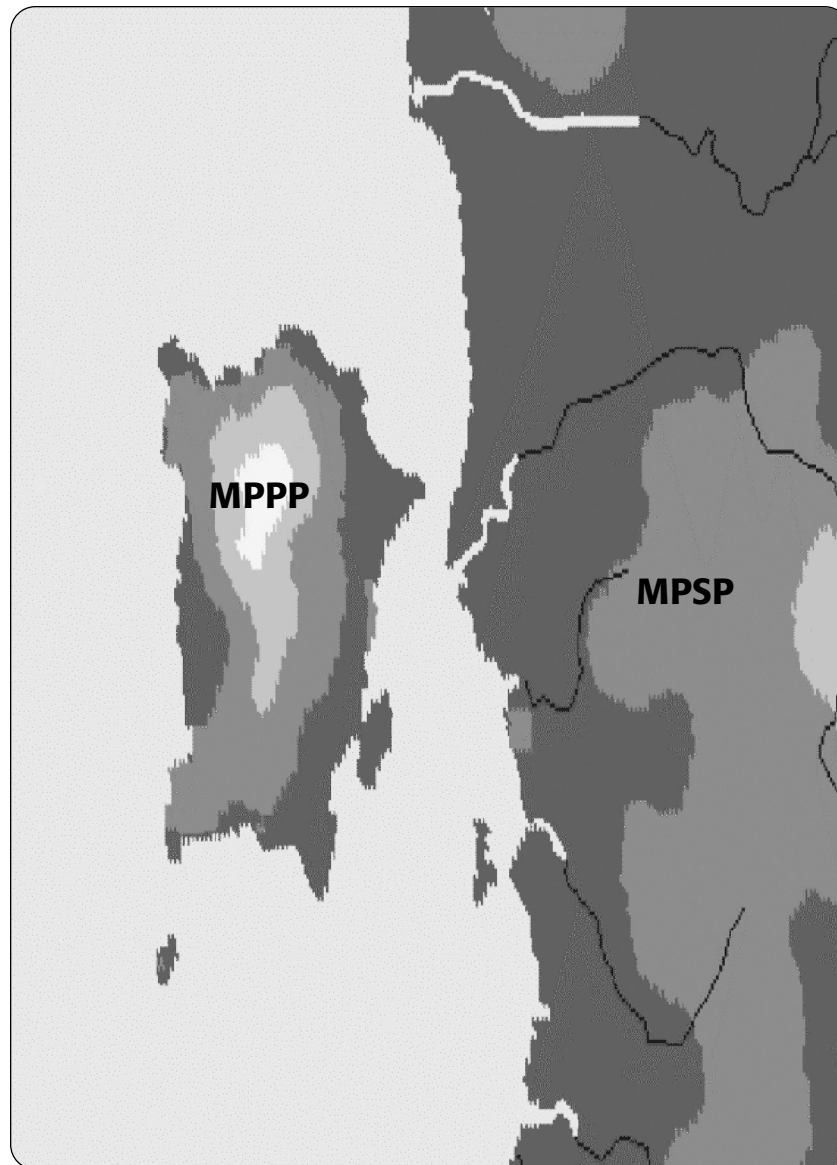
Penang Cultural Council
Penang Sports Council
Penang Youth Council
Penang Welfare Council
Penang Educational Consultative Council

Environmental and Other

Penang Environmental Council
Penang Local Government Consultative Forum

Source: <http://www.bnpenang.org.my/BariPmap.htm> and www.abcmalaysia.com/maps/penang_map1.htm.

Appendix 6.3. Map of Penang Showing the Jurisdictions of the Two Municipal Councils



Source: <http://www.bnpenang.org.my/BariPmap.htm> and www.abcmalaysia.com/maps/penang_map1.htm.

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CHAPTER 7



CITIZEN PARTICIPATION IN SURAKARTA MUNICIPALITY, INDONESIA

M. Pratikno

Citizen participation in public policymaking was absent in Indonesia during the centralized and military regime in 1965–98. Following the meltdown of the government in 1998, decentralization was promoted and the first free and fair election in 44 years was conducted. The emergence of civil society organizations and freedom of the press has been coloring the political reform.

This chapter shows that political reform to establish decentralization and democratization does not guarantee increased citizen participation in public policymaking. Local parliament's strengthened role in local government has not intensified people's involvement in and control over policymaking and implementation. In a politically active context, civil society organizations and local press may be able to speak loudly but unable to develop more effective participation.

Despite this pessimistic view, the case of Surakarta Municipality of Central Java demonstrates that it is possible to promote citizen participation in public policymaking processes. Developing a partnership between the government and civil society organizations is crucial for empowering society and reforming the political and administrative system. Serious efforts to mobilize stakeholder support and observe the entire process of participation are essential. During the initial two years of this process in Indonesia, some progress has been achieved in endorsing local democracy, guaranteeing better budget allocations for the poor, and developing better government.

However, some limitations remain. The involvement of all householders in the policymaking process does not automatically involve women, since all householders are men. The political competition between government officials and politicians, which energized the reform, could lessen the legitimacy of political representation. The support from local politicians is still limited. Therefore, the sustainability of promotion of citizen participation could be endangered unless greater energy is invested in most municipalities in the country.

Citizen participation in public policymaking is almost totally absent in the history of Indonesian politics. Soon after the military takeover of the national political leadership from the civilian government in 1965, political authoritarianism became the main feature of Indonesian politics. The military dominated politics. Centralization characterized political as well as economic life, and the government excluded society from the political arena.¹

When the popular movement successfully forced President Suharto to step down after 34 years, the country's political structure started to change. State control declined significantly and freedom of expression gained space. Democratization and decentralization became society's two most important demands. The year 1999 was noted for the state's declaration of support for decentralization and democratization. National laws were passed on political parties and the electoral system.

The new laws established local autonomy and the beginnings of democracy. Municipal governments received greater authority from the central government. Municipal governments gained more freedom to generate local own revenue and to spend according to local policy. The municipal assembly became stronger and gained political control. Municipal assembly members were elected in 1999, in the first free and fair election since 1955.

Has the new macro-political environment brought changes for citizen participation in the municipal government's policymaking processes? This chapter looks at the case of budgeting policy in the municipal government of Surakarta in Central Java. It is one of a limited number of good practices of citizen participation in Indonesia. This case shows that initiating citizen participation in public policymaking

¹ The literature on Indonesian politics labels this period (1965–98) either *bureaucratic authoritarianism* or *bureaucratic polity*.

in Indonesia is not complex or difficult, even in a developed city like Surakarta. The case study offers many lessons on participatory public policymaking in a post-authoritarian government like Indonesia.

From Centralized to Decentralized Government

After the military regime under Suharto came to power in 1965, a highly centralized political structure was developed in the name of national integration, political stability, and economic development. Although unity and diversity was a dominant political slogan at the time, the political arrangement provided no room for the emergence of competing powers outside Jakarta. Local power was repressed, for example, in former East Timor province, West Papua, and Aceh.

In supporting this highly centralized political arrangement, the Suharto government weakened local power. In doing so, an important strategy was the institutionalization of a highly centralized and bureaucratic local government. In this respect, the promulgation of Law No. 5 of 1974 was most significant. It provided the constitutional basis for the operation of a highly centralized political structure at the local level. Below the central government, there were three levels of local self-government: province, district (*kabupaten*, for rural and semi-urban areas) or municipality (*kota*, for urban areas), and the village government. Apart from having its own authority in some affairs (*Urusan Rumah Tangga Daerah*), the local government was responsible for securing and implementing national and provincial policies.

The central government's Ministry of Home Affairs had significant supervision and control over a wide range of issues at all levels of government for implementing national policies. The government structure was monolithic in character, with a governor and head of district guaranteed to hold power through the concept of *penguasa tunggal* (the one and only authority). On behalf of and for the sake of national interests, the heads of the regions had the right and responsibility to guide (or intervene in) all political affairs, including the parties and legislative branches in their territory.

Local legislative bodies were subordinate to the governor or mayor as the central government's political arm. Local parliament, for instance,

had no political role in electing the governor or mayor. Local parliament also had no significant role in political control or supervision, and the governor and mayor had no obligation or responsibility to local parliament. In addition, both the internal structure and the operating rules of local parliament gave almost no power to its members. The significance of local parliament as a representative body of local interest was meaningless because political recruitment of members of local parliament was fully controlled by and dependent on the national political power.

The highly centralized political structure was also reflected in the overregulation and overbureaucratization of local affairs. Almost all local government policies, programs, and activities were subject to central government regulation and approval. Jakarta determined policies, programs, and activities. Within this context, citizen participation in municipal decisionmaking was absent. However, elite bureaucrats in central as well as local government benefited from the system.

Pressure for a more decentralized system of government came mostly from outside Java Island. The political arrangement during the Suharto government provided room and legitimacy for the central government to have control over economic resources in local areas. The central government directly managed activities such as mining and forestry in the outer islands. This, in turn, provided the material basis for Jakarta to obtain even more political control over local areas. Uneven distribution of economic resources between Jakarta and the rest of the country allowed Jakarta to have a strong material base and led to local dependence on the center, providing more reasons for the highly centralized political structure to continue.

The political implication was that most regions outside Java, especially those having rich natural resources, such as West Papua, East Kalimantan, Riau, and Aceh, were unsatisfied. Soon after President Suharto fell out of power in 1998, the repressed (banned) regional movements emerged. Defining themselves as ethnically or religiously different from the dominant group, many regions demanded greater political and economic resources. Some even asked for independence, as in the cases of the provinces of Aceh and West Papua. Therefore, for the sake of national unity—the same reason given by the Suharto government in 1966—the Habibie government declared a decentralized government in 1999.

The 1999 Regulation on Local Autonomy

During the weak, short period of the Habibie government in 1998–99, it stipulated new laws on local government and central-local financial relations (Law No. 22 and Law No. 25 of 1999), which guaranteed autonomy and parliamentary democracy at the regional level. These laws have far-reaching implications in changing the structural character of central-local government relations in Indonesia.

Law No. 22 of 1999 decentralizes authority to the district and municipal governments more than to the provincial level. It limits the authority of the national government to international affairs, defense, monetary policy, religion, and the judiciary. Central government offices at the provincial level are also limited to these five areas, and their position at the district and municipality levels has been dissolved. Law No. 25 of 2000 names in detail the activities and areas of authority under the central and provincial government levels; activities that are not on the list fall into the hands of district and municipal government. However, in all cases, the central government has authority to set standards and monitor and supervise the local government in implementing autonomy.

The law also strengthens the position of the local parliament at the district and municipal levels. It has the right to determine the local regulation to include electing the head of the region without any intervention from Jakarta. It even has the right to impeach a mayor under presidential approval. The new law clearly stipulates that if a mayor's accountability speech—which is delivered every year in the plenary session of local parliament—is rejected twice, the mayor has to resign. For example, in 2001, the district head of Semarang, Central Java, decided to step down from office due to political pressure from the local council. In 2002, the head of the Surabaya municipal government was also removed by the local parliament.

Apart from the strong constitutional base provided by the new laws, new local parliaments have strong political legitimacy. This is because they were elected through a democratic process, that is, free and fair elections. Despite the persistence of debate among Indonesians about whether the new council represents local people, parties, or even its members, the fact that it is a result of a democratic political process means

that it reflects and represents local people's aspirations. Unlike in the past, all members of the new local parliament are free of political screening. Moreover, most of them are from outside the bureaucracy. However, the presence of appointed military positions remains. Their number has been reduced significantly to only about 10 percent on average, but from the point of view of democracy, their presence is problematic.

Law No. 25 of 1999 on central-local financial relations has made some important changes in local government financing. This law stipulates that 25 percent of national revenue should be allocated by block grant to the local government. In the past, there was no guarantee of the amount of money that would be delivered to local government. Another important change is the introduction of revenue sharing between the central government and the local government, generated from natural resources, such as oil, mining, forestry, and fishery. In the past there was only the property tax, a national tax that was shared between national and local government. Now a district producing oil receives 6 percent of the total revenue generated from this source, and the provincial government receives 6 percent.

Regions that are rich in natural resources, such as East Kalimantan, Riau, West Papua, and Aceh, celebrate this policy. Politically, it reduces tensions between Jakarta and the regions. Tensions had emerged in 1998–99 because one of the sources of political conflict between Jakarta and some regions has been the economic dissatisfaction of the regions. However, the policy does not contribute to the regional budget of those regions with poor natural resources.

Some Macro Problems in Implementation

The changes in central-local relations as well as in local political arrangements are a promising sign for the country and its ability to cope with regional problems. The laws promise broad local autonomy, which seems to be an appropriate political arrangement for responding to the problems of political dissatisfaction in the outer islands. At the same time, it will lead to the fulfillment of democratic principles in the country, especially at the local level. However, during the transitional period, some problems have occurred, especially during 1999–2001.

A major issue in the implementation of decentralization policy is the notion of locality, which is closely related to the concept of ethnicity or religion, which political leaders in Jakarta worry might endanger the nation. Local areas have submitted more than 70 proposals asking the central government and national parliament to give them right to be independent districts, cities, and even provinces. Most of them justify the demand in the name of ethnic and other categories. In this context, transferring power from Jakarta would also mean providing room for local political groups based on ethnicity and religion, competing with each other for power. In addition, local autonomy would provide space for the revival of the local aristocracy. There are signs that the new political arrangement could bring the old feudal structure back to local politics. In some cases, this would lead to widespread horizontal conflict in society, such as in North Maluku province.

Political elites in Jakarta have often pointed out that local autonomy has led to the emergence of conflict among districts or municipalities, or between districts and municipalities within a province. Conflict between fishermen from different districts has emerged in several regions and is often connected to the issue of local autonomy. Many governors are disappointed when district and municipal government leaders are absent from coordination meetings.

Another important issue has been the spread of corruption to the local level, especially among members of the local parliament and political parties. Evidence from some regions reveals that the transfer of power from Jakarta also means the transfer of corruption, collusion, and nepotism. Although corruption in Jakarta has not been reduced yet, its spread to the local level has increased significantly. *Money politics* has become a common phrase in explaining the behavior of members of parliament at the local level.

Political tension and collusion between the executive and legislative branches is also an important public concern. The possibility of local parliament intervening in the bureaucracy, or of the bureaucracy boycotting the local parliament, could jeopardize governance, development, and public services in local areas.

Soon after the new laws were enacted, local governments made new local regulations. Unfortunately, most of the regulations concerned

the effort to generate local revenue, which, according to the Indonesian Chamber of Commerce, discourages investment.

Since November 2000, a variety of new local taxes and charges have been established in many provinces, districts, and municipalities. The most common are local taxes or charges on goods being transported into or out of the region. The province of Lampung, for instance, collects taxes from traders transporting agricultural products from Lampung to other regions. The district of Pasaman obligates traders transporting goods to and from Pasaman territory to have a letter from the district government declaring the origin of the goods. The traders have to pay a fee to obtain the letter. These kinds of regulations have encouraged public debate, which seems likely to focus on the decentralization policy being implemented.

Indeed, public discussions about local government in Indonesia during the first year of decentralization policy (2001) have found it unresponsive and unaccountable. Therefore, a crucial question concerns the extent of people's participation in the policymaking process of this level of government.

In the case of Surakarta Municipality in Central Java, both civil society and the municipal government have undertaken to increase participatory decisionmaking processes. This case shows the difficulties in doing so in a post-centralized government like that of Indonesia.

Transition in Surakarta: People Movement

Modern Surakarta city is one of the middle-size cities in Indonesia. The city's population is slightly more than 750,000 people. Surakarta, commonly known as Solo, is one of the major tourist destinations in Indonesia. Located in the middle of the Central Java province, Solo is also one of the most important trading centers in Central Java. An old city, its heritage goes back to the Kingdom of Surakarta Hadiningrat in the 17th century. The people of Solo are polite and friendly, and associated closely with the old culture of Javanese.

However, Solo is also interesting because of the fires and riots during the political crisis in 1998–99. In 2002, the Surakarta municipal government allocated more than 34 billion Indonesian rupiahs,

approximately 5 percent of the total budget, to rebuild the burned city hall.

Democratization and Its Problems

Below the municipal government, there are two layers of government, the *kecamatan* (subdistrict or submunicipal) government and the *kelurahan* (village) government. The municipality of Surakarta consists of five *kecamatan*, which are divided into 22 *kelurahan*.

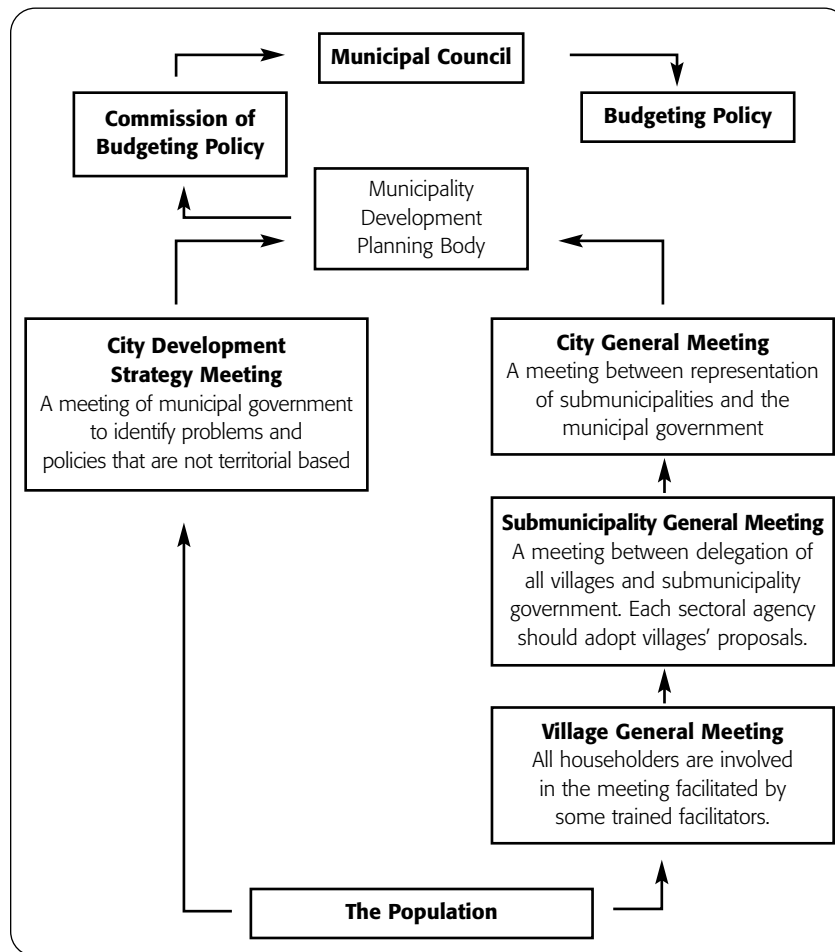
Following the implementation of the 1999 law on local government, the Surakarta municipal government (and other municipal and district governments in Indonesia) gained control of important public affairs, including education, health care, social services, and land administration. In the 2002 budget year, the municipal government budget was 70 billion Indonesian rupiah, which was greater than the average district or municipal budget in Indonesia.

Elected in 1999, the municipal council has strong political legitimacy in the political structure of Surakarta. According to central government regulations, development planning should be bottom-up, starting from the *kelurahan* government, to the *kecamatan*, and then to the municipal government (Figure 7.1). However, citizen participation in the process was not guaranteed and could even be excluded from the process.

Development planning at the village level was decided by a representative body called LKMD. The members of this institution were appointed by the village head, who was the head of the LKMD as well. The LKMD was not obligated to include villagers in the development planning process.

For the formulation of municipal planning and budgeting policy, village government proposals were compiled at the *kecamatan* level. This level of government prioritized the programs based on the village proposals. However, since no village representatives were involved at this stage, the submunicipal government had full autonomy in policymaking.

The proposals of the submunicipalities were then submitted to the municipal government and discussed in a meeting consisting of the municipal planning body, the sector agencies, and the head of the sub-

Figure 7.1. Participatory Development Planning Mechanism

municipal government. In this centralized political environment, the formally bottom-up planning process easily became a top-down one in practice.

The political reform in 1999, which included the stipulation of decentralization and democratization policy, strengthened the municipal council. The municipal council that was elected in 1999 had strong political legitimacy and formal political power. It could intervene in

many aspects of government processes that had traditionally been controlled by the central government.

However, the democratization policy has not yet brought significant changes in citizen participation. The majority of people are still excluded from the process.

Partnership

The idea of developing participatory planning and budgeting policy is not new in Surakarta. Many components of civil society, especially non-governmental organizations (NGOs) and academics, have been working hard to increase participation. Due to the authoritarian and closed system of government up to 1998, most civil society organizations concentrated their agenda on strengthening the organization of community groups in general rather than on increasing direct popular participation in public policymaking.

Since the 1970s, some civil society organizations, especially NGO, university, and local press groups, have operated in Solo. An NGO called LPTP (*Lembaga Pengembangan Teknologi Pedesaan* or the Institute for Rural Technology Development) was established in 1978 and became an outstanding NGO. Energized by some well-educated activists, this NGO organized the grassroots community in Solo. The number of NGOs grew significantly in the 1990s.

Some NGOs are concerned with specific issues, such as the environment (for example, Gita Pertiwi) or gender equality (Mitra Wacana, Gerakan Anti Kekerasan Terhadap Perempuan Indonesia, Lembaga Studi Pengembangan Perempuan dan Anak, Pusat Studi Wanita of UNS, and UMS). But the largest NGOs concentrate on organizing local communities. KOMPIP (Konsorsium Monitoring dan Pemberdayaan Institusi Publik) is an important one that has been able to organize some marginalized communities. SOMSIS (Solidaritas Masyarakat Pinggiran Surakarta) and P3S (Paguyuban Penata Parkir Surakarta) are examples of community organizations.

Some NGOs are working on developing understanding among groups in Solo. For example, the NGO Paguyuban Masyarakat Surakarta (PMS) is helping to improve communication among ethnic

groups. Another important organization in this regard is Paguyuban Pasopati, a soccer association that has been able to bridge the social and cultural gaps among ethnic, religious, and economic groups in Solo.

Few NGOs focus on bridging the gap between the state and civil society. It has been difficult to promote partnership between the government and NGOs. Prior to 2000, local governments had rejected the idea of developing popular participation, and civil society organizations were unable to convince the municipal government to engage in more participatory budgeting policy.

Following the riots and fires in the city in 1998–99, civil society organizations gained a new role. A group of NGO activists and academics tried to find partners in the government to promote participatory policymaking.

On the government's side, especially among some members of the Municipal Development Planning Body (Bappeda), the idea of participatory planning also started to grow. As a theory, this idea was not new in Indonesia. But the momentum of political freedom, which began in 1999, persuaded the government to think more seriously about the possibility of participatory planning.

Some NGO activists found partners in the government, especially senior officials in the Development Planning Body. For the first time in more than three decades, people who seemingly came from different worlds began to interact, discuss, and work together. The idea of developing a partnership between government institutions and civil society organizations started to grow.

Although other NGOs in Surakarta concentrate on strengthening community organizations, the partnerships support the government in planning and budgeting, and in identifying potential factors for promoting participatory decisionmaking processes. The group of partner NGOs established an organization called Indonesian Partnership for Local Governance Initiatives (IPGI) of Solo in 2000. It might be the first important NGO concentrating on and able to develop partnership between civil society and government in Solo. IPGI promotes democracy by strengthening the capacity of civil society groups and local gov-

ernment as well.² In the case of Solo, one of its most important programs is to develop popular participation in public decisionmaking.

IPGI of Solo is part of a networking group of IPGI at the national level. With its national secretary in Bandung of West Java, the National Secretariat of IPGI has three local networking groups: IPGI of Bandung, IPGI of Solo, and IPGI of Riau. All three groups concentrate their activities on developing participatory planning and public policymaking. In terms of membership, the three local branches consist of NGO activists, local academics, and government officials.

Mobilizing Support

The main agenda of the partnership between NGOs and the government was to mobilize support from stakeholders for participatory public decisionmaking. First, it is important for the group to gain support from the state, which had previously monopolized the decisionmaking process. Second, it is also important to gain support from the local community at the grassroots level, other NGOs, and local media in Solo.

Initially, most government officials rejected the idea of participatory planning. After much lobbying and persuasion, the partnership was able to gain support from the mayor. This was a major step in gaining greater support from the government. The mayor adopted the partnership's ideas on participatory public policymaking in the Decision on Promoting Participatory Planning and Budgeting Policy (*Surat Edaran Walikota*) in January 2001. After that, open rejection by local government declined significantly. The following year, the decision was renewed and further strengthened by the Mayor's Decision No. 410/45-A/1/2002 (Keputusan Walikota tentang "Pedoman Penyelenggaraan Musyawarah Kelurahan Membangun, Musyawarah Kecamatan Membangun dan Musyawarah Kota Membangun di Kota Surakarta Tahun 2002"). Although it does not guarantee the full support of the whole municipal government, it has had a positive impact on participatory planning.

² See IPGI's newsletter *Media Partnership IPGI*, which was first published in 2001 (http://www.clgi.or.id/clgi_newsletter.asp).

The mayor's decisions stipulated that decisionmaking for development planning and budget allocation should be participatory through processes at the following levels:

1. Village level
 - Neighborhood association meetings
 - Meetings of neighborhood representatives and village government officials (the organizing committee) to prepare for general meetings at the village level by drafting rules and identifying issues
 - General meetings of all householders in the village to discuss the organizing committee's drafts, formulate village government budget allocation, and propose development plans to higher levels of government
2. Submunicipal level
 - Meetings of submunicipal government officials and village representatives (the organizing committee) to prepare for general meetings at the submunicipal level by drafting rules and identifying issues
 - General meetings of village and business community representatives, civil society organizations, and social leaders to discuss the organizing committee's drafts and propose development plans to be submitted to the municipal government
3. Municipal level
 - Meetings organized by the Municipal Development Planning Body of the municipal government with the heads of the submunicipal governments, chambers of commerce, and civil society organizations to establish an organizing committee, draft rules, and draft spatial and sector development plans based on the proposals of the submunicipalities
 - General meetings at the municipal level to discuss drafts prepared by the organizing committee and propose development plans to the municipal parliament.

Since the local government has no experience in facilitating citizen participation in local decisionmaking, the partnership (IPGI) and other

NGOs have a crucial role. A series of focus group discussions with local people was organized to develop better understanding on the important role of the people in the process. Facilitators were recruited from each village and trained.

Achievements and Limitations

The experience in Surakarta Municipality is an exercise rather than a definitive model. It has been implemented for only two years in a first-step learning situation. Most stakeholders have no experience in participatory decisionmaking processes. However, the exercise has made a clear contribution to developing democracy and promoted a greater role for the participation of local citizens in public policymaking.

Although the exercise attempted to involve as many people as possible in the decisionmaking process, in most villages, those invited to the village general meetings are householders. Since householders are always men, most of the participants at the village general meetings have been men, and the process has lacked gender equality. Starting in 2002, some villages have initiated more inclusive meetings by inviting both the husband and wife of each household. However, not many women have joined the meetings.

An important achievement of participatory planning is the inclusion of more people in making budget allocation policies. For the first time in the history of Surakarta, the majority of people, the poor, have been involved in the policymaking process. Better budget allocation for the poor has begun to appear. Budgeting policy in some village governments is interesting. Because many of the villagers are pedicab drivers, the village general meeting allocates an amount of money to provide soft loans for them to buy pedicabs.

People's increased participation in and control of public policymaking have meant that people know more about government policies and development programs. Demands for more transparent government have increased significantly. Will the process continue? Greater support from local politicians would ensure the future of participatory public policymaking in Solo. It is possible that the process of initiating participatory policymaking will continue because the people who have benefited from it will not be willing to lose what they have gained.

CHAPTER 8



CITIZEN PARTICIPATION IN SAN FERNANDO, PAMPANGA, PHILIPPINES

Edel C. Guiza

Decentralization is a prerequisite to local autonomy, which is the degree of self-determination exercised by a local government unit vis-à-vis the central government. Decentralization disperses power away from the center to the local government units that are closest to the citizens. As such, it brings the decisionmaking process to the community level, enables stakeholder participation, and improves effectiveness and efficiency in the delivery of basic services.

Decentralization comes in two main forms. The first, devolution, sometimes referred to as political decentralization, involves the transfer of power from central authorities to local governments. In the second, deconcentration or administrative decentralization, a central government authority delegates functions to its field units. The Philippines has experienced both forms of decentralization: it deconcentrated a few decades ago by creating regional field offices, and it devolved powers and responsibilities to local governments in 1991. By transferring more powers and functions to local government units, the government hopes to strengthen the redemocratization process that began in late 1980s and galvanize local energies for local development.

After more than 10 years of devolution, the local landscape in the Philippines has many success stories of local governments that dared to innovate and make a difference in the lives of their constituents. This case study of San Fernando is one such story about a group of people who capitalized on a crisis, working together to survive and transform

their city amid the ruins of volcanic eruption, floods, and typhoons. The chapter tries to answer the following questions: How were the citizens of San Fernando, a calamity-prone and ravaged area, able to transform their city? What was the role of the local government? How was it able to generate the revenues needed to finance the transformation and improve the delivery of basic services? What were the results? What practical lessons and insights can be gained from this experience? What are its prospects for sustainability and replicability?

A brief review of the country's relevant political, economic, and historical features provides a backdrop to the San Fernando case. The chapter focuses on the decentralization policy, specifically the salient provisions of the 1991 Local Government Code institutionalizing citizen participation to promote good local governance. The San Fernando case is best understood in the context of national policy and related national trends.

Country Profile

The Philippines consists of 7,100 islands, of which Luzon, Visayas, and Mindanao are the three main islands. Unlike other countries in Asia, its 2001 estimated population of 80.1 million is predominantly Roman Catholic, a legacy of Spain's colonial rule for more than three centuries. English, also a colonial legacy but this time from the Americans, is widely spoken and the literacy rate is one of the highest in Asia.

In the 1950s and early 1960s, the Philippines was the envy of countries in Southeast Asia. But in the 1990s the country lagged behind its Southeast Asian neighbors, except Indonesia. In 2001, the country registered 3.4 percent growth in gross domestic product. The fiscal deficit was 3.8 percent of gross national product, financed through borrowing by the national government. In 2001, total public debt was estimated at 1.2 trillion pesos, which was about 90 billion pesos higher than public debt in 2000.¹ External debt service payments amounted to 16.4 percent of total exports of goods and services. To reduce the fiscal deficit, the national government cut back on capital and infrastructure investments. Although there was a slowdown in public expenditures, private

¹ The exchange rate is 1 U.S. dollar = 50 pesos.

consumption spending was vibrant, primarily due to the high level of remittances from millions of overseas Filipino workers, estimated at 8 percent of gross national product (ADB 2003).

Poverty Reduction

In 2001, the incidence of poverty was 2.6 percentage points greater than the level in 1997. The most recent estimates indicate that 39 percent of the total population has an income below the national poverty line. Poverty is more acute in rural areas, although urban poverty has increased due to the influx of rural migrants in urban centers in search of jobs. The unemployment rate in 2001 was estimated at around 11 percent, which was considered the highest in the region (ADB 2003).

Reducing poverty has been a major objective of the government. The present dispensation has formulated a comprehensive package of interventions, a key feature of which is the strengthening of democratic institutions at various levels of government to promote empowerment of the people.

Poverty in the country has been attributed to a number of internal and external factors. The 1997 Asian financial crisis swept away the gains of previous poverty reduction efforts. Considered by many as a key internal factor is the concentration of wealth and resources in the hands of a few oligarchic families who controlled the state bureaucracy either by influencing the bureaucracy, holding public positions, or making the politicians beholden to them by financing their election campaigns. The government, which is considered much weaker than most Southeast Asian governments, finds it difficult to withstand pressure from these economic and political elites, thereby widening the gap between the few who are rich and the many who are poor. Past social development efforts have failed to positively impact the poor due to a number of reasons, including lack of political will on the part of the government and inadequate resources to implement the strategies.

Democratization Efforts

The emergence of cause-oriented groups—nongovernmental organizations (NGOs) and other civil society organizations—is considered a sig-

nificant advance in Philippine democracy. The groups emerged to compensate for the government's failure to address the deteriorating socioeconomic conditions and to pressure the state to correct its policies. The student movement in the late 1960s and early 1970s produced the first generation of NGO leaders, who worked with labor unions and poor urban communities. After the declaration of martial law in 1972, the National Democratic Front led an armed struggle against the government while the Social Democrats organized associations to propagate their own set of beliefs. Other groups emerged, including women's groups, human rights groups, and environmental groups, among others.

The policy environment during the Aquino administration (1986–92) facilitated the expansion of NGOs and various other groups. An estimated 16,000 NGOs were formed, based on the number of registered NGOs in the Securities and Exchange Commission. There was freedom to organize, and funds were channeled to NGOs to engage in economic and social development work, including delivery of basic services. The NGOs undertook research to support policy advocacy, reshaped the public agenda by articulating the interests of marginalized groups, and raised issues that had previously been ignored or repressed. They also pushed for the implementation of existing pro-poor public policies.

During the Aquino (1986–92) and Ramos (1992–98) administrations, leaders from cause-oriented groups and NGOs were appointed to key positions in the government, paving the way for the creation of strategic partnerships between the government and the NGOs. The Estrada (1998–2001) and Arroyo (since 2001) administrations continued this practice. The efforts of the NGOs made the government conscious of its mandate to work for those who most need the government—the poor and the marginalized.

Political parties have also become aware of the need to take an active role in building an effective state to work for the development of the country. An All Parties Conference was held in May 2002 to come up with a unified economic and political agenda based on the following six themes: (i) escaping the poverty trap through increased productivity and competitiveness with sound fiscal management; (ii) enhancing social order and security through law enforcement, diplomatic cooperation, and fair deliv-

ery of justice; (iii) mobilizing civil society participation for better governance; (iv) promoting the welfare and development of Muslim and indigenous peoples for nation building; (v) strengthening institutions through constitutional and electoral reforms; and (vi) improving national-local government coordination for effective public service.

The conference was hailed as an initial step toward changing the negative image of political parties in the country. They are perceived as being institutionally weak, personality or leadership driven, lacking ideological foundations, beholden to groups and individuals with vested interests, and pursuing only their own narrow agenda, devoid of concern for the whole country.

Churches and religious organizations have also played a key role in sensitizing government to the needs of the poor and making themselves relevant to the changing environment. Not to be left behind, the business community has taken a more active position in the economic, political, and social affairs of the country as an assertion of its corporate social responsibilities.

However, given the magnitude of the problems facing the country, much remains to be done. A strong civil society needs to be nurtured to promote and protect the interests of the poor and help them empower themselves so that they themselves can assert their own rights and entitlements. Active participation of the civil society together with strong government institutions would ensure an effective state that can work for the common good and act as a countervailing or balancing force to the power of the economic and political elite. Decentralization in the country has been hailed as a step in strengthening the role of the civil society.

Historical Overview and Recent Initiatives

From Colonial Centralism to Independence

Before the Philippines became a colony of Spain, Filipino settlements consisting of 30 to 100 families were isolated from each other, with each settlement taking care of its own basic needs. There was no national or central government. The chieftain exercised executive, judicial, and legislative powers, assisted by the council of elders.

The development of autonomous village governments was interrupted when the Spaniards came and consolidated the various villages, establishing *pueblos* (towns), *cabildos* (cities), and *provincias* (provinces) as administrative units under the tight control and supervision of the central government in Manila, the seat of the colonial government. Eventually, independence was declared from Spain in 1898 and the Philippines established the first republic in Asia.

Initial Deconcentration

After independence from Spain, the Malolos Constitution was passed in 1899. It provided for the most ample decentralization and administrative autonomy for local governments, popular and direct elections of local officials, and provincial and municipal taxation. The first attempt of the Filipinos to decentralize was disrupted with the arrival of the Americans in 1902. The Americans initially supported the decentralization efforts, but later recentralized the system because they doubted the capability of the local officials to manage local affairs (Guiza 1999).

After the Americans left, one administration after another produced various decentralization measures, starting with the passage of Republic Act 2264 or the "Local Autonomy Act" of 1959, the Barrio Charter Act of 1959, and the Decentralization Law of 1967. The creation of development authorities and regional planning boards constituted attempts to deconcentrate administrative planning and development in 1961.

Continued Deconcentration and Political Recentralization

During the Marcos regime (1965–86), another step to deconcentration was effected. Central government functions were deconcentrated to the 11 regions and lower administrative levels. To further operationalize the delegation of authority to the regional levels, administrative authority was given to the regional offices. Regional Development Councils were created to decentralize regional planning and the Integrated Area Development Approach was adopted.

However, it was also during the Marcos years when the system was recentralized, concentrating the executive, legislative, and judicial pow-

ers under the president. Local and national elections were suspended. Congress was abolished to give way to a parliamentary form of government. Local officials were appointed, and local police and fire protection were nationalized. “People Power” in 1986 ended 20 years of dictatorial rule (Brillantes 1993).

Decentralization in the 1990s

The presidency of Corazon Aquino marked the formulation of the 1986 Freedom Constitution, which provided for local autonomy of political and territorial subdivisions. President Aquino was given control and supervision of all local government units. She removed local officials with questionable loyalty and appointed replacements.

The following year, a new constitution was adopted, which contained by far the most substantive provisions on decentralization and local autonomy. The 1987 Constitution (Article X, Section 2) provides that local governments “shall enjoy genuine and meaningful local autonomy to enable them to attain their fullest development as self-reliant communities and make them more effective partners in the attainment of national goals.” It also provides for a system of accountability of local governments “through the institution of effective mechanisms of recall, initiative and referendum” (Article X, Section 3).²

The 1991 Local Government Code

In accordance with the provision on local autonomy of the 1987 Constitution, a new Local Government Code was signed into law in October 1991 as Republic Act No. 7160. The law transformed local government units from implementing or extension agents of the central government to local area development managers that were primarily responsible for the development of their respective areas.

The significant reforms mandated by the new code included the following:

- Devolution of authority, assets, and personnel in basic services in agriculture, health care, social welfare, public works, and the

² www.chourobles.com/article10.htm.

environment, as well as education, telecommunications services, housing, and investment support

- Transfer of various regulatory powers from national government agencies to local government units
- Promotion of popular participation in local governance through the establishment of local government bodies and NGOs
- Provision of increased resource generation and mobilization through autonomous taxing powers and release of the Internal Revenue Allotment (IRA) and the local share of revenues from national wealth.

Levels of Local Governments and Local Officials

There are four levels of local governments in the country—province, city, municipality, and *barangay* (village). At the provincial level, elected officials consist of a governor, vice governor, and members of the provincial board; at the municipal and city levels, the mayor, vice mayor, and members of the respective *sanggunian* (council) or legislative body; and at the *barangay* level, the *barangay* captain and *barangay* council members. The elected local officials serve a term of three years for a maximum of three consecutive terms or a total of nine years, except for the *barangay* officials, whose term shall be determined by law.

The country has 79 provinces, 114 cities, 1,495 municipalities, and 41,935 *barangays*. There are 17,000 elected local government officials at the provincial, city, and municipal levels. Local government units except for the *barangays* are classified in classes based on annual income. Cities are further classified as component cities or highly urbanized cities. Component cities are under the direct supervision of a province, and highly urbanized cities, with a minimum population of 200,000 and an annual income of 50 million pesos, are considered viable enough to be on their own.

Degrees of Devolution and Local Government Powers

The *barangay* has the least powers among the local governments. It has one exclusive power, which is that the *barangay* justice system simplifies

the procedures for settling disputes among residents. The main objective is to decongest the courts, and only those cases the *barangay* cannot handle or resolve are turned over to the courts for settlement.

The municipality has more extensive powers than the *barangays*, whose ordinances have to be submitted to the municipality for approval. The municipality, which is subordinate to the province, also submits its ordinances to the Provincial Board for approval. Municipal powers include the delivery of the following major services:

- Agriculture and aquaculture to be undertaken through the cooperatives
- Primary health care services with access to secondary and tertiary health services
- Social welfare services, including pro-poor projects, nutrition, and family planning
- Other services, including the dissemination of information on investment needs and job placements.

The province is tasked to deliver the following services:

- Agriculture and aquaculture services, including organization of farmers and fisher cooperatives
- Industrial development services
- Health services, including hospitals and tertiary health care
- Social services, such as housing
- Investment support services
- Computerized tax information and collection services
- Intramunicipal telecom services.

Of all the local government units, the city is considered the most powerful because it has been granted all the powers that the province, municipalities, and *barangays* enjoy except for administering the *barangay* justice system, which only the *barangay* is empowered to undertake. In addition, the city is expected to perform two major functions: provision of adequate communication and transportation facilities, and support for education, police, and fire services and facilities.

Fiscal Decentralization

To enable local governments to perform their devolved functions, the Local Government Code raised the IRA shares of local governments to 40 percent (from 20 percent in the old code) from taxes collected by the Bureau of Internal Revenue. The IRA is distributed among the local government units as follows: provinces, 23 percent; cities, 23 percent; municipalities, 34 percent; and *barangays*, 20 percent.

The IRA share of each province, city, municipality, and *barangay* is computed based on population (50 percent), land area (25 percent), and equal sharing (25 percent). Population and land area have been consistently used in the distribution formula. The size of the population directly relates to the demand and expenses for social services. Land area is directly related to the need for infrastructure services and utilities. The larger the area and the population, the higher is the demand for services and expenditures for public services. Equal sharing as a third factor is meant to provide for the minimum amount of services that each local unit must provide regardless of the population size and land area. Many groups have criticized this distribution formula for its lack of attention to equity and performance.

Local governments can also create their own sources of revenue and levy taxes, fees, and charges that will accrue to them exclusively and be retained by them automatically, and which they may use for their own purposes. Local governments are also authorized to negotiate and secure financial grants or donations in kind from local and foreign agencies without approval or clearance from the national government or any of its agencies or a higher local government unit, such as the province. However, if the assistance or grant requested by the local government unit has national security implications, approval by the appropriate national government agency is necessary.

Since the approval of the Local Government Code in 1991, there has been a large jump in the revenues and expenditures of local governments. Revenues increased from 27.4 billion pesos in 1992 to 120.3 billion pesos in 1999. Expenditures increased from 24.4 billion pesos in 1992 to 110.8 billion pesos in 1999.³

³ www.unescap.org/hrset/lgstudy/country/philippines/philippines.html.

The Master Plan for Implementing the Code

As an expression of the national government's serious intention to bring about effective local governance, a Master Plan for the Sustained Implementation of the Code was formulated and adopted in 1994 as the basic framework for a more synchronized approach in preserving the gains and strengthening the momentum of decentralization. Its preparation was undertaken with the active participation of national government agencies, local governments, and NGOs. Covering the period 1993 to 1998, the plan hoped to bring together the efforts of various sectors in sustaining the code's implementation in the areas of policy innovation, effective operating systems, organizational development, and capacity building.

The specific objectives of the Master Plan were the following:

- To strengthen the capability of local governments to effectively deliver and expand devolved basic services and exercise their regulatory functions
- To provide an array of locally adaptable technologies in planning, budgeting, consensus building, and management systems that are appropriate, transparent, and accountable
- To assist local governments in local revenue mobilization, including capital investments financed through varied and non-traditional means, such as build-operate-transfer schemes and partnerships and joint ventures with the private sector and other institutions
- To expand local government partnerships with NGOs, people's organizations, *barangay* associations, and the private sector.

Three phases were outlined in implementing the Local Government Code: (i) the changeover phase, (ii) the transition phase, and (iii) the stabilization phase. The first phase involved the transfer to local governments of the devolved functions with the corresponding assets and personnel, and had been substantially completed in 1992–93. Of the total government personnel of 4 million, local government personnel constitute only 1.4 million. In the transition phase, the national and local governments were expected to have institutionalized their adjustments to the decentralized

schemes. The last phase, the stabilization period, focused on building adequate capabilities of local governments in managing local affairs with national government agencies providing support and technical assistance.

Local Government Capacity

The national government through the Department of the Interior and Local Government Academy designed an Integrated Capacity Building Program to enhance the managerial and technical competencies of local officials and their staff. Several institutes for local government administration were established in strategic areas in the country to help the Local Government Academy in conducting the training in five major areas: management systems, development planning, local legislation, local financial administration, and community mobilization. International donor agencies also funded capacity building programs undertaken by various universities to train local governments. The Asian Institute of Management was commissioned to enhance the skills and knowledge of newly elected governors and mayors to formulate their executive development agenda, which they would implement during their three-year term. Strategic planning workshops were also undertaken to help local governments craft their development objectives, strategies, and programs.

The training of local elected officials is a continuous process during the three-year term of the local officials. Initially, the training activities were funded by either the national government or international donors. However, as the revenues of the local governments increased, they funded their own staff development, including the preparation of their master development plans. Resource-scarce local governments rely on the support of international donor agencies and the national government for their capacity building requirements.

The Role of NGOs in Local Governance

The Local Government Code created an enabling environment for local governments, NGOs, and people's organizations to cooperate with

each other in the achievement of common objectives. The democratic space paved the way for the proliferation of various types of NGOs. Although some NGOs proceeded to collaborate and entered into partnerships with local governments, others remained critical and refused to join the participation bandwagon. Some feared cooptation and others did not have the confidence to deal with the local bureaucracy, given their limited knowledge and understanding of how the bureaucracy worked. Some international donors funded capacity building programs for NGOs to develop their competence in dealing with the bureaucracy and in gaining new skills and knowledge to push the democratic governance agenda.

In general, although suspicions and mistrust remain on both sides, there has been a significant increase in collaborative undertakings between local governments and NGOs. Some local governments contracted NGOs to deliver basic services. More and more, NGOs and other community organizations have served as alternative delivery mechanisms for various programs and projects at the local government level. Some NGOs have remained as watchdogs to exact performance from local governments and prevent and expose corrupt practices in the awarding and implementation of contracts for infrastructure projects.

NGOs also complemented the national government's capacity building efforts for local governments. A total of 28 NGOs were involved in the Local Development Assistance Program funded by the U.S. Agency for International Development in 1992–94 to train and provide consultancy services to local governments, NGOs, and people's organizations. Even after the project ended, the NGOs continued to provide capacity building services to the local governments by charging minimal fees.

The City of San Fernando

San Fernando is strategically located in the high-growth Manila-Clark-Subic Economic Triangle. The city, home of world-renowned giant lanterns, is one of the 21 towns of Pampanga, a province in Central Luzon. Situated 67 kilometers north of Manila, it has a population of 221,857 (year 2000) distributed among its 34 *barangays*.

Compared with the largest city in the country, with a population of 2.2 million, San Fernando is considered small and thus easier to manage. San Fernando is not only a major commercial center, but also a provincial and regional government center in Central Luzon. The provincial capitol and regional offices of all but three national government agencies are located in the city.

No one in the area could forget the damage inflicted by the Mount Pinatubo eruption in June 1991, considered the second largest volcanic eruption of the 20th century. Although the volcano is actually located in the nearby province of Zambales, the greatest damage occurred in Pampanga, especially in the low-lying towns of the province. As many as 800 people were killed and 100,000 were left homeless. On June 15, 1991, after nine hours of continuous eruptions, millions of tons of sulfur dioxide were discharged into the atmosphere, resulting in a decrease in the temperature worldwide over the next few years.

In October 1995, Typhoon Sybil with its torrential rain and strong winds lashed at the slopes of Mt. Pinatubo. The deadly lahar—a mud-flow mixture of volcanic ash and rocks dumped by the 1991 eruption—began to edge downward, slowly at first, and then in an unstoppable avalanche six meters high, sweeping through the towns of Pampanga. Six of the most populated *barangays* in San Fernando were nearly submerged by the massive lahar flow and flood. The devastation triggered an outflow of investment and businesses.

After several years, San Fernando has risen from the ravages of the lahar and has become a model of good local governance in the country. The transformation of San Fernando began with the 1995 election of a new mayor who came from humble beginnings and did not belong to any of the political clans in the province. Having come from civil society himself, he vowed to make the government more responsive, transparent, participatory, and accountable to the citizens for its actions.

Identifying Problems

In July 1995, when Dr. Rey Aquino assumed the post as mayor of San Fernando, which was a municipality then, he was confronted with the

twin problems of inadequate delivery of essential services and lack of funds to perform its devolved functions and pay its long overdue debts. San Fernando had a budgetary deficit of more than 12 million pesos, 35 million pesos payable to the provincial government in unremitted taxes, and unpaid bills of approximately 8 million pesos for water, electricity, and telephone services. In addition, the municipal government owed various private contractors millions of pesos for completed infrastructure projects.

Enabling Citizen Participation

The municipal government realized that without the active support and participation of the citizens of San Fernando, the dream of transforming the municipality would never become a reality. The mayor knew that the job could not be done by the government alone, especially having no resources and being saddled with debts. He looked to the community for focus (the priority needs of citizens) and a source of resources (taxpayers, especially businesses).

The mayor went to the various sectors to secure their involvement in setting the directions and priority concerns of his administration. After consulting with various groups, the city government embarked on a five-point mission to improve the quality of life of the people of San Fernando:

- Rehabilitate the *barangays* that had been adversely affected by the lahar and flooding, and protect San Fernando from natural or man-made calamities
- Open the city's doors to international markets and at the same time protect local entrepreneurs, encourage the industrialization of agriculture and other traditional industries, and develop more industrial and commercial establishments
- Maintain a clean and healthy environment
- Create an atmosphere of peace and sustain the sense of unity of the Fernandinos
- Deliver services tailored to the needs of the poor.

Energizing the Bureaucracy

Having determined what needed to be done, the mayor's next concern was how to energize the bureaucracy and develop a culture of performance. He set up a staff performance evaluation system and met with department heads to plan their work and set targets. The plans and budget were further fine-tuned based on the results of the mayor's dialogue with various sectors before the end of each year.

After dealing with staffing concerns, the city government next focused on where to get the needed resources to finance its programs. It also saw the need to eventually work toward converting the municipality into a city. With conversion to a city, the local government hoped to increase its IRA because cities get a larger IRA (only 114 cities divide among themselves the 23 percent IRA share of the cities) compared with the share of the municipalities (1,542 sharing the 34 percent IRA share).

Reducing Expenses and Showing Political Will

Before embarking on an intensive tax collection campaign, the city deemed it necessary to reduce its administrative expenses, starting with reducing the number of staff from 586 to 446. By trimming the size of the bureaucracy, the municipality saved 700,000 pesos a month or 8.4 million pesos a year. The city saved money on utilities and office supplies by cutting off houses that had illegal electrical connections to government buildings, and controlling the procurement and use of office supplies. This move to reduce expenses set the stage for the prudent management of expenditures, especially supplies, electricity, and other utilities. The Office of the Treasurer closely monitored the monthly consumption of utilities.

The departments prepared budgets that were strictly followed, and they required explanations for any changes to prevent arbitrariness, inefficiency, and sloppy budgeting. These internal housekeeping efforts sent a strong signal to the community that the city government was serious, sincere, and committed in its desire to reinvent itself. When the city embarked on its intensive campaign to increase collections to improve the delivery of public services, the people, especially the business com-

munity, responded positively. They expressed willingness to pay their taxes in the correct amount and on time.

Institutionalizing Citizen Participation

To facilitate the participation of various sectors in its governance, the city constituted the Local Government Code-mandated local special bodies as follows: Local Development Council; Prequalification, Bids and Awards Committee; Local School Board; Local Health Board; and Local Peace and Order Council. The mayor was the ex officio head of all the local special bodies.

The Local Development Council formulated the multi-sector development plan and coordinated the various development efforts of the city. The council had 51 members with 14 representatives from the NGO sector who chose their own representatives. As a commitment to development planning from below, the *barangay* development councils were also constituted to mobilize people's participation in local development efforts, prepare the *barangay* development plans, and monitor and evaluate the implementation of the plans. The councils met at least twice a year.

The Local School Board advised the city legislative body on education matters, advised the Department of Education on the appointment of school officials, and determined the budget for the education sector. The priorities included the construction, repair, and maintenance of school buildings and other facilities for public elementary and secondary schools. The Local School Board was co-chaired by the district school supervisor and had only three members—from the City Council, the president of the Parent-Teacher's Association, and the teachers' organization. The Local School Board met at least once a month.

The Local Health Board proposed the annual budget for the health sector, advised the local legislative body on health matters, and advised local health agencies on health personnel selection and promotion. The board was composed of five members, with one representative chosen by the NGOs involved in the delivery of health services. It met at least once a month.

The Peace and Order Council formulated plans and recommended measures to improve peace and order and public safety in the city, and

to monitor and assess the implementation of peace and order programs. The council had 18 members. Three NGO representatives, appointed by the mayor based on recommendations of the various sectors, also sat on the council.

The Pre-Qualification, Bids and Awards Committee had five members, including representatives from the business, professional, and NGO sectors, to ensure transparency in the bidding and awards process. Two members were from the City Council. The Audit Commission had one representative as an observer.

The meetings, discussions, and consultations of the above special bodies were not exclusive to the formal or official members. All recognized NGO, civic, and professional organizations in the city were invited. Aside from the public announcement of meetings or public hearings in the city, individual invitations were sent to concerned sectors.

Broadening Citizen Participation

In addition to the code-mandated special bodies, the City of San Fernando established various committees and councils to broaden citizen participation and make the process of governance more inclusive. The city established the Municipal Nutrition Committee, Solid Waste Management Committee, Public Market Advisory Council, City Agricultural and Fishery Council, City Economic Council, City Council for the Welfare of Disabled Persons, Committee for the Welfare of Children and Youth, Anti-Mendicancy Task Force, Very Clean and Evergreen Committee, City and Barangay Disaster Coordinating Council, and City Task Force on Human and Ecological Security. Each of these special bodies conducted regular monthly meetings. While most of these bodies did not have city officials as chairpersons, meetings were held in the City Hall and were open to any city official or resident.

Approximately 50 NGOs operated in the City of San Fernando. One of the most active ones with a special niche was the Inocencio Magtoto Memorial Foundation (IMMFI), an organization for children's health concerns. Its main thrust was preventing disabilities among children through primary health care, education, and training to detect impairment at an early stage and conduct initial interventions. The city gov-

ernment has tapped this NGO to train daycare workers, and has funded the salary of an IMMFI staff member involved in a pilot project for children. Another very active NGO was formed by senior citizens, who also secured funding from the city government for services the city did not have the capacity to provide (see Appendix Table 8.1).

Interacting with Citizens

The mayor also formed an informal group of 15 representatives from various sectors that met as often as necessary to help the mayor feel the pulse of the people. The mayor did not rely on formal structures to engage the citizens, but created mechanisms for direct interaction with them. For example, Barangay Day was designed to bring the government closer to the people in the *barangays*. The city designated a regular Barangay Day to give each *barangay* the attention it deserves. The mayor, local legislators, and department heads went to a particular *barangay* on a scheduled day to engage in dialogue with the people, listen to them, get their suggestions, clarify and prioritize issues, and come up with practical solutions to address the most pressing issues. In addition to the city government team, doctors, nurses, and dentists attended to the health care needs of the *barangay* residents. Other services included seed distribution and animal vaccination.

Part of the daily schedule of the mayor was to visit a *barangay* and listen to the people and interact with them. In addition, his office was open to any citizen who wanted to meet with him. Outside of the usual office hours and on weekends, his house was open to receive guests. He had a “civic room” in his residential compound, which was open 24 hours a day, seven days a week.

Every December, the mayor called for a caucus of the various groups so they could express their concerns and ideas on how best to govern the city. The mayor listened to the various groups, sought clarification, asked questions, and responded to some of the issues and suggestions. The groups usually arrived at a consensus on the priority issues and concerns and the corresponding actions to be taken. The results of the caucus served as a key input in the planning and budgeting of the various departments.

Increasing Revenue Generation

Information Campaigns

The message conveyed to the citizens revolved around the theme of paying taxes, fees, and charges for better public service. The city government made a promise to its citizens that the increase in resources would be used to undertake flood prevention measures; develop the infrastructure of the city that had been destroyed by Mt. Pinatubo's lahar flow; construct school buildings and daycare centers; and develop the pool of human resources. An information campaign using the media was undertaken with the help of the various sectors.

The city conducted dialogues with the accountants of major businesses to inform them that in preparing the declaration of gross income of their respective companies, the reported amount must not be too low but more or less approximately equal to the actual gross income of their respective firms. The city made arrangements with banks so that the income from loans that were generated in San Fernando were declared in the city and not in the lending center, which was in another locality. For payment of the annual community tax, the city coordinated with the personnel officers in each of the large firms in the city. The personnel officers provided information on the actual income received by each employee as the basis for computing the community tax. The usual practice was to pay the minimum amount, which was much lower than the amount based on the actual salaries.

The Tax Enforcement Unit

To systematize the collection of business taxes, fees, and other charges, the city formed the Tax Enforcement Unit, which was composed of staff from various offices whose first assignment was to prepare a computerized master list of all persons and establishments doing business or trading in San Fernando. Surveys were undertaken to come up with a list and basic information on the establishments operating in the city. Tax mapping was done by all the *barangays* with the help of the resi-

dents. The master list served as a reference for determining who paid and who did not pay their taxes.

Businesses that paid their taxes were given a number to be prominently displayed for easy monitoring. The plate was similar to the ones issued by the Land Transportation Office to car owners when they registered. The Tax Enforcement Unit submitted a report to the Treasurer listing firms operating without business permits and those that had not paid their taxes. The Office of the Treasurer then issued a demand letter to the delinquent taxpayer, requesting payment within 10 days from the receipt of the letter. The Philippine National Police Investigator would then file a criminal complaint in the municipal trial court against taxpayers with delinquent accounts.

The Mayor's Aid for Peace, Order, and Cleanliness

During the last quarter of 2001, the city formed the Mayor's Aid for Peace, Order, and Cleanliness. The watchdog of the administration, it was tasked to report on business establishments not paying their correct taxes and other wrongful or illegal activities to the proper authority. The mayor deputized a number of employees in the local government with good track records, and solicited the help of the *barangay* officials in this endeavor.

The Mayor's Aid for Peace, Order, and Cleanliness and the Tax Enforcement Unit complemented each other's work. The Tax Enforcement Unit worked primarily before, during, and after the tax period. The Mayor's Aid for Peace, Order, and Cleanliness had no fixed schedule. It worked year-round to secure accurate and comprehensive information on business establishments in the city.

A One-Stop Shop

A one-stop shop was set up in the treasurer's office for all the offices in the city that collected taxes, fees, or charges, so that taxpayers need not go from office to office. Taxpayers were given an assessment form listing all their taxes, fees, and licenses. The shop provided a simple, easy-to-follow brochure informing the taxpayer of the steps to follow and the documents required.

Communication with Citizens

The city published quarterly and annual reports on accomplishments and finances, summarizing its income and expenditures and the list of projects implemented, and giving the cost, status of implementation, and implementing agency for each project. The reports were widely circulated to inform the citizens about where their taxes went. The citizens were welcome to ask questions about the report. The mayor also provided weekly updates.

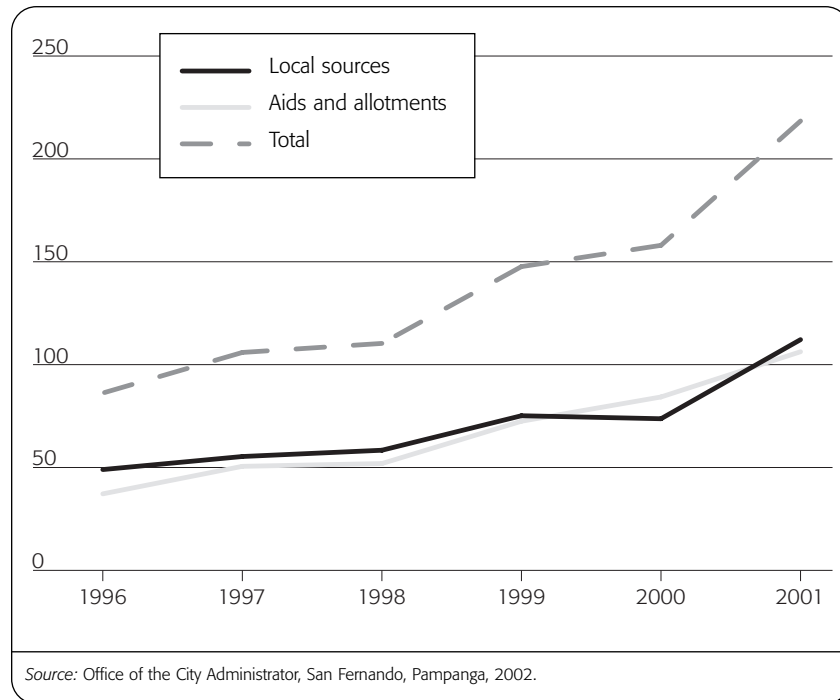
Recognition of Taxpayers

Recognition was given to the “First 50 Biggest Business Taxpayers” and the “First 50 Biggest Real Property Taxpayers” through a special program held for the purpose where each awardee received a plaque from the city mayor. It was the city’s way of thanking the citizens for their cooperation. Again, the mayor reported on the accomplishments of the projects supported by taxpayers’ money.

Accomplishments and Results*Increased Revenues and Expenditures for Services*

The revenues of the city increased steadily from 1996 to 2001, both for locally generated resources and external resources (primarily the Internal Revenue Allotment share from the national government). The largest increase in revenues was in 2001, with a total of 218 million pesos, followed by around 158 million pesos in 2000. The increase in local revenues in 2001 was primarily due to the entry of a large mall operator in the city, which generated 1,600 jobs and business firms like Robinson’s, Hyundai, Honda, and Ford. The smallest increase was in 1996, amounting to only about 86 million pesos. The increase in local revenues was around 60 percent between 1996 and 2001. On the basis of these values, it can be concluded that the city government was successful in its revenue-generating strategies (see Figure 8.1).

Figure 8.1. Revenues Generated, Local and External, 1996–2001
(Millions of pesos)



The increase in local revenues was always greater than the increase in IRA between 1996 and 2001, except in 2000, when the IRA share constituted 53 percent of the total revenues collected while the local revenues were only 47 percent. The increase in the IRA share is enjoyed by all the local government units in the country, regardless of whether they have performed well or generated their own local revenues. The disbursement of the IRA share by the national government is decreed by law and its release is automatic. San Fernando's IRA shares in 1996–2001 were based on its status as a municipality, but it was to receive a larger IRA share because of its official conversion from a municipality to a city in 2001.

The higher percentage of locally generated revenues vis-à-vis the IRA is significant in the Philippine setting because more than 70 percent of the local governments in the country are heavily dependent on the

IRA, especially among the provinces and municipalities, where the usual IRA share vis-à-vis local revenues is 80–95 percent.

Although revenues were increasing, expenditures were also increasing, especially for socioeconomic services. In 1996, socioeconomic services constituted only 44 percent of the total expenditures, but in 2001, they increased to 61 percent (see Appendix Table 8.2).

Using Taxpayers' Money for Projects Citizens Value

The city spent taxpayers' money on high-impact, high-visibility projects that carried the banner: "Projects implemented by the taxes you paid." This section describes these projects/activities and acquisitions.

Improved Infrastructure at Reduced Cost

The increase in revenues allowed the city to acquire three dump trucks, one pay loader, one grader, and one backhoe, altogether worth 6 million pesos, which it used in undertaking infrastructure projects rather than contracting them out. Through this scheme, the city saved more than 50 percent. For instance, the city government used to pay contractors as much as 500,000 pesos for a 100-meter *barangay* road, but spent less than half that amount by doing the job itself with the new equipment. The city paved almost all the *barangay* roads, built a bridge, and renovated the city hall. The city was able to clean and clear all the drainage canals, widen the waterways, and build new canals. And it built a pumping station worth 33 million pesos. Roads were consistently maintained and filling materials were made available to low-lying *barangays* free of charge. A new public market was constructed to replace the one buried by the lahar. The vendors who used the side streets and sidewalks to sell their wares were given space inside the new market. Plans are under way for the rehabilitation of the old public market to serve as a bus terminal and parking area, and for construction of cold storage facilities.

Improved Access to Essential Services

Because the regional hospital is located in San Fernando, the city government concentrated its efforts on community-based primary and preventive health. A new Rural Health Unit building was constructed in San Agustin, complete with staff and facilities to service the health needs of the population residing in the northern part of the city. The city also acquired two ambulances.

The city renovated and repaired 21 elementary school classrooms. A city scholarship program supported more than 200 scholars in college, high school, and elementary school, including funds for monthly allowances, school supplies, and miscellaneous expenses. The city also granted additional allowances to public school teachers to augment their monthly salaries from the Department of Education. A special day for public school teachers from elementary and high school was regularly held to recognize their continuing efforts to improve the quality of public education.

The children were also given priority. A total of 42 daycare centers were constructed—40 were distributed among the 34 *barangays* of the city, and 2 were built in the evacuation center to serve the needs of the Mt. Pinatubo evacuees. The daycare workers were trained in child development by the San Lorenzo Child Study Center.

Employment and Livelihood Assistance

Through its Self-Employment Assistance Program, the city provided skills training and financial assistance to help individuals in crisis situations. The city was able to attract major business establishments to locate in San Fernando, creating jobs for the residents. The local government had an agreement with these business establishments that 50 percent of the workers they hired would be residents of the city. The city conducted skills training to provide individuals with the skills needed by industries. There were also special programs to encourage employment of students.

Other Services

Trash collection was made easier with the acquisition of three dump trucks in addition to those donated by the Japan International Cooperation Agency (JICA). The surroundings became cleaner, especially the streets, which used to be littered with uncollected garbage. The city government bought a six-hectare landfill as a major component of its recently launched solid waste management program.

A major bottleneck a growing city needs to address is traffic congestion. A traffic management unit was formed, composed of volunteer traffic aides, including women who were trained in traffic management to augment the police force. The sidewalks and side streets were cleared of vendors and stalled vehicles for smoother flow of traffic.

The city had its own well-equipped 24-hour radio and telephone communications network connecting all the *barangays* and various parts of the city to provide up-to-date information and timely warnings on the weather, lahar flow, and floodwater, especially during the rainy season. Watch points were established in strategic areas in the city to monitor the lahar flow and floodwater.

Key Enabling Factors for Citizen Participation

The mayor attributed the transformation of the city to the people of San Fernando who cooperated and collaborated with the city government in all its undertakings. The people used their own resources to build the St. Ferdinand People's Dike, a five-kilometer dike along the boundaries of the city, which cost around 14 million pesos. Living in a calamity-prone area, the people have internalized the value of sharing and caring for each other. Participation was not limited to certain tasks, it was borderless, encompassing all aspects of city life.

Why did citizens participate in and own the transformation process in San Fernando? This section describes the key enabling factors.

Crisis

A crisis provides opportunities for people to unite, collaborate, and work together. When survival is at stake, people are driven to collective action. The city government capitalized on the crisis and used it to move people to action.

Transparent, Committed, and Credible Leadership

According to a number of NGO and business leaders, people responded positively to the local government's call for participation because they believed in the sincerity, commitment, and noble intentions of the mayor. He possessed the traits they admired in a leader. He was a mentor to his staff, and there was no taint of corruption or wrongdoing attributed to him. People also admired the mayor's political will in decreasing the staff in the city government to reduce expenses. He had an inclusive approach, always ensuring that no group was neglected or left behind in the development of the city.

Active Civil Society Organizations

Most of the residents belonged to various organizations in the city. Several NGOs of various types also operated in the city. The educational and consciousness-raising efforts of the various organizations have developed a vigilant citizenry conscious of their rights and responsibilities. As such, it is not difficult to connect with the people by listening to and learning from them. To make them active participants in the governance of the city, the local government created formal and informal mechanisms for participation. As more people participated in the various programs and processes, they developed ownership of the programs. Conscious of their responsibilities, they paid their taxes because they knew where their taxes went—for programs and projects they had identified, planned, and helped implement, monitor, and evaluate. The media contributed greatly in the continuing dialogue, engagement, and exchange among the local government and the various sectors.

Inclusionary Mechanisms and Processes

Formal mechanisms are important for channeling people's participation, but informal mechanisms are also important. The whole process was perceived by the people as inclusionary rather than exclusionary or favoring certain groups in society. While the city had constituted the code-mandated councils, informal mechanisms delivered a stronger message to the public in encouraging people and businesses to cooperate and collaborate with the government. The formal and informal mechanisms and the open invitation to all groups to participate in any of the meetings of the various councils and committees removed the barriers to participation.

Efficient and Transparent Management Systems

The local government of San Fernando has strong internal management systems, especially its financial control of the treasury, the budget, accounting, and assessment. The city government has computerized all the departments, including payroll preparation, real estate property tax information system, and local service registry. As a multipurpose organization, it has shown that it has the capacity to respond to the demands of the citizens. Transparency, accountability, and participation have become a way of life in the city government. It has been open to public scrutiny and transparent in all its financial dealings. Broad linkages and close contact have been established with all the constituents. There has been teamwork among the heads of offices and employees. Close coordination was facilitated by the weekly Executive Conference in which each department reported on the activities undertaken, the issues and concerns of the department, and its plans for the following week.

The city government made sure that once the people were convinced of the need to pay their taxes, the systems were in place to make the payment of taxes a pleasant experience. The one-stop shop facilitated faster payments and improved information collection. The Tax Enforcement Unit and the Mayor's Aid for Peace, Order, and Cleanliness ensured that all taxpayers paid their taxes and paid the correct amount.

Accountability

Quarterly and annual reports were prepared on the progress of the various city projects, amounts spent, agencies involved, and activities. Annual reports were also prepared summarizing the projects accomplished for the year. These reports were circulated to the citizens for their information. The mayor also provided the citizens with weekly updates in his radio program. A continuous feedback and feed-forward loop was instituted to ensure transparency, participation, and accountability.

Reaping the Rewards

The city of San Fernando is one of the most awarded and recognized cities among the 114 cities in the country. Two major awards it has received are the Galing Pook Award for Innovation and Excellence in Local Governance and the Philippine Cities Competitiveness Ranking Project 2002 award.

The city was recognized in 2000 with a Galing Pook (Good Place) Award for Innovation and Excellence in Local Governance for its program entitled "Breaking Financial Barriers." San Fernando was recognized for its creative strategies in increasing local revenues without increasing the tax rates. The Galing Pook Awards were managed by the Center for Development Management of the Asian Institute of Management in cooperation with the Department of the Interior and Local Government and the Ford Foundation. In the past seven years, the Galing Pook Awards have received a total of 2,100 program applications from various local government units in the country. They have recognized 70 outstanding programs (10 each year for the past seven years) based on five selection criteria: effectiveness, positive socioeconomic and environmental impact, people empowerment, transferability/sustainability, and creative use of powers provided by the 1991 Local Government Code.

The most recent recognition the city has received is from the Philippine Cities Competitiveness Ranking Project 2002, which is managed by the Policy Center of the Asian Institute of Management in partnership with the Department of Trade and Industry. The project

assesses the capacity of the city to provide a nurturing and dynamic environment for its local enterprises and industries; the ability of the city to attract investments, entrepreneurs, and residents; efficient use of natural resources in the context of sustainable development; and the ability to raise the standard of living of residents. Business leaders assess the cities based on the identified drivers of city competitiveness, such as linkages and accessibility, dynamism of the local economy, cost competitiveness, quality of human resources, infrastructure, responsiveness of local government, and quality of life. In 2002, San Fernando was ranked number two (it ranked number four in 1999) among all the cities included in the ranking. It was considered most competitive among the small cities in 2002. The city was highly rated on responsiveness of the local government.

Lessons Learned

The story of San Fernando shows that people participate because they know it is for their own good and they benefit from the process. They paid their taxes because they saw where their taxes went. The credibility and transparency of the local government were important in convincing the citizens to get involved and even contribute financial resources to major infrastructure activities, such as building a dike.

Sound fiscal administration is important in enabling citizens to participate. It does not exist in a vacuum, separate from the overall development efforts of the city government. It should be linked to performance and successful, high-impact, high-visibility projects that the people see as important to them. Doing something relevant and worthwhile generates more public support.

Leadership matters, especially leadership that has a clear vision/mission, with qualities deemed by the people as important, such as credibility, warmth, sincerity, simplicity, openness, and transparency. The leader also needs to communicate regularly with the internal and external stakeholders and must have the ability to balance the various competing and conflicting needs of its multiple stakeholders. And more

importantly, the leadership should not be indebted to nor controlled by a special few.

Internal management structures and systems—especially financial controls—are important to satisfy the citizens' demands for accountability and transparency in all financial transactions of the city government. A highly credible leadership is a product of transparent systems and processes.

Transferring power and functions as well as resources and the power to raise own revenues increase the capacity of local governments to become effective in performing their mandated functions and in responding to the priority needs of their citizens.

Success in generating local revenues requires learning to be efficient first in tax collection before moving on to increasing taxes to obtain the support of the citizenry.

Conclusion and Prospects for Sustainability and Replicability

The case of San Fernando points to the transformative dimension of participation with the local government as enabler. The twin problems faced by the city government and the citizens were effectively addressed. Guided by a clear mission, each partner drew strength from the other and did what it promised to do. Citizen participation in the case of San Fernando was a relatively seamless process, a continuous flow of involvement and a chain of events that were interconnected and encompassing. The experience showed that leadership in tandem with effective internal management structures and processes was credible and effective in harnessing financial resources and making the citizens active partners in governance. The citizens and the city government did not wait for the national government or any external entity to help them. They relied on their own strengths and resources and trusted each other as they blazed the trail to the transformation of their city. This case is certainly good local governance in action.

Will the Journey Continue Even with the Change in Leadership?

The people are a major resource and should be involved in defining their own priority needs and have the resources to meet those needs. Local government should think about where to obtain resources only after it has defined what it should be doing in partnership with its citizens.

The San Fernando story shows the changing role of local government from provider of services to enabler of people's participation for the greater good. Building ownership by the community of the programs and processes is key to sustainability.

Participation has become second nature to the people of San Fernando through inclusionary formal and informal processes and mechanisms. At the start of the mayor's administration, formal structures were introduced, and as the years went by, the city government and the citizens relied more on informal means of engaging with each other.

The structures are in place, and the values of transparency, accountability, and participation have been embedded to some extent in the hearts and minds of the people. Performance standards have been set by the administration of Mayor Aquino. And to paraphrase what one city mayor in the Philippines said:

Getting the right people, building their capacity, creating distinct structures to operationalize the programs, putting in place the legal basis through the passing of ordinances...These we have actually done precisely to ensure sustainability. But more than these, we have been trying to institutionalize things in the minds and hearts of our people. Somehow, I am confident that if the people feel the full impact of what we have been trying to do, then it will become part and parcel of public expectations from the local government and it will become the standard. With my remaining days in office, I will try to lift that standard as high as I can.

Can the San Fernando Case Be Replicated?

What the city of San Fernando did was not magical. It simply implemented what it was mandated to do by the Local Government Code. It required a lot of political will combined with a host of other factors that produced the desired results. This could easily be done by other cities in the country, but three key factors need to be present—a strong civil society, local elected officials indebted to no one but the people, and a broad revenue base.

However, the local government landscape in the Philippines is marked by hundreds of small municipalities with no economies of scale—out-migration areas, small populations, and narrow revenue bases. The highly fragmented setup had been attributed to the practice of gerrymandering or creating new turf for politicians whose terms have expired and who can no longer run for public office unless they move to a new area or unit.

Given the present distribution of local governments, the strategy employed by some local governments that have realized their limitations was to enter into cooperative arrangements with other local governments, for example, in managing ecosystems or pursuing joint economic development efforts.

There is a need to study the possibility of amalgamating small municipalities to increase their capacity to achieve genuine local autonomy and generate their own resources for their own use so they would not be dependent on external sources for their continued survival. The Local Government Code of 1991 has been up for review, and several amendments have been proposed to increase the financial capacity of local governments. Various sectors have been clamoring for a reexamination of the present distribution formula (population, land area, and equal sharing) of the Internal Revenue Allotment to include municipal waters, equity, and performance considerations. Equity would give more resources to resource-poor local governments; performance considerations would provide incentives to those who do their job well; and including municipal waters would be important because most of the municipalities are located in coastal areas, the Philippines being a country of 7,100 islands.

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Since it is an archipelagic country, the national government was right in decentralizing powers and functions to the local governments. The country is too spread out for a central government to manage effectively. Inspiring stories abound of how local communities in partnership with their local governments have transformed their localities into pleasant places to live, serving as concrete examples of how devolution has worked in the country. Many challenges remain, but success stories inspire hope that better things can come when each one participates and asserts the collective will for the common good. Indeed, the San Fernando story has shown what the local governments and citizens' groups can do as effective partners of the national government in pursuing the people's development agenda.

Appendix Table 8.1. Nongovernmental Organizations and Type of Services Rendered, 2000

Nongovernmental organization	Type of services
Soroptimist International	Skills training for victims of domestic violence
San Lorenzo Ruiz Center for Studies	Seminar workshop on scouting, early child-care, and development
Kiwanis Club of San Fernando	Socially uplifting and livelihood programs for people with disabilities
Social Action Center of Pampanja (SACOP)	Scholarship for mendicants
CLIT	Scholarship for deserving out-of-school youth
Pepsi Bottling Company	Skills training for out-of-school youth
Cosmos Bottling Company	Materials for daycare centers
SHEAVERS	Skills training
Pag-asa ng Buhay Foundation	Skills training
Fernandino United Merchants and Traders Association (FUMTA)	Services for out-of-school youth
SURE	Counseling for street children
Philippine National Bank Employees Association	Assistance for street children
Christ In You	Skills training and services for disaster victims and street children

Source: Office of the City Administrator, San Fernando, Pampanga, 2002.

Budget item	1996		1997		1998		1999		2000		2001	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Revenue												
Local sources	49.00	57	55.34	52	58.39	53	75.16	51	73.70	47	112.15	51
Aid and allotments	37.19	43	50.57	48	51.92	47	72.49	49	84.28	53	106.27	49
Total	86.19	100	105.92	100	110.31	100	147.65	100	157.98	100	218.42	100
Percentage increase over previous year			2.88		4.15		34.00		7.00		38.00	
Expenditure												
General government	33.41	47	45.19	48	45.79	44	52.38	43	56.44	42	74.80	39
Socioeconomic services	30.71	44	45.39	48	53.75	51	65.22	54	77.78	57	115.95	61
Capital outlay	6.51	9	3.33	2	4.88	4	2.94	2	1.41	1	0.00	0
Total	70.64	100	93.90	100	104.43	100	120.54	100	135.63	100	190.74	100
Percentage increase over previous year			32.93		11.21		15.43		12.52		40.64	
Surplus/deficit	15.56		12.02		5.89		27.11		22.35		27.68	
Source: Office of the City Administrator, San Fernando, Pampanga, 2002.												

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PART III

CITIZEN PARTICIPATION IN LATIN AMERICA

CHAPTER 9

POPULAR PARTICIPATION
AND POVERTY REDUCTION IN BOLIVIA*George Gray Molina*

This chapter analyzes the impact of decentralized social sector investments in education, health, and basic sanitation on poverty reduction in Bolivia. Since the implementation of the Popular Participation (1994) and Administrative Decentralization (1995) reforms, total social investments have tripled and the local share in social investments has increased five-fold.

The chapter reports four findings related to social sector investment and poverty reduction. First, in the 1990s poverty, as measured by a basic needs index, decreased from 70.9 percent to 58.6 percent. Second, local social investments made by municipalities are positively and significantly correlated with poverty reduction, even after controlling for population and population growth. Third, local social investments are not significantly correlated with increases in health and education outcomes. And fourth, Popular Participation has been successful at increasing access to education, health, and basic sanitation infrastructure, but not at improving social service delivery. Four explanations related to institutional design are offered to account for these results: an overcentralized education and health service delivery system, an intergovernmental transfer system that favors unconditional block grants over selective grants, local allocation rules that favor infrastructure over service delivery, and local political economy factors that skew decisionmakers toward small, visible, and scattered infrastructure projects.

The Popular Participation Law

The Bolivian Popular Participation reform, launched in 1994, aimed to decentralize public investment to municipal governments and institutionalize decentralized participation for grassroots organizations in urban and rural areas. Eight years into the reform, Popular Participation has been lauded as an ambitious and successful experiment in decentralized policymaking, and has been regarded throughout the region as a case study in best practice.

Despite its achievements, the reform has not been evaluated in terms of social impact, service delivery, or poverty reduction. Newly available census data from 2001 allow municipal comparisons for the 1992–2001 intercensus period, before and after the adoption of the Popular Participation reform. The census data register both increased access to social services and increased impact on education and health outcomes, thus allowing a greater degree of discrimination than is usually possible through household surveys.

The Popular Participation Law (Law 1551) is a relatively complex piece of legislation organized under four titles, seven chapters, and 46 articles, as well as more than half a dozen complementary decrees sanctioned over a period of three years. The interest that has arisen from the legislation stems from the relatively comprehensive reform of territorial, political, administrative, and fiscal laws that followed the adoption of the Popular Participation reform.

Four aspects of the law are of particular interest for the purposes of this study: (i) the creation of new municipalities spanning urban/rural areas throughout the country, (ii) the adoption of new rules of participation as framed by participatory planning procedures, (iii) the recognition of a wide array of social players as subjects of popular participation, and (iv) the transfer of additional fiscal resources. Taken together, this new architecture of participation provides a comprehensive political framework by which to follow the trajectory of adoption and implementation of the reform. The study of popular participation is largely the study of how this set of rules was adopted and played out in various political contexts.

New Municipalities

The technical debate behind the choice of territorial unit was key to both the state building and participatory aspects of the reform. Prior to 1994, the predominant view focused mostly on transferring more fiscal and administrative powers to departmental prefectures. However, the municipal and indigenous streams that inspired the legislation pushed for decentralization to the municipality or community level. If the legislation were to succeed in transferring power to a viable number of municipalities, it would have to revive the *seccion de provincia*, an obscure administrative division that had fallen into disuse for decades and suffered severe fragmentation by the explosive growth of subprovincial cantons.

The legislation that created the *secciones de provincia* could be traced back to the mid-1800s, and had survived both the concentration of power during the national revolution and the subsequent fragmentation of local government during the democratic transition. The number of *secciones de provincia* reached 308 at the time the law was promulgated and has since increased slightly. A difficulty with the choice of *seccion* was that limits were not clear for any of the 300 municipalities, and close to 100 were severely underpopulated. However, the fact that municipalities covered the entire territory led to a significant expansion in the physical presence of the state across Bolivia.

Three territorial characteristics stand out in describing the municipalities: the old (pre-1994) and new (post-1994) contrast between municipalities, diversity in population size, and urban/rural settlement patterns. Although, strictly speaking, all municipalities were new after the Popular Participation law, there is a useful distinction gained by contrasting municipalities that existed formally (by electing a municipal council) previous to 1994 and those that first came into existence with the law. Prior to the Popular Participation reform, there were 124 formal municipalities. In 1994, 108 came into existence. The pre- and post-reform distinction has important implications for local administrative, fiscal, and political developments. Not only would municipalities assume an array of new policy and fiscal responsibilities, they would also have to develop the basic administrative tools to govern. Table 9.1 summarizes the key characteristics of the municipalities.

Table 9.1. Territorial Characteristics

Characteristic	Number of municipalities	Percentage of municipalities
<i>Population</i>		
Less than 5,000	96	31
5,000 – 14,999	128	41
15,000 – 49,999	72	23
More than 50,000	15	5
<i>Urbanization</i>		
Predominantly urban	46	15
Predominantly rural	265	85
<i>Geography</i>		
Highland departments	147	47
Valley departments	83	27
Lowland departments	81	26
Source: Unidad de Análisis de Políticas Sociales de Bolivia (UDAPSO).		

The average population size of Bolivian municipalities is 12,000, which is close to the Latin American average. However, the average hides a skewed distribution, where the 3 largest municipalities account for as much population as the remaining 300. In 15 municipalities, the population is 50,000 or more; in 72 it is between 15,000 and 50,000; in 128, between 5,000 and 15,000; and in 96, the population is less than 5,000. Much policy attention has focused on the extreme categories. Large municipalities are focal points because of their nationwide fiscal and political effects. Small municipalities are focal points because of their fiscal and administrative viability. Seventeen municipalities currently have populations less than 1,000, and in the smallest (Yunguyo, Oruro), the population is only 92.

The settlement pattern of urban and rural populations is also heterogeneous. On a national scale, Bolivia is predominantly urban; according to projections by the National Statistics Institute, in 2000 the urban population accounted for 64 percent of the total population. However, 85 percent (265 of 311) of the municipalities are predomi-

nantly rural. Thus, rural municipal governments have the effect of countering the concentrating effect of urbanization with a countervailing rural lobby.

In addition to the demographic diversity observed during the course of urbanization, social and cultural diversity also shape the political community in new and growing cities. Indigenous linguistic diversity provides a crude proxy for illustrating such heterogeneity. On the whole, Bolivia is a richly multilingual country. According to the 1992 population census, 60 percent of the population speaks an indigenous language (Quechua is the largest indigenous language group, followed by Aymara and Guarani). Although the census data likely underestimate the extent to which indigenous languages are spoken, the comparison between predominantly Spanish-only and predominantly bilingual Quechua/Spanish or Aymara/Spanish is illuminating. Spanish is the predominant language in less than a fifth of all municipalities.

New Players

The first articles of the Popular Participation Law tackle the problem of who participates by recognizing peasant communities, indigenous communities, and neighborhood organizations as legal representatives of territorial base organizations.¹ This group-level recognition is meant to provide an inclusive category of existing community organizations, rather than create new ones. In addition, the law recognizes traditional authorities of territorial base organizations as legal representatives of community interests. The law envisions a new architecture of popular participation that keeps elected municipal councils in check by a semi-autonomous oversight committee, which in turn represents territorial base organizations. This design presumes a relatively clear demarcation of political and civil society, and a plentiful presence of territorial organizations, such as neighborhood organizations, peasant communities, and indigenous peoples. It recognizes only one territorial base organization per community and sets out a procedure for legal recognition of territorial base organizations that attempts to filter out disputes over territorial participation.

¹ Article 3, section I.

The idea of recognizing existing community organizations caused a great deal of confusion early in the process. Peasant organizations and indigenous communities were not entirely sure whether this meant creating a new organization or having their own recognized under a new name. The confusion was augmented by the generalized perception that the Movimiento Nacionalista Revolucionario (Nationalist Revolutionary Movement) might use this opportunity to expand its sphere of political influence through recognition of territorial base organizations.

Territorial base organizations are entrusted with a set of rights and duties regarding popular participation. Rights include the following: (i) proposing, controlling, and supervising public works projects and the provision of public services in the areas of education, health, sports, water and sanitation, irrigation, local roads, and urban development; (ii) promoting and participating in the management of local natural resources, the environment, and sustainable development; (iii) proposing and obtaining the modification of public policies that are contrary to community well-being; (iv) proposing changes and ratifications in education and health authorities within the municipality; and (v) accessing information concerning the execution of fiscal resources for popular participation.²

Duties of the territorial base organizations include the following: (i) identifying and cooperating in the management and execution of public works projects, (ii) participating in the cooperative provision of public services, (iii) keeping the community informed on the decisions made on its behalf, and (iv) promoting equal access of men and women to community representation.³

In addition to recognizing existing territorial base organizations, the law entrusts oversight committees with the following three main responsibilities:⁴ (i) to monitor the equitable distribution of fiscal resources in urban and rural areas, (ii) to ensure that municipal councils do not allocate more than 10 percent of transferred resources to current expenditures, and (iii) to make a public pronouncement about the

² Article 7 of the Popular Participation Law.

³ Article 8 of the Popular Participation Law.

⁴ Article 10 of the Popular Participation Law.

annual budget program and the execution of the previous year's budget program. Oversight committees were to be elected by community territorial base organizations at the canton level. Two members would be elected per canton, except in municipalities with a single canton, which would elect three representatives. Committee members were expected to rotate every two years and would not receive paid compensation other than for travel or lodging expenditures. The key source of power of oversight committees is the power to petition the National Senate to freeze municipal accounts where there is evidence of fiscal wrongdoing. Under the law, petitions are first sent to the Ministry of Finance, then to the Senate, which may freeze accounts and request the Comptroller's Office to conduct a special audit of municipal accounts.

New Rules

The new legislation tackles the rules of the game regarding the participation of territorial base organizations, oversight committees, non-governmental organizations (NGOs), and municipal councils. The mechanism by which communities would participate developed gradually with the implementation of the Rural Community Development Plan, which was financed by the World Bank in 94 rural municipalities. This project allowed some degree of experimentation with procedures and operations, and was eventually codified into a decree on participatory planning. *Participatory planning* refers to the "process of applying the methods of municipal participation to include organizations of civil society in the design and implementation of their own course of development."⁵ The general process of participatory planning revolves around three planning phases.

The first planning phase is municipal development planning. The municipal development plan is a five-year development plan that aims to capture the long-term demands of community organizations in each municipality. The municipal development plan typically follows two steps: diagnosis and proposals. The diagnosis is carried out through communitywide workshops that map natural, physical, and human

⁵ Article 3 in the Rule (Act) on Municipal Participation (Norma de Planificación Participativa Municipal), 1997.

resources and define key problems for each community. This phase is followed by a series of workshops focusing on potential solutions to community problems and a general ranking of priorities. Both the diagnosis and proposal steps are typically carried out by a local NGO hired to organize the workshops and draft the municipal development plan document. The plan is generally perceived as the most participatory instance in the participatory planning process, open to wide-ranging participation and iterative community-level workshops and meetings between communities and NGOs.

The second planning phase is annual operating planning. Annual operating plans are more focused documents that aim to translate the demands and priorities of the municipal development plan into annual public investment plans. Annual operating planning typically starts in September each year, with initial workshops that evaluate the execution of the current annual plan and start to gather priorities for next year's plan. Annual operating plans are a highly political process of setting priorities, negotiating, and bargaining between communities and municipal governments as well as among communities. They involve weekly meetings, but, unlike municipal development plans, are more likely to involve authorities and oversight committees of territorial base organizations rather than entire communities. Typically, the mayor and the mayor's technical team lead the process of negotiating the annual operating plan. Budget constraints are set and a series of negotiation rounds attempt to identify the projects that will make up the annual plan.

Budget planning is a highly technical process that aims to translate annual operating plan priorities and projects into an actual financing timeline, with detailed descriptions of project-level financing needs and commitments. It involves the key financial officer in the municipal government as well as NGOs, investment funds, central government line ministries, and other players involved in project-level execution. Budget planning typically begins at the same time as annual operating planning, but runs throughout the fiscal year through continuous fiscal reprogramming. Budgets are reviewed by oversight committees for their signed approval at the beginning and end of each fiscal year. Budget evaluation is a key veto point for oversight committees in cases of fiscal or administrative wrongdoing.

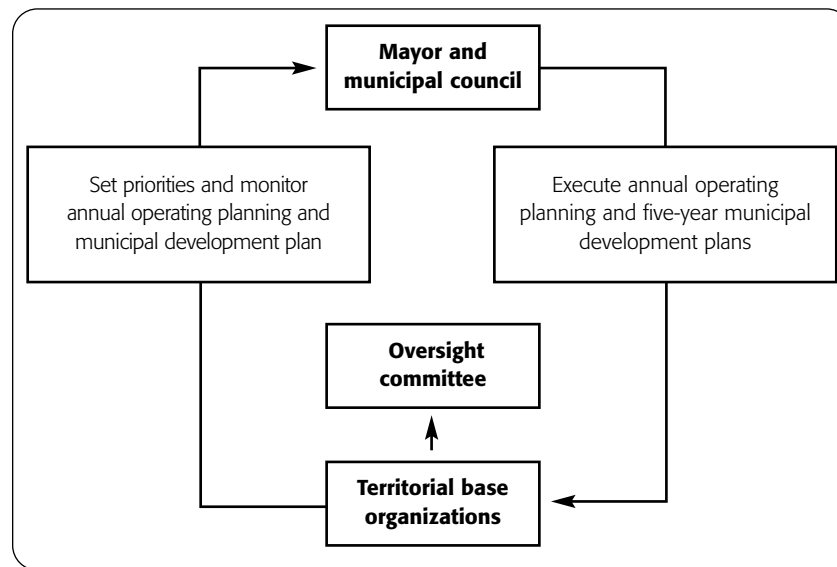
Central government transfers of co-participation resources are not released without oversight committee approval.

More Resources

Figure 9.1 describes the key players involved in participatory planning and portrays an ideal framework of bottom-up voice and control, and top-down legitimation and answerability. The accountability process envisioned by the Popular Participation reform empowers municipal councils with the mandate to propose and execute municipal development plans, annual operating plans, and participatory budgets; it also entrusts territorial base organizations and oversight committees with a mandate to voice community preferences and keep elected officials accountable. This ideal picture was set out by the Popular Participation legislation as a framework for decentralization with participation. The Bolivian model was based on institutionalized mechanisms for community participation in carefully defined spheres of collective action.

Popular Participation also set out to redesign intergovernmental fiscal relations. On the expenditures side, two changes were important. First, fiscal resources transferred to municipal governments doubled from 10 to 20 percent of treasury revenues (tax and nontax revenues). Second, the flow of resources shifted from urban to rural municipalities, through a per capita distribution formula. In this way, each municipality receives the same per capita resources as every other municipality, thus providing a measure of horizontal fiscal equity. On the revenue side, the law allows municipalities to collect two types of taxes: (i) property and vehicle taxes, and (ii) municipal licenses and service fees. Municipalities do not set the rates for property and vehicle taxes, but are able to reclassify taxation categories by local criteria. They can set rates and levels for municipal patents and service charges.

The fiscal redesign implied by Popular Participation was relatively modest compared with the scope of territorial and political changes. A key omission in the Bolivian decentralization debates was an explicit discussion of decentralized social service delivery. The Popular Participation reform effectively decentralized public investment in the social sectors, but not the provision of the services. A mixed model of

Figure 9.1. Accountability under Participatory Planning

social service provision, co-managed by the central government, prefectures, and municipalities, mooted the question of further fiscal decentralization. The delicate problem of balancing vertical and horizontal fiscal equity came up years after the promulgation of the reform, with the decentralization of further fiscal resources under the Highly Indebted and Poor Countries debt reduction program.

Fiscally, the Popular Participation Law was complemented by the Law on Administrative Decentralization in 1995. It delegated discretionary public investment powers to the prefecture level and replaced the centralized and highly politicized executive power with a three-tiered (center, prefecture, and municipality) system of governance. The chain of command that links the three tiers is complex and reflects the contradictory nature of a decentralization-cum-state building reform. At the central government level, the key actors are line ministries, special development funds, and the office of the presidency, which appoints prefects and maintains a close relationship with departmental administrations. At the prefecture level, the key actors are the prefect, the prefect's staff, and the departmental council, elected by municipal councilors as a check on prefecture decisionmaking. At the local level,

mayors, municipal councilors, oversight committees, political parties, NGOs, and grassroots organizations all play a critical day-to-day role.

Municipal Social Sector Investment, 1994–2000

The shift from a centralized to a decentralized public expenditure framework had two immediate consequences. First, the share of social investments as a proportion of total investments tripled in the first three years of decentralization. Second, and most significantly, the share of social investments executed at the local level increased five-fold. Municipal governments account for approximately 40 percent of the total public investment program and approximately 60 percent of all social investments.⁶ As shown in Table 9.2, public investment executed by municipal governments increased rapidly after the adoption of Popular Participation, from \$32 million in 1994 to approximately \$140 million in 2000 and close to \$250 million in 2002. Social investments also increased from approximately \$27 million in 1994 to \$100 million in 2000 and close to \$150 million in 2002.

Despite the rapid increase in expenditure responsibilities, Popular Participation has been slow to match expenditure responsibilities with revenue powers. The fiscal independence coefficient, presented in Table 9.3, shows the ratio between own and transferred resources over time. Between 1995 and 2000, there were no significant changes in the share of municipalities that collect less than half of their total revenues from own sources (property and vehicle taxes, business licenses, fees, and transaction taxes). Less than 5 percent of all municipalities collect more revenues from own sources than from transfers. These include the capital cities of each of the nine departments. Dependence on block transfers (co-participation funds) and conditional transfers (through social investment funds) has handicapped small municipalities from the start. Close to 280 of the 314 municipalities show little local fiscal pressure.

⁶ See Presidencia de la República de Bolivia (2002).

Table 9.2. Municipal Investments, 1994–2002
(Thousands of U.S. dollars)

Sector	1994	1995	1996	1997	1998	1999	2000	2002
Productive	531	1,696	2,775	1,923	2,996	5,386	1,873	
Infrastructure	3,213	12,430	15,647	16,063	19,318	37,121	24,151	
Social	27,095	109,601	133,439	111,832	94,348	121,187	100,600	150,000
Multi-sector	1,728	4,211	7,019	6,395	11,383	10,115	13,535	
Total	32,568	127,939	158,855	136,214	128,046	173,810	140,162	250,000

Source: Ministerio de Desarrollo Sostenible (2002).

Table 9.3. Municipal Fiscal Independence, 1995–2000
(Percentage of municipalities)

Ratio of own resources to co-participation resources	1995	1996	1997	1998	1999	2000
Less than 0.50	89.71	90.35	88.10	89.07	90.68	91.64
0.5-0.99	6.75	6.11	7.72	5.79	6.43	5.47
1-1.99	2.57	3.22	3.53	4.83	2.57	3.53
2 or more	0.96	0.32	0.64	0.32	0.32	0.32
Total	100	100	100	100	100	100

Source: Ministerio de Desarrollo Sostenible (2002).

Poverty Reduction, 1992–2001

This chapter uses two measures of poverty: (i) the basic needs index from the National Institute of Statistics, estimated using 1992 and 2001 census data, and (ii) the education and health attainment data from the same sources. The first measure proxies for poverty in access to social infrastructure and service attainment, while the second one proxies for poverty in social service attainment only.

Basic Needs Index

The basic needs index relies on four measures of need: (i) housing quality, (ii) basic services, (iii) educational achievement and attendance, and (iv) health care. The index is a composite that weights each of these equally:

$$\begin{aligned} \text{Basic needs index} = & 1/4 \text{ housing index} + 1/4 \text{ basic services index} \\ & + 1/4 \text{ education index} + 1/4 \text{ health index.} \end{aligned}$$

The basic needs index sets a minimum threshold for each of the subindexes. The housing index is composed of two subindexes: a materials subindex and a space subindex.⁷ A dwelling is said to have unsatisfactory housing materials if it has dirt floors and/or adobe walls and/or a thatch or straw roof. It is said to have unsatisfactory space if more than five people share two bedrooms and/or if it does not have a separate room for the kitchen.

The basic services index is also composed of two subindexes: a basic sanitation and water subindex and an energy subindex.⁸ Basic

⁷ The housing index is $HI = 1/2 (HM + HS)$, where HM denotes the housing materials subindex and HS is the number of inhabitants per room. $HM = 1/3 (FQ + WQ + RQ)$, where FQ is floor quality, WQ is wall quality, and RQ is roof quality.

⁸ The basic services index is $BSI = 1/2 (BSW + E)$, where BSW denotes the basic sanitation and water subindex and E is the energy index. $BSW = 1/2 (BS + W)$, where BS is basic sanitation access in the household and W is water access in the household. $E = 1/2 (CE + EE)$, where CE is cooking energy source and EE is access to electricity in the household.

sanitation conditions are unsatisfactory if the dwelling does not have indoor running water and/or indoor plumbing. The energy index is also composed of two variables: access to electricity and characteristics of the cooking energy source. A household is said to have unsatisfactory energy conditions if it does not have access to electricity and depends on wood, charcoal, or kerosene for cooking purposes.

The education index is composed of three variables: literacy, school attainment, and school attendance.⁹ A household is said to have unsatisfactory educational attainment if some members are illiterate and/or have low levels of educational attainment and/or do not attend school if they are of schooling age. The health index is composed of a single variable: women's use of formal health specialists (doctors, nurses, or auxiliary nurses).¹⁰

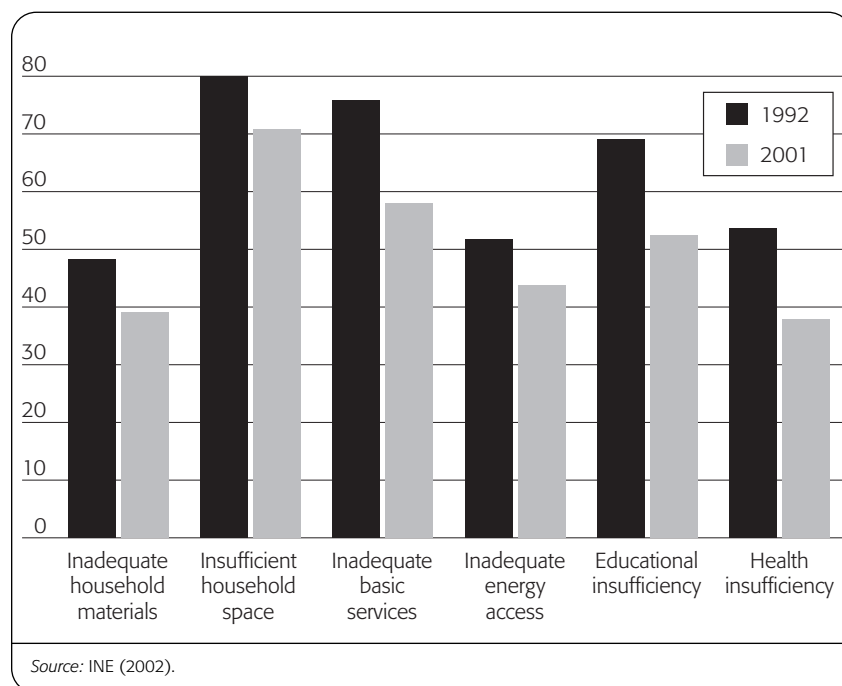
Five groups make up the basic needs index in relation to the minimum threshold conditions: (i) basic needs satisfied, (ii) threshold non-poor, (iii) moderately poor, (iv) indigent, and (v) extremely poor. According to the 2001 census data, 16.6 percent of the population had satisfied basic needs, 24.8 percent were at the poverty threshold, 34.2 percent were moderately poor, 21.7 percent were indigent, and 2.7 percent were living under conditions of extreme deprivation.

As illustrated in Figure 9.2, poverty, as measured by the basic needs index, decreased overall from 70.9 percent in 1992 to 58.6 percent in 2001. Two trends are observable. First, most of the decrease in the basic needs index can be attributed to improvements in access to basic services (18.1 percent increase), access to efficient energy sources (8.1 percent increase), and improvements in education (8.6 percent increase) and health (15.7 percent increase) attainment. Second, improvements in the basic needs index can be traced to a higher impact in urban than in rural areas. By 2001, 64 percent of the population lived in urban areas, and only 36 percent lived in rural areas, reversing the proportion observed in the 1976 census. Rapid urbanization, led by rural-to-urban

⁹ The education index is $EI = 1/3 (LIT + ATT + ACH)$, where LIT is the literacy rate, ATT is a school attendance rate for the school-age population, and ACH is a measure of schooling achievement.

¹⁰ The health index is the percentage of women who use formal health services (health posts, basic hospitals, and general hospitals).

Figure 9.2. Changes in the Composite Basic Needs Index, 1992–2001



migration, is one of the key factors influencing rapid improvements in poverty reduction as measured by the basic needs index.

Table 9.4 shows geographic differences in the basic needs index in 1976, 1992, and 2001. The overall rate of poverty reduction averaged 1.08 percent a year between 1976 and 2001, and 1.33 percent between 1992 and 2001. In effect, poverty reduction accelerated by one-third with respect to the long-term trend observed since 1976. Poverty reduction has not been even across departments. Improvements in the basic needs index in 1992–2001 were strongest in Santa Cruz (2.43 percent annually) and Tarija (1.99 percent annually), the two wealthiest departments in the country. Poverty reduction was slowest in traditionally poor departments, such as Potosí (0.09 percent annually) and Oruro (0.26 percent annually). Poverty reduction has been more effective in urban districts than in rural districts by a ratio of three-to-one. Poverty

Table 9.4. Basic Needs Index, 1976–2001

Department	Census			Average annual variation (percent)	
	1976	1992	2001	1976–2001	1992–2001
Bolivia	85.5	70.9	58.6	1.08	1.33
Chuquisaca	90.5	79.8	70.1	0.82	1.05
La Paz	83.2	71.1	66.2	0.68	0.53
Cochabamba	85.1	71.1	55.0	1.21	1.74
Oruro	84.5	70.2	67.8	0.67	0.26
Potosí	92.8	80.5	79.7	0.53	0.09
Tarija	87.0	69.2	50.8	1.45	1.99
Santa Cruz	79.2	60.5	38.0	1.65	2.43
Beni	91.4	81.0	76.0	0.62	0.54
Pando	96.4	83.8	72.4	0.96	1.23

Source: INE (2002).

reduction averaged 14.1 percentage points in urban areas and less than 4.5 percentage points in rural areas in the same period.

Education and Health Attainment

The basic needs index measures changes in structural poverty over time, particularly regarding access to social infrastructure. Education and health attainment indexes measure changes in social service delivery outcomes. Between 1992 and 2001, education and health attainment improved, particularly in urban areas. Table 9.5 shows changes in attainment based on census data. Average annual variations in education and health attainment are 16.6 and 15.7 percentage points, respectively. Changes in educational attainment vary widely between departments. Santa Cruz (22.4 percent), Beni (18.4 percent), and Pando (18.3 percent) show the highest levels of improvement, and Potosí (8.5 percent) and Chuquisaca (9.4 percent) show the lowest. Changes in health attainment are also highly variable. Santa Cruz (31 percent), Cochabamba (26 percent), and Tarija (26.4 percent) show the most change, and Potosí (-1.1 percent) and Oruro (-0.7 percent) show negative changes in health attainment.

Table 9.5. Education and Health Attainment Indexes, 1992 and 2001

Department	Education index			Health index		
	1992	2001	Average annual variation (percent), 1992–2001	1992	2001	Average annual variation (percent), 1992–2001
Bolivia	69.1	52.5	16.6	53.6	37.9	15.7
Chuquisaca	80.1	70.7	9.4	53.0	40.4	12.6
La Paz	64.8	49.1	15.7	65.0	64.9	0.1
Cochabamba	67.9	52.6	15.3	54.3	28.3	26.0
Oruro	62.2	47.2	15.0	58.1	58.8	-0.7
Potosí	80.9	72.4	8.5	58.5	59.6	-1.1
Tarija	74.1	60.5	13.6	41.1	14.7	26.4
Santa Cruz	66.0	43.6	22.4	37.4	6.4	31.0
Beni	73.0	54.6	18.4	48.1	31.7	16.4
Pando	79.6	61.3	18.3	66.7	39.3	27.4

Source: Instituto Nacional de Estadísticas (2002).

Impact on Poverty Reduction

What accounted for the significant reduction in poverty rates in the municipalities between 1992 and 2001? How much of the change was related to demographic change and how much can be attributed to policy intervention—particularly in Popular Participation reform? Using available data collected from the 1992 and 2001 censuses, this section estimates determinants of poverty reduction across municipalities. The census data allow policy comparisons before and after the adoption of the Popular Participation reform, controlling for basic demographic factors. Given the significant increase in social investments observed since the implementation of the Popular Participation (1994) and Administrative Decentralization (1995) reforms, and the additional observation that most social investments are now implemented at the municipal level, the question of whether policy interventions matter is highly relevant.

Table 9.6 shows regression results for determinants of poverty reduction between 1992 and 2001. Three groups of variables are tested: (i) demographic controls (population and population growth in 1992–2001), (ii) Popular Participation investments (municipal social investments in 1994–2000), and (iii) Popular Participation political variables (number of grassroots organizations involved in participatory planning and number of mayors in 1994–2000). The regressions yield two main results. Specification 1 shows that municipal social investments are positively and significantly related to poverty reduction, controlling for both population and population growth. Specification 2 includes two political variables that modify the main results only marginally. In addition to positive and significant results for policy variables, a high level of political fragmentation, as measured by mayor turnover, is negatively and significantly correlated with poverty reduction. The higher the degree of local political instability, the lower the probability of reducing poverty. The grassroots organization variable shows no significance.

Table 9.7 shows regression results for determinants of education and health outcome measures. Three groups of variables are tested in these specifications: (i) demographic controls (population and population growth in 1992–2001), (ii) a Popular Participation policy variable (proxied by municipal social investments in 1994–2000), and (iii) sector-specific reform variables in the education and health sectors (proxied by the number of school-age children attending education reform transformation schools, and the proportion of earmarked local funds executed by the municipality). Two results can be observed. First, municipal social investments are not significantly correlated with either education or health attainment measures. Second, sector-specific reform variables show positive and significant correlation with improved outcome measures. Unlike the previous set of specifications, Popular Participation policy variables do not seem to matter for increased education and health attainment. Sector-specific policies in these areas seem to have a significant effect on attainment.

Table 9.6. Determinants of Poverty Reduction, 1992–2001

Variable	(1)	(2)
Population in 1992	1.54 (2.85)	1.54 (2.85)
Population growth in 1992–2001	0.69 (2.86)	0.69 (2.86)
Municipal social investments in 1994–2000	0.10 (1.98)	0.09 (1.90)
Number of territorial base organizations in 2000		0.00 (0.50)
Number of mayors in 1995–2000		-0.23 (-2.18)
Adjusted R2	0.156	0.167
Observations	184	184

Note: t-statistics are in parentheses.
Source: Author's calculations based on data from INE (2002) and Ministerio de Desarrollo Sostenible (2002).

Table 9.7. Determinants of Social Service Delivery Outcomes

Variable	Education	Health
Population in 1992	0.89 (2.25)	0.34 (2.03)
Population growth in 1992–2001	0.45 (2.17)	0.02 (1.87)
Municipal social investments	0.00 (0.05)	-0.10 (-0.23)
Number of children in education reform program	0.09 (1.81)	
Percentage of earmarked funds executed by health insurance program		0.01 (1.69)
Adjusted R2	0.11	0.12
Observations	184	184

Note: t-statistics are in parentheses.
Source: Author's calculations based on data from INE (2002) and Ministerio de Desarrollo Sostenible (2002).

Hypotheses and Conclusions

Why does Popular Participation matter for increased access to social service infrastructure, but not for improvements in education and health outcomes? Four hypotheses are offered to help explain the results. First, the education and health service delivery system never really decentralized with the Popular Participation and Administrative Decentralization reforms in the mid-1990s. As discussed by Gray Molina (1997) and Ameller (2002), the Bolivian decentralization reform can best be described as a process of decentralization by factors, which fragments accountability for service provision across central government, department, and municipal institutional actors. The result, as observed in the first two years of reform implementation, was a mismatch between expanding infrastructure and stagnant or shrinking personnel placement. Schools without teachers and health posts without doctors led to a clear divorce between local actors and social service provision.

What did the reforms decentralize? The Bolivian reforms decentralized a large proportion of public investment planning and implementation—that is, the ability to make decisions about infrastructure construction and maintenance across municipalities. The decentralization of public investment was clearly well suited to the early stages of institution building at the local level. Small, rural, and new municipalities were able to handle the distributive rules of participatory planning, and quickly mastered the year-in, year-out process of political accountability for public works.

Second, intergovernmental transfers that favored unconditional block grants over selective grants helped to skew incentives toward an array of public investment projects, rather than to focus scarce resources on social service delivery. The Bolivian intergovernmental grant system relies on co-participation transfers—which make up 20 percent of national revenues—for most of its funding. Local revenue sources are scarce and concentrated in capital cities in a dozen municipalities. More than 100 municipalities reported not collecting any local taxes, fees, or licenses between 1994 and 2000. Most of these municipalities are small, rural, and new. The Social Investment Fund and the Peasant Development Fund managed the few selective intergovernmental

transfers. These funds targeted poor municipalities, but never successfully articulated a coherent system of matching grants.

There was a skewed effect of plentiful block grants that aimed to close horizontal gaps between municipalities (providing an equal starting point for local public investment choices) and scarce selective grants to help reduce vertical fiscal imbalances (between local tax effort and local service provision). The result was excessive focus on local public choice and relatively weak focus on national policy priorities, such as education and health attainment. Cases where education and health attainment increased can be traced to sector initiatives, such as the Seguro Basico de Salud (Basic Health Insurance) or Reforma Educativa (Education Reform) programs.

Third, local allocation rules that favor infrastructure over service delivery worked together with the intergovernmental transfer system in skewing local investment choices away from social service delivery. Participatory planning, as adopted in Bolivia, revolves around a zero-sum game of public investment allocation across communities within each municipality. Those communities that do not lobby for infrastructure projects in their own communities lose in the distribution of public resources. The excessive focus on territorial-based infrastructure leads to underinvestment in public goods with high externalities, such as education and health service provision.

The focus on infrastructure rather than service delivery has an additional perverse effect: it moves accountability for services away from local government, toward line ministries. Recent surveys on popular participation suggest that citizens consistently regard the central government as the key provider of social services (Gray Molina, Campero, and Querejazu 2002). Failed attempts to decentralize education and health services in the National Dialogue of 2000 further galvanized anti-decentralization sentiment among local constituents. Education and health are regarded as central government responsibilities, along with taxation, defense, and foreign policy.

Fourth, local political economy factors also skew decisionmakers toward small, visible, and scattered infrastructure projects. In a zero-sum allocation game, where politicians profit from making multiple investments, education, health, and basic sanitation infrastructure are

more likely to prevail than focused attention in the social sectors or research and development in the productive sectors. The political economy of decentralized allocation is also related to the structure of local institutions and organizations (Gray Molina 2002). With captured local government, redistribution tends to occur within local clienteles led by power brokers, political patrons, and powerful elites. With fragmented local government, redistribution is more likely to be consistent and predictable. Within these two extremes, redistribution is closer to the democratic archetype described by the Popular Participation legislation itself, proportional to both rural population and the percentage of the population living under the poverty line.

The implementation of the Popular Participation reform has institutionalized a geographic rotation of projects within municipalities, particularly small and rural municipalities. Communities that benefit from an infrastructure project one year are unlikely to benefit for two consecutive years; other communities have to exhaust the rotation. Although it is democratic, this procedure displaces focused attention on a single sector or population, in favor of scattered and relatively inconsistent interventions. Paradoxically, this pattern involves greater focus on multiple, visible social sector projects that are easy to implement and relatively easy to maintain.

What can be concluded from the Bolivian experience with popular participation? On the one hand, reform has clearly galvanized a renewed focus on the potential for massive grassroots involvement in local decisionmaking. Close to 15,000 local grassroots organizations—including peasant communities, indigenous organizations, and neighborhood associations—are active in annual participatory planning processes throughout the country. On the other hand, however, the existing framework for decentralization has undermined the potential to improve local social service delivery in a systematic way. Both central and local government actors are constrained by an over-centralized system of service delivery, a skewed intergovernmental transfer system, local decisionmaking rules, and political economy incentives. Bolivia has yet to institutionalize a decentralized system of social service delivery, and faces an enormous challenge to move in this direction in the future.

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CHAPTER 10

PARTICIPATORY BUDGETING
IN PORTO ALEGRE, BRAZIL*Zander Navarro*

Contemporary times have witnessed a striking set of novelties in the organization of societies, such as political changes and the advent of a planetary democratic wave, as well as deep economic changes resulting from the fast-growing commercial and financial relations between nations. In addition, changes in the role of the state and corresponding new forms of social management have radically affected the structure and regulation of social life.

Latin America has been one of the most visible arenas for these far-reaching changes in recent years because the region has undergone an intensification of its democratic institutional format.¹ Meanwhile, the region's economic pillars have wavered under erratic and uncertain circumstances, generating insecurity, periodic crises, and growing social inequality. The more active presence of civil society and widening social demands, on the one hand, have combined with insufficiencies in the economic structure and existing institutional settings on the other. The results have animated the continent and it has become an important place for several political and institutional experiments, which seek to

¹ Perhaps there is no Latin American case in which the precondition for democratic consolidation has materialized. That precondition demands, for instance, that "one elementary feature—contestation open to participation—is sufficient to identify a political system as democratic....Democracy is consolidated when most conflicts are processed through democratic institutions, when nobody can control the outcomes *ex post* and the results are not predetermined *ex ante*" (Przeworski 1991, pp. 10 and 51).

adapt a broad list of social needs under the economic and financial limitations that usually characterize Latin American nations.

These changes have affected various domains of social life and economic patterns. This chapter focuses on two that are of utmost relevance. The first is the nature of the role played by the state and its agencies, whose actions were so deeply affected that analysts commonly refer to “the crisis of the Latin American state” (Lechner and others 1999). The second is the regional and/or local environments, such as provincial states and cities, which have come under the spotlight of a growing agenda of new responsibilities and services under the banner of decentralization, democratic revitalization, and the crisis of the federal state. Cities, in particular, feel the ever-growing pressure from a now unconstrained and vocal society demanding new and better public services. Cities also bear the burden of constant transference by the federal state of various duties and obligations, but not necessarily the corresponding financial resources to support their implementation.

Therefore, the great number of innovations in policymaking and new institutional arrangements to confront these new and challenging contexts should not be surprising. Social groups and local organizations, government sectors, and multilateral agencies seek to improve the efficacy of government and also expect to harvest a greater level of local resource mobilization—in short, the formation of a virtuous government. This seems to be an era in which emphasis on the democratization of local environments, consolidation of civil society, affirmation of an empowered citizenship, and a greater level of social participation epitomize the ultimate goals.

In terms of the primordial challenge confronting cities, some social scientists are convinced that “democratic innovation is probably the most exciting aspect of the roles gradually assumed by local governments” (Castells and Borja 1996, p. 160). Intense pressure on governments—federal and local alike—has brought the attention of social scientists and social activists to the contemporary state, its functions, and even the meaning of public space. As a result, notions like social control of public funds and government activities, new decisionmaking alternatives, participatory administration, and many similar ideas suggesting people’s active interaction with local governments gradually

seem to be constructed as political imperatives and, eventually, find a new normative design inscribed in legal and/or institutional formats in various Latin American countries.²

Specificity of the Brazilian Context

Brazil is perhaps a country that fits well these trends. Its political transition has surprised many analysts, and even the shrewdest political scientist would be amazed at the extent of new ideas being disseminated in the country. Political vitality has spread values and notions of democratic regimes leading to social actions that clearly demonstrate these changes. Social scientists have observed that even long-run results of political transition in Brazil, namely, behavioral changes and a new political culture, appear to have surfaced in recent years. For example, Moisés (1995, p. 152) argues that

From the end of last decade and the beginning of the 1990s, the masses in Brazil have shown that their political orientation goes toward an adherence to democracy....In little more than 20 years there were changes in the sense of a more secularized view of politics, that is, toward a public sphere recognized and valued *per se*....Paralleling democratic changes in the political structure are profound changes in the political culture of the Brazilians.

² Investigating the recent Latin American experience, Cunill Grau (1997, pp. 76 and 81) notes, "The 1980s, however, opened an appeal to citizen participation as a tool for the strengthening of democracy. That decade was marked by the passing of authoritarian regimes that used to prevail in the region. But the economic change has been very distinct, after it was hegemonically assumed that the global crisis was state crisis....The 1990s were characterized by two trends: on the one hand, it fosters a set of constitutional reforms focused on the tools of direct democracy and the opportunity of citizen participation in public administration. On the other, we can see a clear effort at transferring social services by the central government....The social self-management, which combines the decentralized management of resources and the creation of collective bodies for their administration, the paradigm of the new institutional arrangement that makes social cooperation the way for providing social services."

However, economic growth in Brazil has been uncertain and slow, resulting from inappropriate government macroeconomic policies as well as from international constraints. Thus, the country has been unable to produce a steady pattern of development under the thrust of globalizing financial processes. Recent public policies and state management in general have been entirely unsatisfactory, failing to reduce a staggering level of widespread poverty and incapable of reversing social inequalities historically prevailing in the country. It is also possible that common beliefs in the action of government and the role of public services may be perceived with growing discredit and disenchantment.

The past decade experienced another important change after the new Brazilian Constitution was signed in 1988. In line with other countries in Latin America, the constitutional process unleashed a decentralizing force. When it was finalized, it formally inaugurated an unprecedented period of subnational initiatives, transferring power and new responsibilities to the states and municipalities. In practice, however, this transference did not accrue corresponding resources, bringing about growing difficulties for the cities, which were forced to rearrange the rationale of their structure of service delivery.

Under these constraints and difficulties, many promising innovations have developed in Brazilian cities, as a result of financial encroachment due to increased social pressures in various areas, such as health services (Dagnino 2002). The so-called *orçamento participativo*, or participatory budgeting, is one such innovative experience implemented in the country in recent years. Especially from 1995/96 onward, social participation and shared management of public funds in Porto Alegre acquired growing recognition and prestige.

The years cited are not random, but were times of decisive landmarks in the history of participatory budgeting in Porto Alegre. The international conference Habitat II (Istanbul, June 1996) stimulated municipal management initiatives in the city, launching the participatory budgeting experience in the international setting of the United Nations system. Another landmark event in the same year was a seminar called Decentralization in Latin America: Innovations and Consequences for Public Policies, which was sponsored by the World Bank and held in Caracas. At the seminar, the multilateral institution

recognized the city's initiative and later publicized it (Navarro 1997). The conference was probably the first signal of recognition (and approval) by development and donor institutions of participatory budgeting. The institutional importance of the World Bank has made it a lot easier to promote and develop participatory mechanisms.

The participatory budgeting process began to receive growing attention. Other local factors also contributed to create an environment with more social support for the innovation at the time. During the 1993–96 term, the municipal government focused on and consolidated participatory budgeting for several reasons. The establishment of participatory budgeting in Porto Alegre developed from the victory of a left-wing party coalition headed by the Workers' Party, which won the 1988 elections by a thin margin. During the political coalition's first term, participatory budgeting was erratic under an idealized political perspective, and was at risk of failure due to lack of funds. In addition to the financial difficulties faced by the new government, there were uncertainties in its action program (examined in detail in Fedozzi 2000). And participatory budgeting was an initiative of a minority of political forces in the city, suffering strong opposition from other political organizations. Therefore, the success of this experiment was at first reduced, and it did not look like it would become a permanent policy until 1992.

However, during the first term, a decisive tax reform was enforced, which, along with the redistribution of federal resources promoted by decentralizing processes opened by the 1988 Federal Constitution, gave the second term by the same political coalition—the 1992 winner—a higher share of resources, allowing the administration more room to keep its commitments. Thus, during the second period, participatory budgeting was able to receive citizens' demands and really materialize them in the following budget cycle, once the approved demands were included in the administrations' commitments. However, it should be said that the financial context was more favorable in the second term than in the four consecutive ones that have kept this coalition in power, and recent years have brought a new process of resource reconcentration by the federal government.

Another aspect of the second term was the introduction of *plenárias temáticas*, or theme-oriented meetings, which also helped structure the

city's participatory budgeting. The meetings were created to break away from the parochial nature of the majority of demands raised during the process, which would halt the debate (and decisions) regarding the city as a whole, thus not allowing it to carry out global planning and more general decisionmaking beyond the immediate motivation of purely local demands. Works and decisions that could affect the city as a whole did not find a place for debate and deliberation during the first years, and so the theme-oriented meetings were established. They reinforced the process, attracting social sectors that had been uninterested or distant from participatory budgeting. Up to then, participatory budgeting had been a growing success in older but relatively poor marginalized areas or neighborhoods, which had a history of community associations and mobilization.

The meetings became a mechanism for accessing and attracting middle-class sectors that had been averse to the process, especially because their immediate interests, usually more global than local, found no place within participatory budgeting. The meetings widened the resonance of the mechanism, making it a natural element in the city's social and political landscape. The culmination of that opening to other social segments and groups was precisely the 1996 City Congress. A few years later, after deciding to host the World Social Forum, a new local sociability that was an anticapitalist core, symbolizing a supposed world social movement (Hardt 2002). To some degree, it was the image of a city able to stand as an inexpugnable fortress amidst the neoliberal sea, an ideological image that few analysts have examined.

The initial framework of achievements and the concretization of the first cycle of participatory budgeting generated an abundant set of studies and research—in general, idealizing ones that were relatively optimistic and almost always unable to focus on possible contradictions and impasses. For example, I noted the following in an earlier study:

Official documents and a widespread local opinion sustain that the PB [participatory budgeting] experience has radically changed the history of social and political relations in the city. Its promising results would have gone beyond expectations, generating an unprecedented process of municipal power

decentralization, decrease in the power concentrated in the hands of the mayor as well as, if not the abolishment, at least a clear reduction of clientelist and corrupt practices. (Navarro 1997, p. 183)

In recent years, as the process has become better known and more automatic, social analysts and even some government operators (although few party officials) have begun to point out some of the more visible impasses in participatory budgeting. Recent literature describes limitations in continuity and growth, and highlights processes that made it gradually smaller in the face of the ambitions for change that the political rhetoric had promised to establish in the city. Although some authors see the relative exhaustion of the process (Navarro 2000), others point to inertia (Abers 2002) or paradoxes that could strip it of the political potential associated with the emergence of radical republicanism in the city (Baierle 2002). Other analysts looking into the operational process and architecture of participatory budgeting have also identified several obstacles to its improvement and growth (Santos 2002; Silva 2001). It seems that a significant number of researchers currently share some degree of skepticism regarding the potential for growth of participatory budgeting, its mobilizing ability, and especially its impact on the promotion of macro-social changes, notwithstanding the numerous improvements in the city's social and everyday life. For example, Verle and Brunet (2002) evaluate the initial 12 years of the process.

And a government working group formed with such purpose, for example, is emblematic of current problems faced by participatory budgeting's ever-expanding continuity (Texto GT 2002).

The study describes and analyzes the origins and development of participatory budgeting since 1989, when it was established in the city of Porto Alegre (the capital of the state of Rio Grande do Sul) by the administration elected in the municipal elections held at the end of 1988. The governments that were elected in 1992, 1996, and 2000 maintained this process. All were elected under the banner of the Workers' Party (Partido dos Trabalhadores), a left-wing party born in Brazilian politics in the early 1980s.

Distinctive signs show that participatory budgeting may perhaps be considered a successful innovation in spite of its limitations, which are rarely discussed (for an example, see Navarro 2003). It is undeniable that other changes and concrete results are easily found in many corners of Porto Alegre. These are linked to the operation of public services, which improved substantially after participatory budgeting was implemented. Greater general administrative rationality and efficiency are among its results, but also more social justice in the allocation of public resources. Therefore, the initial goal of approaching citizens and the government by means of a new proposal called Participatory Budgeting, which would radically transform the whole structure of local decisionmaking, seems to have been fulfilled.

Although participatory budgeting has been confined, so far, to particular social sectors, it is, in fact, materializing in various new social mechanisms across the population. From the innovation itself and its set of rules, to a growing level of social representation and political coercion, these changes are operating a sort of affirmative action in Porto Alegre that guarantees redistribution of public funds toward poorer regions and deprived social sectors under an increasing level of legitimacy. Given the unique semiformal arrangement that created the participatory budgeting process, where the conventional notion of representative democracy was entirely altered to include active components of direct democracy, it seems appropriate to define the whole process as a kind of affirmative democracy. The ensuing redistributive effects have been remarkable, and if the experience perhaps does not encapsulate a given model to be strictly replicated (given the specificities of this urban setting), it must be noted that lessons abound and may inspire similar processes elsewhere.

Porto Alegre: An Overview

With a population of 1.3 million inhabitants and land area of 471 square kilometers, Porto Alegre is of major economic importance in Rio Grande do Sul. The city's estimated gross national product is US\$9.3 billion (in 2000). As an individual municipality, it is the largest urban and industrial city, producing 9.0 percent of the state's gross industrial product

and being responsible for nearly a third of the income produced in the service sector. Its total population corresponds to 13.4 percent of Rio Grande do Sul (all figures from 2000). The city, established in 1772, is also the center of the major metropolitan region, which has a population of more than 3 million people.

Like other Brazilian state capitals, in the past decades, Porto Alegre has experienced an accelerated process of urbanization. Its population doubled in 20 years (1960 to 1980), but in the past decade the total population grew only 12 percent when new industrial centers in the state diverted migrants from the capital. The city is mainly organized around the service, banking, and government sectors. Curiously enough, it also has a rural sector of some importance occupying a third of its area; to illustrate, the city is the major producer of peaches in the country. Recently, Porto Alegre has not been a victim of conspicuous incoming migration, but has lost in absolute importance in industrial terms.

Founded on these characteristics, the city has been selected as the Brazilian capital showing the best standard of living in various years in the 1990s (*Dirigente Municipal*, various issues). In a survey conducted in 1996 of all cities with 20,000 inhabitants or more (about 1,500 municipalities), according to an extensive set of indicators, Porto Alegre was again chosen the best in the country. That evaluation also found that the city had the highest per capita consumption capacity in Brazil (see *Exame*, December 18, 1996, pp. 104–10). As such, the city registers impressive social indicators. Life expectancy is 72.6 years (the national average is 67 years), and illiteracy among those who are 10 years of age or older is 9.7 percent. The infant mortality rate fell from 37.2 deaths per thousand children under one year of age in 1980, to 13.8 in 1996, the best performance among all Brazilian state capitals.

Nevertheless, there are also contrasting negative indicators, the main one being the housing problem. A third of the population lives in slums and/or nonregular land plots (invaded areas, for example), and the total population in these areas more than doubled between 1981 and 1990 (*Carta de Conjuntura* 1992). Nonused urban land represented 41.8 percent of total land area in the city in 1989, and only 100 landowners appropriated 47.8 percent of this area (Fedozzi 1994, pp. 26–27). In the 1990s, the housing problem was supplanted by the enormous challenge

posed by the growing lack of productive employment. However, existing data on employment are not rigorous and usually underestimate the real dimension of the problem (see Baierle 2002, p. 136, for data on social problems in Porto Alegre).

Context and Origins of Participatory Budgeting

The context for the initial development of participatory budgeting can perhaps be traced back to two main determining factors. One is related to the political transition in Brazil (and various Latin American countries) in recent years, and the second has to do with the political history of the city itself. Apart from legitimizing an emerging civil regime, the signing of the new Brazilian Constitution in October 1988 substantially modified the balance of political power in the country, transferring portions of power previously amassed by the central government toward states and cities. In fact, the new constitution signaled a political and administrative decentralization, understood as the most rational form in which to enable public agencies to effectively deal with the needs of the people. It also offered several mechanisms of direct and indirect social participation when it made new participative channels for the population in government decisionmaking the letter of the law, such as referendums, plebiscites, the so-called popular initiative of law, and co-management councils (Benevides 1991). However, for participatory budgeting, the importance of this debate materialized in the constitution's influence on local traditions of social participation, which were strong in many areas of Rio Grande do Sul, including Porto Alegre.³

³ Political decentralization is not always good or necessarily positive. On paper, decentralization is associated with improved responsiveness and accountability by the public sector, thus creating better mechanisms of resource allocation and provision of public services. However, concentrated market power, rent seeking, and other market problems may impede efficiency. Experience has shown that a democratic history is the fundamental requirement to secure success in decentralizing processes (see Arretche [1996] and Melo [1996] for an analysis of the Brazilian case). Brazil did not match administrative and political responsibilities with corresponding financial transfers. In 1988, from the total revenues nationally collected, municipalities received 11.4 percent and the federal government 61.3 percent. In 1992, as a result of decentralization, the figures were 17.2 percent and 53.8 percent, respectively. However, by the end of the 1990s, the proportion that went to municipalities fell to 14 percent.

Against a diminishing range of federal policies directly applied to municipalities, the new local government, which took over in January 1989, was forced to find alternative solutions to a reduced basket of social services. When the initial ideas about the planned participatory budgeting were unveiled, the reaction of the vast majority of Porto Alegre citizens was perhaps a mixture of curiosity and discredit. Such a distant interest was not surprising for various reasons. The new administration, for example, was at first empty-handed and, in fact, did not have a detailed model to offer, but rather a set of vague and mostly ideological notions on social participation, possibly leading to an equally obscure notion about state democratization. Moreover, the former administration had been elected in 1985 under a strong participatory program amid the democratic fervor and excitement generated by the passing of the military regime, but the majority of its promises were never implemented. Its leading party, the Partido Democrático Trabalhista, which had easily won the 1985 election, was the heir of an old populist pro-workers tradition, which is still strong in the state of Rio Grande do Sul. When it was in power, however, the party readily accepted frequent clientelist practices and developed a centralized structure, preventing the participation of community associations. As a result, the dominant feeling of disappointment led a coalition of various left-wing parties, headed by the Workers' Party, to victory in the elections held in 1988, when they obtained 41 percent of the total votes.⁴

The history of associations in Porto Alegre resembles closely that of the state of Rio Grande do Sul, undoubtedly the most vigorous in the country. As early as 1956, a municipal decree opened the door to various local councils; the state federation of community associations was founded in 1959, and was active well into the 1980s. In 1979, the federation had 65 associations affiliated in Porto Alegre. In its turn, the Community Associations' Union of Porto Alegre (Uampa, União das Associações de Moradores de Porto Alegre), a very politicized organi-

⁴ In the 1992 elections, reaping the growing success of participatory budgeting, the Workers' Party, again commanding a coalition, won a second term, with its candidate amassing 54.8 percent of the votes. Breaking with local history, for the first time in Porto Alegre a party in power made its successor. This fact seems to indicate another possible result of this experiment: if successful, the political benefits are enormous for those commanding it. The coalition easily won again in the 1996 and 2000 elections.

zation, was established in 1983 as a direct result of the political liberalization in the country. It has been intensely involved in various areas of urban concern, such as housing, education, provision of health services, and human rights. When its first congress was held in 1985, members linked to 78 associations in the city attended the event. According to various estimates, there are 600–800 community associations established in Porto Alegre.⁵

As a result of an existing leftist inclination shared by some groups wishing to establish popular councils and the associational strength of the city, Porto Alegre has had an open disposition toward new experiences and proposals on popular participation. In other words, the ideas brought forward by the new administration in 1989 were not, in fact, quite a novelty for a population engaged in so many organizational attempts in the past. In some regions of the city, a solid history of community associations already existed (Baierle 1992). As soon as many social groups realized that the offer by the municipal authorities to share decisionmaking and jointly decide matters related to the budget was not rhetorical, participatory budgeting ignited a sort of “participation fever” that was unprecedented in the city’s history.

Participatory Budgeting: Operational Structure

The first year of the new administration was somewhat erratic and confusing. The financial situation had hit rock bottom, with nearly 98 percent of revenues earmarked to pay the staff because the number of personnel employed by the municipality had substantially increased in the previous administration.⁶ Moreover, several loopholes distorted the government’s control of public finance. More importantly,

⁵ The Community Relations Coordination, the local government arm in charge of establishing relations with communities and regions, registered the neighborhood associations participating in the participatory budgeting process. There were 250 in 1989, 503 in 1991, and 614 in 1993, the last year such an indicator was monitored (Fedozzi 1997, p. 133). For an analysis of urban movements in Porto Alegre since the 1950s, see Baierle (1992).

⁶ The municipality of Porto Alegre employs 23,000 civil servants, excluding decentralized agencies but including active and retired personnel.

the tax system was not indexed, preventing the city from coping with high inflation rates. The political promise of implementing policies for poor citizens made during the campaign, allied with the adverse reality of scarce resources bequeathed to the administration, made the first participatory budgeting experience uncertain and hesitant at the beginning.

The new administration soon tried to implement rigorous financial control, looking for debtors and devising new actions to avoid tax evasion in an attempt to regain the capacity to invest. It submitted various new laws to the City Council, where the majority were approved. As a result, one of the main sources of municipal revenues, property tax, was transformed to a progressive scale and made comparable with property taxes in other cities in Brazil. Other modifications that the new laws imposed were the indexation of some other taxes, such as taxes on waste disposal collection and water distribution.

Indexation of taxes, in fact, was the main victory obtained by the City Council, given the inflation rates affecting the economy between 1988 and 1993. For example, the consumer price index in Porto Alegre reached 1,378.4 percent a year (although after July 1994, the “Plan Real” was able to stabilize prices in the country). After indexation, permanent financial loss due to the so-called inflation tax was suppressed, and the municipality was sometimes even able to invest public revenues in the financial market.⁷ This was the context of the initial years, when the priority was to recuperate municipal finances and try to establish new criteria for government actions. In this confusing context, the proposal for participatory budgeting was presented in April 1989.

⁷ The main tax reform, based on the principle “those who have more will pay more,” was finalized in 1991 after intense negotiations in the City Council, where the governing coalition has never had more than a third of the total councilors. As a result, municipal taxes rose 132 percent, in real terms, comparing 1992 with the previous year. This financial health is the real base that has attracted people to the participatory budgeting experiment. In Brazil, municipalities are entitled to enforce legislation that imposes taxes on urban property, services, profits on the sale of property, and conventional public services like water distribution and trash collection. There is also financial transfer made by the provincial state (Rio Grande do Sul) and/or the federal government—the most relevant one is derived from taxation on goods that are marketed in the city (a sort of value-added tax). Individually, the latter is usually the most relevant tax for Brazilian municipalities.

The relevance of finding a solution for the existing financial problems affecting the municipality and the tributary reform then implemented cannot be underestimated. It is unquestionable that both factors were the real pillars that guaranteed the appeal of participatory budgeting in the city. An important lesson was that a relevant minimum level of resources had to be offered to the citizenry to make the process attractive and participative. On the one hand, public management's firm control of finances eliminated short-run debt; for example, the local treasury did not request even one debt cancellation in the whole period. On the other hand, heated debates in the City Council eventually led to reform in the number of bands and level of taxation. As a consequence, the total amount of municipal taxes collected, compared with the total revenues obtained, increased from 25 percent to a bit more than 50 percent of the total. One of the most relevant taxes, that is, housing and land taxation, which had accounted for a mere 6 percent of total municipal revenues in former years, jumped to 13 percent just after the reform (completed in 1991). And the proportion of housing and land tax debtors diminished more than 60 percent. These factors increased the availability of finances for investments to be decided under participatory budgeting mechanisms. Table 10.1 shows the evolution of investments compared with the global budget.

Participatory Budgeting: Format and Methodology

After taking the political decision to introduce organized social sectors in the decisionmaking structures of the municipal government, the first challenge was to propose a set of actions based on some community identity, that is, a new regionalization for the city. In theory, this subdivision would simplify operations and magnify potential results because dialogue would be between the government and already existing community associations. This new pattern of relations in city management would incorporate not only general urban features, but also local social and economic homogeneities. Until 1988, the only subdivision was an official and technical-inspired one, established in 1979, which divided

Table 10.1. Investment in the City of Porto Alegre, 1989–2001
(Percentage of the city's central government expenditure)

Year	Investment
1989	3.2
1990	10.0
1991	16.3
1992	17.0
1993	9.8
1994	15.0
1995	13.4
1996	8.5
1997	5.0
1998	8.9
1999	7.9
2000	8.4
2001	9.2

Source: Finance Department, Municipal Government of Porto Alegre.

the city in four regions, each electing one councilor, while the four taken together constituted a Community Council. One of the first actions proposed by the participatory budgeting process was to reorganize this council with important differences: community associations would decide how the city should be subdivided and, on top of that, the new administration insisted that the newly formed council would not be ignored in the decisionmaking processes under revision.

Community associations participated in the debate and the result was a thorough transformation of the city's regionalization, which was divided in 16 regions. The city's regionalization reflected community identity and was not supposed to be formally submitted by the government authorities to be recognized at the City Council. On the contrary, it was the result of an informal grand pact that was sealed by community associations and approved by the executive body. It was also decided that the regions would designate the delegates that would rep-

resent them. A preliminary methodology for the process was designed and discussed with government officials.⁸

The participatory budgeting experience has demonstrated that there are many difficulties in triggering the process. A political culture based historically on clientelist relations weakened or even demoralized popular participation in politics at large. Discredit for government proposals and political institutions is a generalized sentiment shared by the majority of citizens in the country. Other barriers were the inexperience of the new municipal authorities at the beginning, lack of resources in the first years, the variety of demands from the regions (some being stronger in their associational status than others), and the persistent dependence of many community organizations on the municipality's officials.

Since it first started, participatory budgeting in Porto Alegre has consisted of a series of initial meetings occurring between March and June. The municipality coordinates two main meetings, called *rodadas* (rounds). In addition, community associations organize several smaller meetings (intermediate meetings) and various meetings that precede the two main *rodadas*. The extent of these nonofficial gatherings depends on the organizational strength of each region; community leaders are entitled to summon technical help from the municipality if they need it. The main themes discussed in the two *rodadas* are settled by government officials in charge of a specific region and the regional community leadership, and are not restricted to decisions about public works. Starting in 1994, theme-orientated meetings were supposed to

⁸ A relevant theme was the political decision of avoiding the institutionalization of the process-in-progress, that is, to keep participatory budgeting structure and functioning out of the City Council's hands or, as a matter of fact, not accepting any sort of official stamp on it, except the internal and autonomous approval of the associations. This procedure reflected perhaps the historical suspicion held by community associations in the face of so common government promises that had not materialized. They then decided that the process of participatory budgeting should start with complete autonomy and rejected any domination of the municipality, a position obviously in accordance with the political understanding of the new authorities. This was an emblematic decision, for it guaranteed the sovereignty of associational control that had been a political objective from the beginning. But it also reopened an old debate about the limits of this process of direct democracy in the face of possible political changes in the future, if safeguards were not introduced.

attract other associations, like trade unions and organizations of professionals as well as middle-class sectors that were not interested in ordinary participatory budgeting *rodadas*.

The meetings in between the *rodadas* (intermediaries) are, in fact, the central focus of regional debate not only because they define a set of priorities for the local communities, but also because they elect delegates and participatory budgeting councilors. With the support of a participatory budgeting regional coordinator, and with the participation of all possible community leaders and based on a network of rank-and-file associations, an intense discussion arises, eventually leading to a consensual list of priorities chosen by the region; if not, in the second *rodada* the list is formed through a voting process. Obviously, the results of local efforts to decide about these issues depend on the associations and the capability and representativeness of the local leadership. The conventional wisdom always stresses the crucial importance of these mediating steps in consolidating participatory budgeting over the years, in particular when local disputes erupted and needed various meetings and intense negotiation to reach a consensus.⁹

The municipality follows three steps during the first *rodada*. First, it accounts for the previous year, explaining in detail whether the approved plan of investments worked out and the reasons for changes. This is, in fact, a moment of public scrutiny of the municipal government's performance. Second, it submits to the attending community representatives and the population at large its plan for investments in the current year, with a detailed explanation about those public works decided in the previous year. Third, it also anticipates the potential level of financial resources available for the following year, with discussions on new criteria and methods of implementing participatory budgeting in the region. In short, the municipality must coordinate detailed information for three years of administrative routine. This is why technical expertise is an essential requirement of participatory budgeting. In the first *rodada*, the community, in its turn, elects the regional delegates who will represent the region, in

⁹ The government does not monitor these smaller meetings and, as such, no records showing attendance and interest are available. However, community activists and government officials alike agree that they attract more people than the official *rodadas*.

the proportion of one delegate for every 10 citizens (older than 15 years) attending the first *rodada*. In recent years, after these meetings became mass gatherings, it was decided that the proportion would be one delegate out of 20 individuals attending the meeting.

In between the two *rodadas*, the elected regional delegates contact people, discuss their demands in the face of the possible investment capacity informed by the municipality, and, most important, decide about general priorities (such as education, health services, or street paving). They also create a list of hierarchical demands inside each priority, such as which street to pave first, or whether a health unit must be built instead of remodeling an existing one. Since the total level of investments is known and obviously does not meet all demands, this is the phase of negotiations and internal agreements in terms of priorities and demands. If a consensus is not reached, then the second main *rodada* will vote and settle issues under dispute.¹⁰

It is important to note that the implementation of participatory budgeting created a rare opportunity to evaluate not only general government performance, but also sector routines and planned operational actions. Positive coercion is gradually being exerted on the administration as a whole as it comes under public accountability. As a consequence, poor performance is easily detected. There are no specific studies relating social control of sector agencies to their improved development, but many observers insist on this relation.

When the second *rodada* occurs, the participants attending the meeting elect delegates to act as participatory budgeting councilors and

¹⁰ Over the years, those participating decided to change some of these goals to be matched in the official meetings. Starting in 1995, the election of Council delegates was decided in the first *rodada* and regional delegates in the second. The result was a change in local interest reflected in attendance. From 1989 to 1994, the second *rodada* always received greater interest, but from then on, the opposite occurred because the second meeting lost its electoral nature. The lesson to be learned here is not so obvious: the meetings gradually became an emblematic space for those who aspired to political careers and who selected *rodadas* as privileged moments to consolidate their names. The recent history of Porto Alegre, most probably, has a reasonable number of examples to prove this fact. The innovation demonstrated that there was decreasing interest in the second *rodada* over the years. As a result, in 2002, for the first time, participatory budgeting will promote only one round.

form the Council, formally entitled the Municipal Council for the Government Plan and Budget (Conselho do Orçamento Participativo). The same occurs at the theme-orientated meetings. In this second meeting, the local population also chooses the region's priorities, that is, where the municipality should invest. All delegates form the Forum of Delegates of the region. They are supposed to monitor all public works in progress, inform the community, receive new demands, and channel them to the Council, in addition to maintaining close contact with the elected participatory budgeting councilors in the region.

It is interesting to note that the *rodadas* are an opportunity for the municipal government to submit its ideas about the city. Heads of departments, technical officers, and the mayor attend all the meetings. If they present a specific proposal, it will be discussed by those attending and accepted or not by a simple majority. The presence of the government authorities was a political decision after participatory budgeting started, and is considered as a positive gesture by all participants, the population and the government alike.

When the second *rodada* is completed in all the regions (usually in July), the Council is formally installed and becomes the most important administrative sphere for establishing the next budget. The Council has final say on all issues related to the budget, except for technical assistance provided by the municipality. Meetings are open and may be attended by any interested citizen. The Council has gradually interfered over time in other government issues, such as wage policies and the career system for government employees, and sector policies. The whole mobilizing strength of participatory budgeting thus converges in the Council, which must show a real representativeness and power in matters concerning the budget.

Initially, the Council was formed by two councilors elected by each region, as well as one representative designated by the civil servants' trade union and another one nominated by Uampa. The Council also has two representatives from the government, but they do not have the right to vote. Councilors have a one-year mandate with the right to be reelected only for a second consecutive term. The Council meets once a week and coordinates the participatory budgeting process of preparing the budget and the plan of investments. According to legal stipulations,

the final piece must be formally submitted to the official City Council no later than the 30th of September. If the official city councilors—chosen in general elections—approve it, the budget and plan become the guide to be put into practice in the following year. Starting in 1994, the Council also received two elected councilors from each of the five theme-oriented meetings then constituted. As a result, nowadays 46 councilor members take their seats at the participatory budgeting Council.

After installed, the Council has the technical support of Gaplan (Gabinete de Planejamento, the Planning Office of Participatory Budgeting), which is directly linked to the mayor. It was established in 1990 when centralization of participatory budgeting was decided in order to command the process in a smoother way. Both the Council and Gaplan then start combining regions' priorities with financial availability as well as technical considerations. All municipal agencies and departments enter the process at this time, offering appropriate data and providing technical studies as required. Sometimes regional decisions might prove not to be viable for various reasons and the Council must approve changes for a specific region. The main goal is to prepare a detailed budget, which should harmonize demands and available financial resources.

The next task is to prepare the investment plan, for which a group of general criteria inform the discussions. Regional parameters highlight the differences among the regions. The parameters have been modified over the years, and now are as follows: (i) lack of public services and/or infrastructure in the region, (ii) the region's total population, and (iii) priorities chosen for the region vis-à-vis those chosen for the city as a whole. As a result, in discussions of new investments, five logical procedures are to be followed.

First, in all meetings in each region, a group of priorities is discussed and agreed upon. The common rule is that the region chooses in decreasing order of importance four priorities among the eight standard priorities (basic sanitation; land property and human settlement regulation; transport and circulation; social assistance; education; health services; street paving, including water and sewage disposal systems; and city organization).¹¹ The four priorities each region selects are

¹¹ Starting in 1998, the scope of priorities was enlarged to 12 possible choices, including social demands in leisure, culture, sports and economic development, the latter referring to productive projects and initiatives.

graded from 4 to 1—highest (4) to lowest (1). The remaining fields of possible priorities are also placed in a hierarchy, but without grades.

Second, when the second *rodada* is completed, all grades are added and it is then possible to know the three main priorities selected for the following year as a result of the choices of all 16 regions. In 1993, for example, the regions decided that for the following year land and settlement regulations (including new offers of houses, land regulation, resettlements of marginalized populations, and others) would be a top priority. In 1996 and 2001, the main priority was street paving (a decision that many times has to include basic sanitation because paved streets must have regular systems of water and sewage). In 2002, housing (urban settlement) was the main priority.

Third, when the entire order of priorities is concluded, it is time to confront the priorities with the aforementioned parameters, and the proportional position of each region becomes known, making a distribution of financial resources among them viable. With the passing of time, the use of these regional parameters (or criteria) has become increasingly sophisticated and complex in order to settle on a final allocation of resources that is as close as possible to an ideal and absolutely fair distribution among all regions while maintaining the political decision of redistributing investments, especially toward the poorer areas. Therefore, these criteria suffer a further specification to better acknowledge regional differences and produce appropriate shares of the available resources. In 1996, for example, all three criteria were subdivided and further participatory budgeting discussions attributed weights to each criterion.¹²

Fourth, after measuring the weight of each criterion and obtaining its grades for each region, it is possible to reach a final grade for a specific region and discover the relative proportion that characterizes a specific region in relation to the total. This proportion indicates the allocation of resources for that region in relation to a particular priority. To illustrate this mechanism and the increasing complexity of the participatory budgeting operational system, consider the first priority decided by all regions in 1995, that is, street paving. According to the weight of this priority meas-

¹² These criteria are the following: lack of public services and/or infrastructure (weight 1), total population of the region (weight 2), and priority of the region in relation to the city's priorities (weight 3). All three are subdivided in four internal strata, whose grades vary from 1 to 4.

ured against the others, it was concluded that existing resources would allow a total of 23 kilometers to be paved in the following year. The next step was to distribute this total among the regions, and for this purpose the above matrix of weights and grades was applied.

Fifth, when the budget document and its detailed accompanying plan of investments are completed, they become a decree proposal and are submitted to the City Council for analysis and vote. If approved, the budget becomes the letter of the law. Following such a succession of steps, however, the budget and its provisions carry a heavy legitimacy and the city councilors usually have little room to maneuver to add alterations. It is a concrete consequence that the participatory budgeting process minimized the role of the official City Council.

To achieve such precision, the participatory budgeting experience has undergone many changes since it began. In its first effective year, 1990 (1989 being a very experimental trial), for example, the Council decided to concentrate a major part of the then meager total investments in the five poorer areas of the city. They were chosen using some of the criteria mentioned above, and 70 percent of total investment capacity in 1991 went to these regions. This decision proved to be highly controversial, produced a heated debate, and was not repeated again. Council representatives came to the conclusion that social needs among the poorer sectors could not be eradicated only as a result of municipal resources, and if they persisted in concentrating resources it would be unfair to the other regions.¹³ From 1991 onward, as a consequence, they followed the above five steps. Nowadays, the set of rules followed by routine participatory budgeting is a 62-page booklet, proof of its sophistication.

¹³ This fact introduced a relevant lesson into the process, that is, the notion that not all decisions are rational and necessarily correct. The crucial requirement is to establish a set of rules under a democratic legitimacy and stick to them whatever the results, until the collective body decides to reverse them. That decision confirmed the idea that "democracy calls for a particular form of suspension of belief: the certainty that one outcome is best for all, rational. Decisions by numbers or by rules do not have *prima facie* rationality. The everyday life of democratic politics is not a spectacle that inspires awe: an endless squabble among petty ambitions, rhetoric designed to hide and mislead, shady connections between power and money, laws that make no pretence of justice, policies that reinforce privilege. This experience is particularly painful for people who had to idealize democracy in the struggle against authoritarian oppression, people for whom democracy was the paradise forbidden. When paradise turns into everyday life, disenchantment sets in" (Przeworski 1991, pp. 93–94).

Theme-Oriented Meetings

The second administration (elected in 1992) pushed forward meetings arranged to discuss other themes of general interest (not purely local interests of the regions). With the clear consolidation of participatory budgeting and with so many concrete results being harvested, including growing participation and interest on the part of the population, the municipality stepped in again and proposed to use lessons from participatory budgeting in other spheres, even in the global planning of the city. Therefore, it created a project called Porto Alegre Mais—Cidade Constituinte (literally, Porto Alegre Plus—Constituent City). Broadly speaking, the goal of this project was to solve problems in the city as a whole, thus probably providing a firm orientation for the future of Porto Alegre.

The government proposed several specific discussion groups that produced dozens of proposals, which were presented and discussed in the First Congress of the City of Porto Alegre, held in December 1993. This experience demonstrated that it was feasible to enlarge interest and attract social sectors (especially middle-class sectors and businesspeople), which still stood aside from the participatory budgeting structure. The typical middle-class groups that participated in the initial phases of the process were politically motivated. In general, however, middle-class groups have virtually ignored the whole process. Business groups did not demonstrate willingness to adhere to the experiment, except in a few specific cases—in particular, small business entrepreneurs, who seemed to be attracted to the process.

Five themes were selected and the theme-oriented meetings were set for the 1994 cycle of participatory budgeting. They were organized under the same features as participatory budgeting meetings, and each one obtained the right to appoint representatives on the Council. To some extent, the theme-oriented meetings attracted new sectors to the process and, in particular, added quality and complexity to participatory budgeting orientations and proposals. Their qualitative approach deepens the process, thus acting as a complement to the usual insularity that is typical of *rodadas*. The following five themes were chosen to inform the discussions: (i) city organization and urban development; (ii) health and social assistance; (iii) economic development and tax systems; (iv) transport and circulation; and (v) education, culture, and leisure.

The Annual Cycle of Participatory Budgeting

After the modifications that gradually improved the participatory budgeting process and made it routine, it became possible to indicate the cycle of activities and operations that characterize this fiscal management experience in the city of Porto Alegre, extending over the year. At this point, it is important to emphasize that the vicissitudes of this process in the first year of its implementation made it necessary to concentrate its command in the hands of the mayor. This was a crucial decision that had many political reverberations, but proved to be decisive in avoiding failure at that moment. It would be reasonable to expect the Municipal Department of Planning to coordinate the implementation of participatory budgeting under its institutional umbrella. The first months of the new administration in 1989, however, showed a lack of operational agility, resulting in a decision to centralize all participatory budgeting operations in the mayor's office. The Community Relations Coordination (Coordenação de Relações com a Comunidade), formally in existence since 1981, was reorganized and a new body, Gaplan, was created in 1990.

The Community Relations Coordination has acted, therefore, as a mediating agency linking municipal authorities with community leaders and maintaining a close relationship with their associations. Over the years, it has developed sensitive ears and rapidly translated social demands into internal actions, when possible—for example, anticipating technical expertise and information and being able to prepare itself for *rodadas* and other meetings. Gaplan, in turn, translates community demands into technical formats and produces studies of technical and economic viability.¹⁴ It is also responsible for the preliminary proposal

¹⁴ For example, with participatory budgeting support, the municipal government has decided that no street will be paved without checking its water and sewerage systems, if any, and the drainage conditions prevailing in the area. To guarantee the latter sometimes means implementing new public works in an enlarged area, increasing costs but avoiding floods in the future. In concrete terms, it also means that when a community demands new street paving in its region, it might not know that the total cost will be substantially greater if these related works prove to be necessary—in peripheral and poorer regions of the city this possibility is obviously the rule. Gaplan also produces a document called Plano de Investimentos, a booklet that lists the whole configuration of the budget and all the public works finally approved, with all the details. This document has a large circulation and is distributed in all meetings so that citizens may check if their decisions are being implemented.

of the budget and the plan of investments, which are then presented to the Council to be analyzed and then, if approved by participatory budgeting councilors, sent to the official City Council.

There is a second mediating layer. On the one hand, *assessores de planejamento* (planning advisers) are government experts in charge of leveling the process inside the municipal structure, integrating preliminary decisions by the Council and Gaplan to other departments and municipal agencies, collecting information, and requesting technical studies. On the other hand, for each region there are *coordenadores regionais do orçamento participativo* (participatory budgeting regional coordinators). They are in charge of relations with community associations and leaders, maintaining contact, collecting demands and local initiatives, helping to organize meetings sponsored by local associations, and supporting the leaders in preparing for the *rodadas*.

Moreover, a regional coordinator must be prepared to offer any information required by the community associations. To some extent, since the government officials reinforce links between the state and local communities, trying to reach consensus when disputes occur, guaranteeing plurality and a democratic environment, they strongly contribute a greater degree of synergy based on embeddedness. That is, they are based

on ties that connect citizens and public officials across the public-private divide [so that] creative action by government organizations can foster social capital; linking mobilized citizens to public agencies can enhance the efficacy of government. ...Norms of trust built upon from intimate interaction are not restricted to relations within the civil society. People working in public agencies are closely embedded in the communities they work with, creating social capital that spans the public-private divide. (Evans 1996, pp. 1120 and 1130)

Participatory Budgeting: Main Results

Three relevant changes in the city have affected the core impact of participatory budgeting. The first one, highly significant in the Brazilian political context and history (and perhaps internationally important as well),

is an amazing reduction in corrupt behavior and administrative malpractice in day-to-day public affairs. By introducing unprecedented transparency in the formation, allocation, and implementation of the municipal budget, opening it to the general scrutiny of the citizenry, the administrations of the period dramatically reduced the room for petty and backstage arrangements linking civil servants and private interests.¹⁵ In addition, major illegal and/or ethically illicit proposals were rendered impossible because all acts and intentions were loudly publicized. Therefore, a remarkable reduction in transaction costs and corruption became entirely visible, and it is a relevant impact of this process. The policy of open books has had a strong and promising consequence among the population, because it disseminates an embedded feeling of trust and empathy across the public/private divide (see Evans 1996).

A second telling result, visible in many parts of the city—but still claiming a rigorous research initiative—concerns clientelism and political relations. It seems that a striking reduction of clientelistic forms of political operation has taken place. As a result, there has been notable improvement in the political behavior of the main actors in this arena, such as city councilors and would-be candidates who now have to confront a more demanding and informed population. Although the evidence is sparse and nonsystematic, it indicates that old community leaders and patrons, who had been used to customary clientelist exchange in the past, “either saw their audience diminish or changed” (Genro 1997, p. 27). (On the same theme, see also Abers [1998]). Such an impact seems reasonable and expected, given the operational format of participatory budgeting. Because it is an entirely normative process, with rules being established always under intense discussions and decisions that hold a clear legitimacy, there is a high degree of knowledge about the rules of the game. And because participatory budgeting is open and universal and does not discriminate, it inevitably created a

¹⁵ Since 2001, all participatory budgeting data and related information on events, names of councilors, and allocation of investments are on the Web at www.portoalegre.rs.gov.br under the link Orçamento Participativo.

new field for political initiatives, sowing a promising change in political culture.

A third and general result deserving attention is the redistributive factor that participatory budgeting established in Porto Alegre. Its operational functioning is easily identified and corresponds to two convergent but separate mechanisms. First, the reform of municipal taxes instituted the principle of progressiveness, which the municipality is entitled to legislate. Thus, the proportion in the total basket of local taxes paid by richer regions is greater than what the poorer ones contribute, according to the infrastructure of the regions, location, and conditions of households, and buildings and related technical characteristics. As a consequence, middle-class sectors and the wealthiest social sectors of the city were imposed an enlarged share of the taxes collected (as a matter of fact, with no relevant reaction on the occasion). Second, the redistributive strategy reversed priorities and allocated available resources in deprived and poor neighborhoods; empirical evidence of this new priority abounds throughout the city.¹⁶

In the sector results applicable to the city as a whole, only three areas of action (out of the eight priorities) have received the main interest of the population. The three have simply changed position when regions selected their priorities at the *rodadas*: street paving, basic sanitation, and land property and human settlement regulation. Given these preferences, this chapter concentrates on some general data informing how the government has implemented investments and their results, and provides only scant results on other possible fields of priority selected by the communities (such as health services and education).

¹⁶ This reform was not restricted to the housing and land tax, but also affected all municipal taxes, resulting in a heavier burden on more profitable activities and valuable areas of the city. Although it was a political decision taken by the first government that took power in 1989, and not a result of participatory budgeting, it is obvious that with the passing of time the innovation was able to mobilize community organizations to exert pressure on the City Council, forcing elected formal city councilors to approve decrees proposed by the government, even if the opposition commanded a comfortable majority.

Priorities for Government Investment

Basic Sanitation

The most salient features in basic sanitation are two goals the government has pursued, that is, to complete access to water distribution for all citizens and to enlarge as much as possible the sewage disposal system of the city. Results in this respect have been outstanding: 99 percent of the population is served by treated water (a total of half a million units). The number of hydrometers installed also increased substantially (thus, a fairer charge on water consumption could be implemented). Only 6.1 percent of total water distributed is still unmeasured. After virtually completing water distribution, the main focus was directed to the replacement of worn-out conduits still in use in the water network.

Achievements in relation to the sewerage system are still more remarkable. In 1989, only 46 percent of the population lived in households connected to the sewerage network. By the end of 1996, service was provided to 74 percent of the population, and in December 2001, it was to have increased to 94 percent. The average in Brazil is 53 percent. Regarding the installation of sewage disposal systems, impressive figures guarantee that a relevant proportion of the population is served (see Table 10.2). According to the priorities identified under participatory budgeting, the large majority of the new sewerage conduits are in the poorer areas of the city, where this public service did not formerly exist.

Although not directly related to decisionmaking mechanisms under participatory budgeting, but accruing decisive repercussions for the social acceptance and future of this innovation, there was also a clear improvement in terms of water distribution and sewage collection. A government agency operates this area of public services, which suffered an intense reorganization after 1989. Financial capacity was restored when water and sewage taxes were increased to cover real costs. Since it was a successful recovery, the agency was able to implement all its investments (those decided under participatory budgeting

**Table 10.2. Average Annual Sewerage Network Construction,
City of Porto Alegre, 1983–2001**
(Meters)

Year	Sewerage network
1983–87	5,296
1988	8,091
1989–92	21,674
1993–96	61,334
1997	42,948
2001	44,012

Source: Department of Water and Sewerage, Municipal Government of Porto Alegre.

and the agency's own plans) from 1989 onward, with its own financial resources from tax collection.¹⁷

Land Property and Human Settlement Regulation

Between 1990 and 1996, 167,408 people (representing an estimated 13 percent of the total population) benefited from actions in the area of land property and human settlement regulation, according to official reports. Again, these actions were approved as priorities under participatory budgeting, and poorer regions received a greater part of investments. These figures include housing construction, repairs, distribution of materials, and removal to other regions. In some cases, land regula-

¹⁷ On average in Brazil, only 10 percent of households are connected to sewage treatment plants. In Porto Alegre, 15 percent of households were connected to an enormous station in the south of the city (ETE Ipanema), and the number of households reached 27 percent in 2000, when the sewage treatment station of São João was completed. An important impact of this increased capacity to treat collected sewage has been the cleaning of large tracts of coast along the Guaíba River and its suitability for bathing. Virtually all Guaíba beaches were formerly unauthorized for leisure and bathing because of industrial and sewage pollution. For example, there is a beach located in the south of the city (Lami) that is now freely used by the population at no risk (the municipality has a daily system of monitoring water conditions).

tion helped families that were considered land occupiers to become legal householders. In cases where land regulation is not possible due to deep conflicts and/or judicial decisions, the only possible solution may be resettlement. Under participatory budgeting, 9,278 new houses were built and offered to low-income people in 1964–85; 901 in 1986–88; and 11,580 in 1989–2001.

Street Paving

Street paving has been the main demand by participatory budgeting participants in the years since this innovation began in Porto Alegre. An average of 21,000 meters were paved each year from 1992 to 2000 and, as a result, in some areas the urban landscape has changed radically, improving local infrastructure and increasing the value of households. In low-altitude parts of the city, sometimes these are expensive works because they are executed only if drainage is also included, so that major complementary works may be required before streets can be paved.

Participation and pressure to materialize chosen priorities under participatory budgeting *rodadas* have proved to be worthwhile, as can be seen in a comparison between regions. For example, two regions in Porto Alegre, Lomba do Pinheiro and Restinga, both have grave social problems and a significant proportion of low-income population. Lomba do Pinheiro has a total of 38,480 inhabitants, and 78.7 percent of the local families have income up to three times the minimum wage (in April 2002, one minimum wage was about US\$80). Restinga, by contrast, has a population of 35,279, and 52.2 percent of its families receive up to three times the minimum wage (technically low-income families). Both regions presented numerous problems of legalization of land use and basic sanitation, and most of the streets were not paved some years ago; they are areas of recent urban occupation in the history of the city (Lomba in particular).

Participation of these regions in participatory budgeting meetings has been impressive over the years. Table 10.3 shows the proportion of the local population that attended *rodadas* in the two regions in selected years. Participation in the meetings grew from 0.16 percent to 5.52 per-

Table 10.3. Proportion of Local Population Attending Participatory Budgeting Meetings in Lomba do Pinheiro, Restinga, and Eixo da Baltazar, 1990–2001
(Percent)

Region	1990	1993	1997	2001
Lomba do Pinheiro	0.16	1.68	3.17	5.52
Restinga	0.15	0.90	3.64	4.08
Eixo da Baltazar	0.03	0.53	0.32	0.44

Source: CRC – Community Relations Coordinator, Municipal Government of Porto Alegre.

cent in Lomba do Pinheiro, and from 0.15 percent to 4.08 percent in Restinga between 1990 and 2001. The figures demonstrate that participatory budgeting's innovative rationale found an immediate social echo in these regions.¹⁸

At the other extreme, Eixo da Baltazar is a densely populated region with 139,848 persons, where the proportion of families receiving up to three times the minimum wage is only 8.5 percent (the second-lowest proportion in Porto Alegre). In this neighborhood, the attractiveness of participatory budgeting has been low and local participation has not been comparable with that of the rest of the city (see Table 10.3). However, the proportionally few local citizens who attended *rodadas* in the Eixo region have demanded actions in street paving. However, the data on street paving reveal a diverse picture. Between 1992 and 2001, the government paved 41 meters per year per 1,000 inhabitants in Lomba do Pinheiro, 35 meters in Restinga, and only 8.5 meters in Eixo. This comparison indicates that regions with greater participation have had greater tangible results in terms of public works implemented.

¹⁸ These indicators represent the relation between the participants who are identified in at least one of the two *rodadas*, in the years shown, and the total population (less 35 percent, which is the proportion of the population less than 16 years old, according to demographic surveys—under participatory budgeting regulations, they are not entitled to vote in the meetings).

Health Assistance

The 1988 Constitution formalized that health services would be municipalized, that is, the municipality would be in charge of all health activities and services. In Rio Grande do Sul, only four cities, including Porto Alegre, concluded this transference of activities (as of 1999). As a result, the city began to receive financial transfers from the federal and provincial governments (sometimes less than due and many times at a considerable delay). Porto Alegre spends 17.6 percent of its budget on health services, and the global policy for the sector is entirely decided under another council and integrated by all interested sectors. The efficiency of the city in this sector contrasts vividly with other cities, and, as a consequence, public health services in Porto Alegre are being flooded with patients from other cities. These results demonstrate that the decentralizing innovation in Porto Alegre, particularly in relation to allocation of investments, seems to be entirely consolidated and no possible radical revision of it would be likely in the near future, even if opposing parties won electoral disputes.

A Note on Participation

In terms of social participation in the activities and meetings organized under participatory budgeting, the administration's concern was initially centered on numbers. Later on, however, it preferred to count participants with local association representativeness rather than the mere number of those attending the meetings. The attendance of genuine leaders of community associations and a motivated rank-and-file seem to be more important than occasional participants with no dense ties established with their communities. Especially in theme-oriented meetings, professionals and highly educated people, on the one hand, and representative leaders of professional organizations, on the other, can guarantee support for the whole participatory budgeting process. Nonsystematic observations register cases of regions where many were urged to attend participatory budgeting meetings in order to "thicken the number" and therefore to elect more delegates and exert more pressure on the definition of priorities responding to local demands. These

maneuvers could certainly be anticipated within such an ambitious process, but they gradually diminished. The current preoccupation with representativeness reflects an inevitable consequence of the experience, searching for a refinement of the notion of representation in each region. However, it was decided that the selection of delegates and councilors in participatory budgeting meetings should obey some criteria of proportionality.

Table 10.4 summarizes total participation in both *rodadas* organized in the 16 regions in selected years, and attendance in the five groups comprising theme-oriented meetings, which started in 1994. All meetings under the participatory budgeting umbrella (including community-prepared smaller meetings) require signed lists of attendance, which register names and addresses. These records are kept by the Community Relations Coordination.

However, these data are taken at face value and may not be true. For example, there are many small meetings in which attendance is not monitored. Apart from this fact, there are clear signs that the government is no longer interested in high figures but, in fact, intends to refine the representativeness of the meetings. In other words, actual participatory budgeting practices seek to assure a qualitative presence in the *rodadas*, and growing attendance is not the main goal. It is in this sense that the number of citizens attending the meetings does not directly affect the distribution of resources because established criteria already favor poorer regions. When the general formula adopted a mix of indicators, one of them being the lack of local services and/or infrastructure (with a significant weight), the process necessarily leaned the results toward poorer areas. Thus, a greater distribution of resources to deprived regions is an indirect result, regardless of the number of adherents attending the *rodadas*.

The relevant role associated with those attending the meetings relates to other aspects: they are crucial for identifying local priorities and ordering them; representatives of local associations, leaders, and people in general are also important when a consensus is not reached and negotiations must proceed to reach a final settlement; and their presence is necessary because the whole process represents a school of political learning in citizenship. Therefore, the administration is inter-

Table 10.4. Attendance at Participatory Budgeting Main Rounds and Theme-Oriented Meetings, All Regions, Selected Years

Year	Main Rounds		Theme-oriented meetings		Total
	I	II	I	II	
1991	608	3,086	—	—	3,694
1993	3,760	6,975	—	—	10,735
1995	6,855	4,966	1,640	806	14,267
1997	8,183	3,725	2,895	1,213	16,016
2001	13,891	7,692	2,721	501	21,805

Note: Theme-oriented meetings began in 1994.
Source: CRC – Community Relations Coordinator, Municipal Government of Porto Alegre.

ested in the massive presence of representatives of the local associations and would-be leaders.

Moreover, there is an essential political component. If the community organizations, local leaders, influential participants, and representatives of all associations attend the meetings and choose local priorities and their hierarchy, any later alteration by third parties would be improbable. Decisions and social legitimacy are so embedded that they could hardly be altered by formal councilors. Neither the government nor the City Council (when it receives the budget in late September) is able to promote many modifications in regional preferences. In other words, what participatory budgeting guarantees, in fact, is a definition of public works that are an expression of local needs and interests decided under an umbrella of social events that, so far, other political actors have not dared to challenge.

Who participates and is interested in participatory budgeting? This can be seen from interviews, nonsystematic evidence, and a brief survey on the profile of those participating (described in Fedozzi 1997). Participatory budgeting participants constitute a majority of social sectors, which may be identified by their social and economic characteristics. As such, generally speaking, the majority of adherents to participatory budgeting are people from lower-income, middle-class groups plus smaller sectors that are typically middle-class, politically motivated, and/or involved in social organizations.

Marginalized social sectors and the unemployed (in short, the popular classes), on one extreme, and the richer strata, on the other, simply

ignore and/or are not interested in or able to engage themselves in the whole process. The cited survey describes a typical participatory budgeting participant as someone in “an audience equally divided among men and women, who is up to 41 years old, white, with a family income of up to five minimum wages and who reached the secondary level of education [eight years]” (Fedozzi 1997, p. 146). In terms of occupation, this research also reveals that 56.3 percent of those involved in participatory budgeting meetings are wage earners (44.7 percent) and retired people.

Three years later, broader research showed important changes in the participants’ profile, modifying to a certain degree the aforementioned social boundaries. According to that research, the participatory budgeting participant’s typical profile, considering the larger proportions of each surveyed attribute, had changed and now the typical participant was “a married woman, over 34, with family income up to four minimum wages, primary education, manual worker with no higher qualification, working 40–44 hours a week in the private sector. ... Active in a neighborhood association, she had participated in the PB in prior years, but has not been elected as a delegate or councilor yet” (Cidade 1999, p. 13). The latter profile, according to research in 2000, has not been significantly altered (PMPA 2002). It is obvious that this segmented participation represents a crucial limit for the innovation, especially when poorer sectors are not present.

Efficiency and Equity in Budget Formation

A final topic that deserves to be mentioned concerns the impacts of the participatory process implemented in Porto Alegre on the improvement of government management’s efficiency, and whether a new pattern of equity has been established in the city.

As for the budget structure and particular allocations, participatory budgeting does not seem to have any visible and immediate impact. Municipal budgets in Brazil are mostly subject to constitutional principles and/or legal imperatives that cannot be modified, at the risk of being challenged in court. There are prescriptions, for instance, regarding budget proportions compulsorily destined to health and education programs, and

a new national law has recently established a set of rules on the maximum proportions to be allocated to personnel and general costs of maintenance (the Fiscal Responsibility Law, passed in May 2000).¹⁹ Therefore, most of the structure of Porto Alegre's budget (or that of any other Brazilian city) is previously defined, leaving little room for changes.

The possibility of widening the proportion of financial resources under local decisionmaking processes (such as participatory budgeting) ends up limited to municipal taxes whose specifics must be approved by the City Council. As a result, the city's economic strength and reactions derived from local political ambience, when a proposal to increase taxes is on the table, are prerequisites that define a great deal of the proportion and magnitude of that part of the budget dedicated to investment. Consequently, that proportion is the main and almost only budget item on which the city can freely decide, according to the interests of the city government.

In Porto Alegre, it was decided from the beginning that the portion of the budget committed to investment would be entirely distributed by the participatory budgeting initiative. Thus, the government only had to equip itself in order to adjust to the demands determined in community meetings and carry them out, activating technical public services. Since there was visible and growing public pressure on the government by the Council delegates, management efficiency in the provision of services had to be increasingly improved. Otherwise, the government would risk setting off public protest due to the complete transparency of the process, and/or losing legitimacy.

An indirect way to demonstrate the mounting importance of building good government in the city would be to compare the number of public servants involved in means sectors and activities with those involved in ends sectors and activities, as well as the expenditure in both types of activities over the years. Prior to the establishment of participatory budgeting (in 1989), there were on average 3.5 public sector workers in ends

¹⁹ This law represents a landmark in Brazilian public management history for strongly reducing government operators' leeway for hiring new employees, and setting limits for certain expenditures and general rules for managing public funds. It establishes not only fiscal accountability, but also prescribes public tools for transparency regarding the budget and rendering of accounts. Article 48, for instance, establishes several participatory mechanisms in order to widen the visibility of public finances, including public hearings (and other forms similar to participatory budgeting, if the local government is willing to do so).

activities for every public sector worker in means activities. That proportion has gradually grown, reaching 5.5 to 1 in 1999. The increase has been even more impressive in expenditure. Between 1984 and 1989, for instance, expenditures on ends activities was 2.5 times the amount spent on means activities. In 1999, however, according to official data, that proportion had reached 7.2 times. Therefore, the evidence indicates that the administrative structure has been redirected toward carrying out public works and widening public service delivery. In this regard, participatory budgeting has certainly played a crucial role in pressing the government's acceptance of and commitment to meeting the demands of the regions.

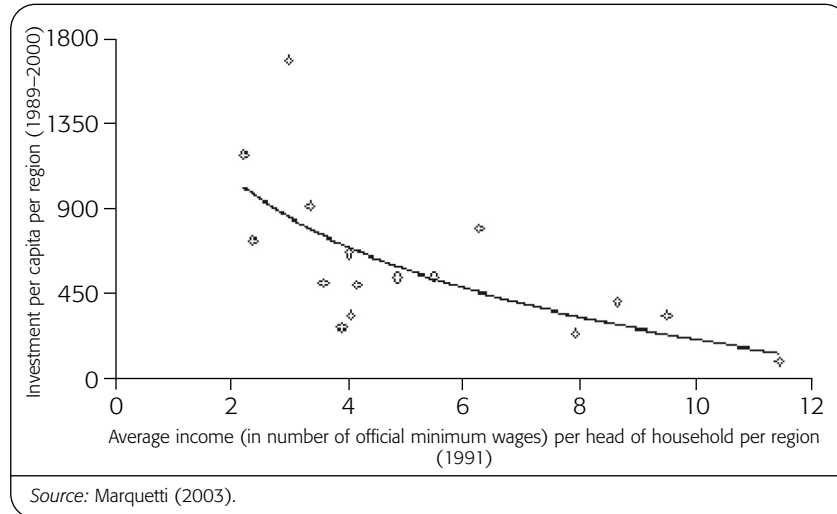
As for the impact of the innovation on equity, the study carried out by Marquetti (2003) is no doubt the most complete and affirmative on this issue. The author selected a basket of social indicators related to each region of the city and surveyed data regarding the use of the municipal budget's total investments, identifying each public work or service within the 16 regions. Identification was not always possible because most of the investments (approximately 65 percent in 2000) cover more than one region and often several of them, preventing specific regional distinction. Nevertheless, examining only those investments where there was a clear definition regarding the region and the investment, the study observed a clear positive relation between per capita investment and poverty indexes in 1992–2000 among the regions. This allowed the author to affirm, "the PB has worked as a powerful income distribution mechanism, since the poorest regions received the highest investments volume per resident" (Marquetti 2003, p. 10). Figure 10.1 plots investment against average income for the 16 regions in the city.

Conclusion

"Democratization is an act of subjecting all interests to competition, of institutionalizing uncertainty. The decisive step toward democracy is the devolution of power from a group of people to a set of rules" (Przeworski 1991, p. 14).

The social engineering built by participatory budgeting in the city of Porto Alegre has transformed, from one year to the next, an increasingly complex and sophisticated exercise. Although conformed to a par-

Figure 10.1. Investment and Income in the Regions of Porto Alegre, 1990s
(*Reais*)



ticular urban setting, the history of participatory budgeting perhaps indicates that its development and reverberations, and its intriguing record make it a central issue to be faced in the new millennium: What should be the format of the state that will predominate in the near future in societies like Brazil and, moreover, what should be the ideal ensemble of its relations with society?

An impressive list of changes occurring in Porto Alegre may allow observers to focus on the most notable transformations brought about by participatory budgeting: not only to redistribute resources toward the poor and install a fairer pattern of allocating public funds in the city, but also to establish a new framework of political relations. This is the reason why this chapter has suggested that the innovation is, to some extent, a model of affirmative action applied to a city, and thus provides unprecedented opportunities for the poorer sectors.

Since it is an extremely creative experience that offers a record of very positive results, thus transforming Porto Alegre into a city that presents some of the best quality of life indicators in the country, two immediate questions are raised: What are the general lessons that

should be emulated? Is it possible to replicate participatory budgeting in other urban contexts?

Although this chapter has tried to single out specificities that encapsulate the social development of Porto Alegre, there certainly are general lessons to be learned. The most important and a decisive prerequisite to be observed in launching a participatory social process is that the local authorities must have firm political will to share a substantial amount of power with their constituents. On paper, this political disposition seems logical and highly attractive for power holders (by virtue of the potential political rewards); in practice, however, it is a rare facet of politics. Usually unconvinced, those in power agree to consultative participation at most and do not really share decisionmaking; in this case, experiences like participatory budgeting obviously would not materialize.

Additional requirements include the following:

- A satisfactory proportion of the budget to invest. What is satisfactory? It depends on various local factors, but even if not so substantial (as in the case of small agriculture-based towns where available resources are meager), experience has proven in similar Brazilian cases that the population may be interested anyway. Political tradition, as a rule, is so impervious to ordinary people that an innovation like participatory budgeting must initially break the skepticism and disenchantment prevailing among the population. Once this barrier is overcome, other factors could affect the development of participatory practices (such as the level of illiteracy and/or the general state of government management).
- A cohesive group of leaders to inform the process is another crucial requirement, both in the government and in the community associations. A history of democratic practices and political relations may be essential to get the process under way.
- Regionalization based on communitarian identities seems also to be a condition for success, at least in medium-size and large cities.
- Autonomous decisionmaking spheres produced under participatory budgeting development (like *rodadas*, *plenárias*, and so on) are crucial to attract people. They are supposed to establish a set of rules that will direct the implementation of this innovation

and also create mechanisms to settle common disputes among regions and parts of specific regions and/or decisions to be made in terms of options for allocating funds.

- Civil servants must be trained under participatory budgeting rationale. If not, the general efficacy of government actions may be reduced, apart from the fact that participatory budgeting may introduce a new level of governance if government workers are conscious of the right of citizens to demand transparency in public affairs.
- At least some sectors of the population require continuing training, especially if the innovation is successful enough to produce viable alternatives in productive initiatives.

These and many others lessons from participatory budgeting may be replicated in other urban contexts and, if transformed into operational tools, could eventually inform the implementation of a similar experience in other cities.

There are many analysts of participatory budgeting in Porto Alegre who emphasize that the characteristics of the local social endowments are so solid and peculiar that any attempt to replicate this experiment would hardly find similar social foundations. Therefore, a possible consequence could be minor and frustrating changes in the social fabric of the city. But is social capital a necessary requirement? At this point, it appears clear that this is not entirely the case. Preexisting endowments in terms of the material conditions, a strong history of associations, and/or social and cultural characteristics that favor innovative experiments do contribute to a favorable setting, but do not constitute a kind of iron law for participatory initiatives. According to local findings, what seems to be more relevant in order to ignite a participatory budgeting fever is the role played by state actions and strategies. The empirical evidence has demonstrated that a combination of strong public institutions and organized associations is a powerful tool for development.

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CHAPTER 11



DECENTRALIZATION AND THE CULTURE OF CITIZENSHIP IN BOGOTÁ, COLOMBIA

Cristina Rojas

In the past decade, Bogotá, the capital of Colombia, has experienced a revolution in the relationship of the citizens to the city. The residents, most of them immigrants and displaced people from all over the country, have made the city their homeland, and most of them are proud to be living in Bogotá. They are willing to contribute to the city's finances, and some have responded positively to a call for a voluntary extra charge on property taxes. Residents are more inclined to use pedestrian bridges, respect traffic signals, and cross streets in designated areas. Voters elect the mayor and local boards from independent candidates, defying local bosses and traditional party allegiances. Candidates from nongovernmental organizations, associations, and civic movements are running for city councilor positions.

Although citizen participation in development plans and local budgets is still incipient, continuity has guaranteed a process of learning and innovation. The city is highly innovative in its pedagogical and communication strategies, and in its approaches to culture. A novel system of transportation has reduced travel time and improved the quality of life. Youngsters from all social strata congregate for events like "rock in the park" and street theater. And residents use bicycle paths, parks, and public libraries, which no longer are a prerogative of middle-class residents, but have improved the quality of life for all of the city's 6.4 million residents. Bogotá has also reduced by half the annual number of deaths due

to homicides and traffic accidents. All this has been implemented with a healthy financial base that allows for increased provision of social services. For these reasons, Bogotá ranked first place in a recent evaluation of decentralization, and has received international recognition. If these trends continue, the city could be prepared for the challenging endeavors of reducing poverty, unemployment, and inequality.

This chapter argues that the city has undergone a cultural transformation. This transformation started with the election of Mayor Antanas Mockus (1995–97), who made the culture of citizenship an objective of his term in office. As he stated, “a conscious modification of habits and community beliefs are a crucial component of public management and a common agenda of governments and civil society” (Mockus 2001, p. 1). Cultural interventions continued during the administration of Mayor Enrique Peñalosa (1998–2000), and a culture of citizenship was taken up again in the second term in office for Mayor Mockus (2001–03).

The chapter documents how decentralization made this cultural transformation possible. It uses Elias’s (1994) concept of interweaving to describe outcomes as the results of the plans and actions of many people. Emotional and rational impulses give rise to changes and patterns that no single individual person has planned or created.

Bogotá’s cultural transformation has important theoretical and practical lessons. The experience illuminates current debates on culture, democracy, and the role of the state. It is politically relevant because it is taking place in the context of a high level of nationwide violence and failed attempts to reach peace. The case of Bogotá is also important because it reveals issues that still need attention to extend the concept of social citizenship.

The concept of a culture of citizenship overcomes the limitations of the well-known approach of civic culture. For political scientists, *civic culture* is a narrow term, restricted to attitudes and orientations of individuals toward political phenomena (Almond and Verba 1963). These values and orientations are conceived as given in some cultures. Lack of civic culture has been used to justify authoritarian solutions and values.¹

¹ Almond and Verba (1963) conclude that civic culture has its deepest roots in the United Kingdom and the United States, and that Mexico has almost no civic culture.

Contrary to the civic culture approach, Bogotá's concept of a culture of citizenship is more encompassing. It refers to "the ensemble of habits, activities and shared minimum rules intended to create a feeling of belonging, facilitate coexistence in the urban space and leading to respect collective goods and to recognize citizens' rights and duties" (Mockus 2001, p. 3). A novel component implicit in this notion is the weight given to culture not as something given, but as a process of regulation between individuals. A culture of citizenship is not something inherited from the past; it is the result of social interactions between citizens and between citizens and public institutions (Mockus 2001).

The culture of citizenship approach supersedes the state/civil society dichotomy that has prevailed in the most recent version of civic culture, that of social capital. That concept, popularized by Putnam (1995), contends that it is through trust that individuals working together are more likely to engage in collective activities. In his view, individuals engaged in civic associations, no matter the type, improve government institutions by increasing trust. According to Putnam, social capital is a homegrown product in which the state does not play a role (Tarrow 1996).

The case of Bogotá demonstrates three important elements. First, the state plays an important role in the creation of a culture of citizenship. Second, a culture of citizenship is created by broadening the sphere of public deliberations. Third, a culture of citizenship can be created under adverse circumstances and situations of generalized distrust.

The case of Bogotá shows that a culture of citizenship is an important tool for reducing the level of violence and facilitating peaceful coexistence among citizens. Two postulates underlie the relationship between culture and violence. One is that increasing communication reduces violence. This idea assumes that conflicts turn into violence when there are barriers to communication, and that face-to-face relationships reduce violence. The second postulate is that violence results from a lack of legitimacy of institutions, a weakening of culture, or a crisis of morality. The aim is to reduce the discrepancy between law, culture, and morality (Mockus 2001). This postulate does not need the assumption that there are good and bad cultures. It is rather the discrepancy between these principles that produces violence.

The Bogotá Development Plan for 1995–97 reflects the linkages between culture and peaceful coexistence by stating the main objectives as follows (Mockus 2001, p. 3):

- To achieve a better standard of coexistence
- To provide improved incentives for citizens to live peacefully (because of the long period of civil war and violence)
- To increase the capacity to reach agreements and peacefully solve disagreements between citizens
- To improve communication between citizens (to express and interpret their ideas) through art, culture, recreation, and sports.

A culture of citizenship contributes to the construction of a more democratic society. The development plan *Para Vivir Todos del Mismo Lado* (Living Together on the Same Side, AMB 2002) emphasizes the capacity to reach agreements and follow rules, which are at the center of democratic culture. The use of democratic procedures in the elaboration of local development plans and in changing legislation is also crucial for democracy.

The analysis in the chapter is based on official documents and newspaper reports. Empirical data are from surveys conducted by independent agencies and by the city of Bogotá.² Additional information comes from personal interviews with the Mayor of Bogotá, top decisionmaking officials of the present administration, city councilors, and independent organizations monitoring the progress of the city.

Decentralization in Colombia

Colombia has spent half of its 200 years of republican life as a centralized regime. After several failed attempts to install federalism, the Constitution of 1886 settled the dispute by declaring Colombia a cen-

² Bogotá Como Vamos is a private program aimed at monitoring Bogotá's progress in this area; it is the product of an alliance of Fundación Corona, *El Tiempo*, and Cámara de Comercio de Bogotá. The chapter also uses the survey *La Cultura Ciudadana en Bogotá*, which was conducted by the Observatorio de Cultura Urbana, Instituto Distrital de Cultura y Turismo, April 2002, and statistics from the Observatorio de Violencia y Delincuencia, Secretaría de Gobierno.

tralized country with the major responsibilities located under the authority of the president. Decentralizing tendencies resumed in the 1980s in an effort to improve municipal finances and later to devolve political power toward the localities. A legislative act in 1986 allowed municipalities to elect mayors, who were elected for the first time in 1988. The Constitution of 1991 consolidated the process of decentralization by considering Colombia a “unitary republic, decentralized and with autonomous national entities.”

An important characteristic of the decentralizing process is that it was launched internally as a response to the crisis of legitimacy of the national government and the political parties. The high occurrence of local social movements and civic strikes asking for better services and infrastructure during the 1970s and 1980s called into question the existence of a centralist state. The restrictive character of its democracy and the quasi-monopoly of the liberal and conservative parties, which traditionally held 90 percent of the voting turnout, hindered the consolidation of political alternatives. Patronage practices also contributed to the disenchantment with democracy. The strengthening of guerrilla movements and political conflict during the 1980s was perceived as a consequence of restricted participation. The situation worsened during the 1980s with the presence of drug trafficking and terrorist activities. As stated in a recent publication, “decentralization was adapted almost as an act of desperation in the search for a solution to the political impasse that afflicted the country” (Angell, Lowden, and Thorp 2001, p. 3).

It is not surprising that one of the main emphases of decentralization and constitutional reform was the granting of higher levels of participation to citizens and a say in the decisionmaking process. The Constitutional Assembly in charge of reforming the 1886 Constitution was itself an exercise in participatory politics, with the involvement of social and indigenous movements, trade unions, religious organizations, leftist parties, and the guerrillas in the Movement of April 19th (M-19). The phrase “citizen participation” is found in almost all areas (economic, administrative, political, and social) of the 1991 Constitution. According to Article 2, the state has a constitutional mandate to ensure citizen participation in decisions related to the economic, political, administrative, and cultural aspects of the nation.

Specifically, the Constitution provides that the state legislate to guarantee citizen oversight of the results of public management at all levels of administration (Article 270). Citizen oversight committees are established for the review of public sector management, and they have control, oversight, and fiscal functions. The main goal is to ensure that public management is implemented according to the established purposes and to ensure the efficiency and social equity of public spending. Civil organizations and communities can establish, without state support, temporary citizen oversight committees to exercise oversight and control of public projects.

The high expectations on the outcomes of the reforms explain the scope and extent of decentralization. Fiscal decentralization involved transfer of resources from the national to the local levels, strengthening of local taxes, and use of mechanisms of cofinancing and credit. Decentralization was accompanied by institutional reforms at the local and national levels. It encompassed political reforms in the areas of popular elections of mayors and state governors. An important motivation behind political decentralization was to bring government closer to the citizens.

Another characteristic of decentralization in Colombia is the strong emphasis on the municipality. Before the 1991 Constitution, the main objectives included the improvement of the provision of local services, redistribution with emphasis on municipalities, and democratization (DNP 2002). After the 1991 Constitution, the objective of fair distribution between the municipality and the province was added, but the emphasis was still on the provision of social services at the local level and the strengthening of small municipalities. Overall, Colombia is considered one of the most decentralized countries in Latin America, with more than 40 percent of total government expenditures managed by subnationals (Villela 2001, pp. 4–6).

Countrywide, the results of a long decade of decentralization (1988–2002) are not very promising. According to a study conducted by the Colombian National Planning Office (DNP 2002, p. 139), 41 percent of the municipalities surveyed are poor or very poor performers; an additional 53 percent are ranked in the middle level; only 6 percent are ranked satisfactory; and only 1 percent of the municipalities exhibit a

high level of performance, with Bogotá having the highest score (83.6 out of 100).

Although Bogotá is in the privileged position of being the country's capital, decentralization has not conferred special advantages. The 1991 Constitution granted to Bogotá the status of Capital District; however, this status did not grant special privileges regarding the benefits of decentralization. On the contrary, one of the main criticisms of the process of decentralization is its homogenizing character because all measures are equal for all municipalities and provinces despite their heterogeneity. Some specific measures have privileged small municipalities. Bogotá started in a disadvantageous situation regarding the culture of citizenship, as is demonstrated in the following section.

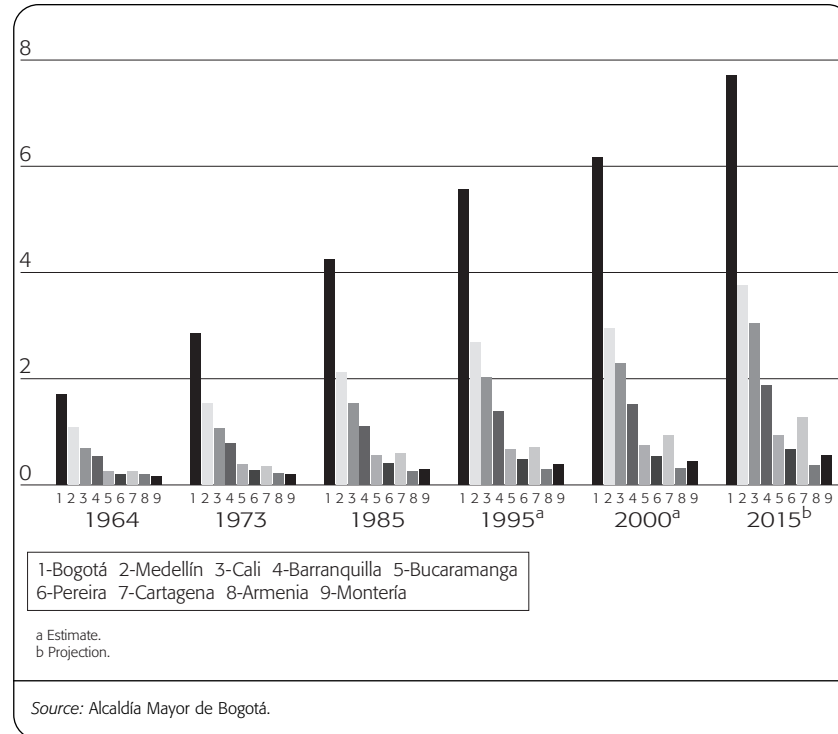
Bogotá: A Fragmented City

The success of Bogotá is remarkable given its history of disorganized growth and the surrounding adverse conditions of violence and economic recession in the country. Bogotá has one of the highest rates of population growth in the country (Figure 11.1). From a city of less than a million people in the 1950s (712,250 inhabitants), the population grew to 6.4 million people (15.2 percent of the national population) by 2000. Bogotá has one of the greatest densities of population among cities in Latin America, with 3,717 inhabitants per square kilometer (AMB 2002, p. 9).

Bogotá is a fragmented city, spatially and in terms of land use (Hoyos 2002, p. 11). It is the home of both modern urban spaces resembling suburban areas of an industrialized metropolis, and poor neighborhoods lacking minimum conditions of health, housing, and sanitation. Bogotá's rural areas make up three times its urban area. The city's historical and modern, urban and rural, and rich and poor aspects are self-contained spaces unknown to each other. The following description conveys the fragmentary character of the city at the beginning of the 1990s (Dávila León de Guevara 2001, p. 96):

A dirty city, disorganized, with a chaotic system of transportation, parks covered with garbage, wild grass, a nobody's land with a police force that was better to avoid...inhabited by

Figure 11.1. Population in Main Urban Centers in Colombia, 1964–2015
(Millions)



people coming from all regions that after many years of living in Bogotá still identified themselves with Tolima, Antioquia, the Atlantic Coast or Boyaca region. A city kidnapped by politicians and petty politics, whose presence in the board of directors of public services provided them with resources and privileges to share with their voters; an indebted city and mostly insecure, where the only solution available was to enclose within private spaces with private surveillance; a city taken by street vendors, without sidewalks or public space, with public works designed for the immediate needs and with strong failures regarding its planning and sustainability, and with public works like prisons, because nobody took responsibility.

When measured by social capital, Bogotá's indicators are lower than the rest of the country (Sudarsky 2002a). Nationally, 24 percent of survey respondents say they have never met their neighbors; in Bogotá, this proportion is 37 percent. Nationwide, 53 percent say that they belong to a social insurance program; in Bogotá, this is true for only 42.4 percent. Across the country, 27.9 percent of the residents feel alone; in Bogotá, the proportion is 32 percent. There are also important differences in social capital according to the social strata of the respondents: although almost 45 percent of the upper strata of the population belong to a voluntary organization, in the lowest strata, the proportion is only 23–25 percent.

Measured by voter turnout, Bogotá is also in a situation of disadvantage. Traditionally, the city's rate of abstention is higher than the national average (Velazquez 2001). And Bogotanos are less informed than other Colombians when it comes to knowing who their representatives are in the City Council, Senate, and Congress.

Forging the Public Sphere

The opportunity to elect the mayor, participate in local development plans, and be involved in the decisionmaking process mean that there is space for public deliberations despite the fragmentation of the city. Following Arendt (1958, p. 50), "everything that appears in public can be seen and heard by everybody and has the widest possible publicity." The "public" refers also to the construction of a common world: "the term 'public' signifies the world itself, in so far as it is common to all of us and distinguished from our privately owned place in it" (Arendt 1958, p. 52).

The 1991 Constitution contributed to the publicity of the public space by making it mandatory for candidates for major offices to register their political program and, once elected, to use that program as a foundation for the development plan (Article 259). As a result of this measure, voters have been able to choose their mayors from a broader political spectrum and according to their program of government. This is reflected in the tendency to elect civic mayors.³ In Bogotá's elections, independent candidates have won in the past three elections.

³ The expression refers to candidates that are independent, that is, not from the traditional liberal and conservative parties. But it also has the connotation of being closer to the citizens. In the 2000 election, four of the major cities elected civic mayors.

The election of Jaime Castro for 1992–94 did not break the traditional party affiliation, as he belonged to the liberal party.⁴ His administration was a milestone in the city's future direction. His major accomplishments were the establishment of an encompassing legal regime for the city (Estatuto Orgánico), Decree 1421 of 1993, and the reform in the finances of the city (Velazquez 2001). Decree 1421 provided a regulatory framework for implementing the principles of the 1991 Constitution, which established that the city's territory would be divided into localities. Each locality would have a local board made up of popularly elected city councilors and a local mayor selected by the city mayor from a panel of three candidates chosen by the respective local boards. Decree 1421 specified functions for local mayors and local boards, and established rules for the design of the local development plan and the distribution of local budgets involving citizen participation. Decree 1421 allowed for separation of powers by changing the relationship between the executive and the city council. It eliminated one of the most important sources of corruption and patronage in the local administration: city councilors were excluded from the boards of directors of public enterprises and removed from the process of contracting.

The election of Antanas Mockus (1995–97) was a stepping-stone in the construction of the culture of citizenship. Mockus, a university professor, was the author of academic and administrative reforms at the National University. He was well known for his pedagogical abilities, his disregard for politics, and his honesty as a citizen. He conducted one of the cheapest electoral campaigns (less than US\$10,000) in a country with strong political machinery. He won the election with 64.5 percent of the total turnout, running as an independent candidate, breaking the liberal-conservative monopoly. Voter turnout increased to 30 percent, which was greater than for Castro's election, but still lower than the national average of 45.26 percent.

Two premises underlined Mockus's proposal for producing cultural change: one was that change emerges from self-regulation of behavior. During his first administration, Mockus launched a culture of citizenship program, for which the cost was US\$130 million, equivalent

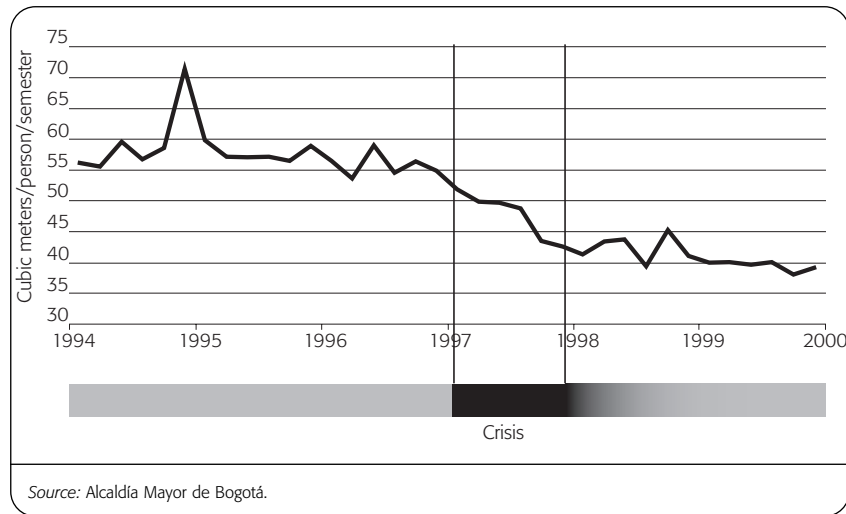
⁴ Voting turnout in Bogotá was still well below the national average; it was 26.42 percent as compared with 43.07 percent for the country.

to 3.7 percent of the city's investment budget (Mockus 2001, p. 7). Program activities were concentrated in the use of symbols for regulating everyday life. For example, the use of citizen cards to change traffic habits illustrates the pedagogy of social regulation by citizens instead of legal sanctions (Mockus 2001, p. 9). Double-sided cards were given to drivers and pedestrians. One side was colored red and the other white. The white side pictures a hand with the thumb pointing upward, in a sign of approval; on the red side, the thumb points downward, signaling censorship. When pedestrians or drivers infringed the law, they were shown the red side; if there was a good action, the people used the white side to recognize or approve of the good behavior. Initially used to regulate traffic, the cards were also employed in situations of conflict.

The other premise of cultural transformation was to promote stronger communication. This premise echoed a call to create a public space in such a way that communication could influence the relationship between citizens and public goods. An example was the communication campaign to save water and avoid restrictions in the supply of water by the official authority. Thanks to the communication campaign, the per capita consumption of water fell from 26 to 20 cubic meters, and the need for new investment was delayed 15 years (personal interview, Mayor of Bogotá, Antanas Mockus, June 22, 2002). Intensive communication was the key to the success of the campaign. Each week the mayor told the users how much they had saved. At the end of the first week, however, water consumption had increased by 2 percent. The importance of two-way communication was demonstrated in the need to enquire into the reasons for the increase. When asked in a survey, users mentioned that they had been saving water in case of a cut in the service. Communication restored confidence and the level of consumption diminished (Figure 11.2).

The culture of citizenship received a new impetus with the reelection of Antanas Mockus (2001–03). His development plan, Bogotá Para Vivir Todos del Mismo Lado (Living Together on the Same Side), pursued a stronger commitment to building common ground for Bogotá's residents. As part of this strategy, citizen participation was enhanced.

The development plan was elaborated with the participation of the city's residents. The process began with a consultation in which nearly

Figure 11.2. Water Savings in Bogotá, 1994–99

400 people identified priorities. A second step involved the formation of groups called *combos* (bands); once each *combo* identified its program, the party defined a political platform. In the third stage, the content of the plan was submitted to four consultations.

The process of identification of priorities included an innovative practice called *asomos*, or hints. It was inspired by the idea of discovering something positive to illustrate that utopias are possible. The idea was to incorporate into the program those issues in which people take pride. After identifying the hints, the next step was to identify how to carry them out in a participatory way. This step included strategies, programs, and activities with potential impact over predefined indicators. For example, the construction of a safe Bogotá would include the following:

- Informing citizens and offenders
- Educating young people in community and family life
- Providing therapeutic treatment for adolescents in conflict with the legal system.

Once elected, Mockus reinitiated the process of consultation in order to encourage the scrutiny of citizens and also to get a sense of their priorities. There were four consultations. One took place during a public event, the International Book Fair, which was visited by nearly 300,000 people. Another instance of consultation was a survey in the main daily newspapers, *El Tiempo* and *El Espectador*, which 150 citizens filled out and returned by mail. The Consejo Intergremial (the city council of economic associations), the Association of Constructors, and government officials also identified priorities for the development plan.

Two additional consultations were carried out with youth and children. The former was organized during an assembly called Bogotá Thinks Young, with 400 young participants. The Administrative Department conducted the exercise with children using games and a special notebook, where children could express their dreams about the city. According to children, the main priorities should be more children in the school system, more security and respect for children, and more food.

One of the changes resulting from the process of consultation was to incorporate gender as an analytical category within the activities (personal interview, Antanas Mockus, July 22, 2002). The topic was incorporated in the general plan.

A recent survey showed important achievements in the creation of a shared image of the city (*Franco y Cia*, September 2001). When asked how proud they are to be living in Bogotá, people gave a rank of 3.72 on a scale of 1 to 5; moreover, 58 percent of the population was proud or very proud of living in Bogotá. Unlike previous feelings of disaffiliation, 83 percent said they think that they are citizens of Bogotá, even if they came from another city and despite differences in social class. The survey results indicate that 78 percent of the respondents had access to parks as compared with 70 percent four years earlier.

According to a survey conducted by the Observatory of Urban Culture, 38.9 percent of adult residents in the city report having heard something about the development plan. However, in the lower strata and among people with low education, the percentage is lower (Observatorio de Cultura Urbana 2002, p. 10).

Creating Spaces for Deliberative Democracy

The citizenship program included the strategy of recovering public space as a key condition for building a friendly city. This strategy encompassed educational campaigns to increase the knowledge of and respect for traffic signals, improve the system of transportation, construct parks, and recover public space for pedestrians.

When he was elected mayor of Bogotá, Enrique Peñalosa (1998–2000) continued with several of the priorities of the Mockus administration. Peñalosa made the program of recovery of public space the center of his administration. An economist with a doctorate in management and public administration, his development plan, *Por la Bogotá que Queremos* (For the Bogotá We Want), aimed to construct a shared image of the city. Unlike the pedagogical emphasis under Mockus, Peñalosa was a great believer in the power that space has in shaping people's behavior and enhancing democracy (Peñalosa 2002):

Parks, plazas, pedestrian streets are essential for social justice. High quality sidewalks are the most basic element for a democratic city. It is frequent that images of high-rises and highways are used to portray a city's advance. In fact, in urban terms a city is more civilized not when it has highways but when a child on a tricycle is able to move about everywhere with ease and safety. Parks and public space are also important to a democratic society because they are the only places where people meet as equals.

Peñalosa privileged a vision of public over private transportation, a city for pedestrians and orderly growth, a city where illegal shanty houses would be incorporated into the legal and public space appropriated by citizens; he also asked for universal coverage in education (Fainboim 2002). During his administration, Peñalosa constructed nearly 1,000 public parks, almost 600,000 square meters of walkways, and an increase of 120 kilometers in bicycle paths. According to a recent survey, 42 percent of the people living in Bogotá have used the bicycle lanes.

Peñalosa implemented one of the most important works conceived under Castro's administration and planned during the Mockus administration: Transmilenio is a high-capacity transportation system composed of articulated buses with the capacity to transport 660,000 passengers a day. With Transmilenio, the city experienced a revolution in the use of its public space. Public transport in Bogotá had been characterized by dispersion of property owners, informal labor contracts, and extended hours of service (Chaves and Viviescas 2001). Transmilenio changed the conditions for drivers, decreasing by half the time it took to move from one place to another. And it regulated bus stops and made them compulsory.

The system operates by allowing capitalization and reinvestment for improvement. Transmilenio occupies the number one place in the perception of quality and confidence in the public service system (Bogotá Como Vamos 2001). One-third of the people think that it takes less time to travel around the city. Transmilenio and the application of measures restricting the circulation of private and public vehicles during peak hours have increased average vehicle speed from 14 to 26 kilometers an hour, and the time spent moving from one place to another has decreased from 57 to 47 minutes (*El Tiempo*, December 6, 2002).

Citizenship education was not forgotten in Peñalosa's development plan. His campaign, Bogotá 2,600 Nearest to the Stars, aimed to make citizens love the city, as shown in the following excerpt (*Periodico El Mundo*, interview with Enrique Peñalosa):

I believe that the biggest change in Bogotá during the past three or four years is the transformation of a city that was hated by its own citizens and where they did not have anything good to say, because they thought that everything was wrong and that it will be worse in the future; therefore *2,600 meters closer to the stars* was a strategy for making *bogotanos* fall in love with the city, and I am a person in love with the city...Today people believe that things can improve and that it is possible, that they are not left adrift, and that they can control their destiny, that they can have a dream and make that dream reality.

In 2000, Peñalosa institutionalized the first car-free day in Bogotá. This initiative received strong popular support and was the object of an international award, the Stockholm Challenge Award. Through a referendum, citizens approved having a car-free day every year, starting in 2001. And 51 percent of the voters approved the proposal that no private vehicles, except taxis, be allowed to circulate during peak hours. However, this measure was not implemented.

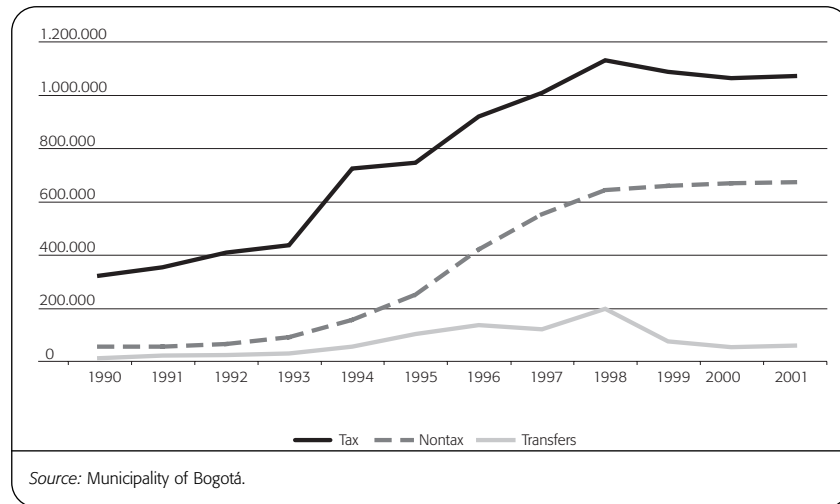
Public Resources Are Sacred Resources

One of the main successes of financial decentralization was a dramatic increase in the city's revenues. Figure 11.3 shows that between 1992 and 2000, Bogotá's revenues multiplied by 2.3 (in constant pesos). This increase allowed long-term planning and a sense of autonomy from the central government, which mayors used to isolate the city in times of turmoil in the central government.

The basis for this financial success is found in Mayor Jaime Castro's fiscal reform, which included taxation, budgeting, financial, and administrative issues (Secretaria de Hacienda de Santa Fe de Bogotá, 1995/97, p. 61). One of the most important measures was the introduction of a system of self-valuation of property. In addition to facilitating the administration of property taxes, which had fallen behind several years, the self-evaluation system allowed a change in the relationship between the taxpayer and the government. That is, the taxpayer was made responsible for assessing property values, moving the task from the government to the citizen (personal interview with Carmenza Saldias, June 24, 2002). As a result, property taxes increased from 24 percent of total revenue in 1992 to 27 percent in 2000. The reform also included changes in industrial and commercial taxes, such as the period of payment (from annual to biannual), creation of a system of deductions, and changes in the taxable base.

The transformation of the fiscal culture was an integral part of citizenship education. According to Mockus, "the internalization of norms goes beyond respect for authority; encompasses as well the appropriation of the city's destiny and citizens' involvement in the provision of solutions" (*Semana*, 2001). The slogan "public resources, sacred

Figure 11.3. Water Revenue in Bogotá, 1990–2001
(Millions of 1998 pesos)



resources” was a main criterion for improving probity in the use of resources. The overall aim was to change the relationship between citizens and taxes and expenses.

In the development plan *Living Together on the Same Side*, one of the objectives of a culture of citizenship (*Plan de Desarrollo* 2001–2004, p. 68) is “to contribute happily to the tax system,” whose aim is “to increase the collective and individual consciousness of the tax system, to reduce tax evasion, to renounce voluntarily undeserving subsidies and to increase collective and individual responsibility over the city’s assets.” An example of the voluntary accomplishment of fiscal obligation is the campaign 110 Percent with Bogotá, which encouraged taxpayers to pay voluntarily an additional 10 percent of the value of taxes. As a result, US\$500,000 was added to the city’s income in 2002 (Mockus 2002a).

Not all successes are attributed to cultural changes. New taxes and institutional reforms contributed to the increase in revenues. This was the case of the surcharge of 14 percent on the price of gas, one of the most dynamic taxes, which increased from 0.3 percent of total revenues in 1995, to 7.1 percent in 1996, 9.6 percent in 1998, and 12 percent in 2000. In 1998 the tariff was raised to 20 percent (Saldías 2002).

Bogotá also successfully accomplished an increase in capital from the capitalization of the Energy Enterprise of Bogotá. In 1999 there was an increase in total revenues of 38 percent, when the city received 907 million pesos, corresponding to 79 percent of total income. This growth is explained by an increase in capital income of 530 percent, changing the composition of income in the city, and most important, the policy of financing (Saldías 2002).

Another positive outcome for the city's financing was the decrease in public debt as a percentage of total expenditures: it went from 15.5 percent in 1995, to 16.6 percent in 1998, to 9.6 percent in 1999 (Contraloría Distrital 1999). Compared with other municipalities, Bogotá had room for acquiring more debt at the end of 2000 (Fainboim 2002).

The city has registered positive changes in fiscal culture. According to the survey *Cultura Ciudadana en Bogotá* (Observatorio de Cultura Urbana 2002, p. 40), 93.0 percent of taxpayers pay their property taxes on time. The same does not happen with the Industry and Commerce taxes, where the proportion is only 66.9 percent. Residents believe that paying taxes is a duty (93.7 percent), and only 20.3 percent believe that the taxes that they pay are stolen. Three-quarters of the respondents think that there are barriers against corruption in the use of public resources.

Citizen Participation in Local Budgets

Development plans have involved consultation with citizens and some participation in defining the main priorities. However, the process of local planning has been where citizens have exerted their main responsibility in the process of decisionmaking and discussion of public investment priorities. It is at this level that public officials and local organizations have learned the most. Through their participation in local budgets, citizens have been able to combine the aims of harmonization of collective solutions, conflict resolution, the capacity to make collective agreements, and the creation of confidence between the government and citizens.

Law 11 of 1986 made local planning mandatory for all the Colombian municipalities. However, this law was not applied in Bogotá because of its designation as a special district. Law 1 of 1992 established

the procedures for the functioning of local administrative boards, whose executive boards would be made up of city councilor positions. The law also created a local development fund in each locality to administer local resources; localities were allowed to contract for local services with neighboring organizations and civic organizations.

Decree 1421 of 1993 assigned functions to local administrative boards and also set the process for the distribution of resources from the central government of Bogotá toward the localities.⁵ In the view of some experts, the new legislation favored the authority of the mayor over the local authorities by increasing the power of the mayor over the local boards and by privileging the executive over and above the political representatives. According to city councilor Juan Carlos Florez (personal interview, June 27, 2002), “the current figure is of a hyper-mayor that is not accountable to politicians. The post of mayor is freed from politics. The risk is that up to now we agree with what mayors have done, but what if we do not like what they do?”

The first election of local boards took place in 1992 under the Jaime Castro administration. Despite some limitations in their operation, the boards proved to be an important step in the exercise of democracy, especially because civic, religious, and independent organizations presented candidates for the city councilor elections (Velazquez 2001). Antanas Mockus made the elaboration of local plans a pedagogical exercise in fiscal responsibility (Mockus 2001). He enacted Decree 425 of 1994, inviting citizens and popular and private organizations to participate in local plans and to present projects.

A first meeting was held in each of the 20 localities. In each meeting, the participants received a card and three plastic coins with the legend “public resources are sacred resources.” On the card they wrote what they considered a need for their locality and they deposited the card and the coins in a ballot box. The ballot box was made of six transparent tubes, one for each priority of the development plan. Each participant had to place the card and/or a coin in one of the six tubes. They could insert the card without a coin if they had identified a need but preferred that the resources go to another priority. The exercise allowed

⁵ According to Decree 1421, 10 percent of the administration’s current income would be assigned to the localities.

the results to be quantified immediately and made public, in itself a lesson in transparency. Furthermore, most of the time some participants kept one coin for themselves. This situation provided an opportunity to think about public resources and the participants were encouraged to return the coins, which in most cases they did. After this exercise was finished, a technical committee in each locality studied the projects presented and the approved projects were funded.

The process had definitive advantages, one of them being to reduce clientelistic practices. Local authorities were more accountable because residents knew about the projects and followed up on them. The results in terms of forging a culture of citizenship are summarized by Velazquez (2001, p. 107):

The people who participated in the process, whether civil servants or residents, gained new knowledge in the need for prioritizing when resources are scarce, in the importance of thinking in strategic terms, and in the difficulties in governing. The process also awakened the interest of residents in their common problems, and created spaces for negotiating their solution. The process helped residents to understand that projects should be a collective work of planning and prioritization.

Although problems abound with the implementation of Decree 425, two factors have contributed to its success (Velazquez 2001, p. 109):

One was the presence of Mayor Mockus in the planning exercise in the twenty localities, launching the process and teaching residents how to plan and prioritize. The other factor was the commitment of each local authority on the planning exercise. In those where there was more commitment the result was better.

The learning capacity of participatory planning is evidenced in the innovations that have taken place since the first planning exercise. One innovation was called "learning by adding" (Escallón and Sudarsky 2002). The aim was to avoid the idea of local development plans looking like a scattered group of small and unrelated projects. The objective was

to allow coordination and complementarities among activities and between the activities and the central government. The methodology consisted of the aggregation of financial and technical elements into large projects with larger impacts (Velazquez 2001). Communal organizations could search for additional resources. Once the project was identified, they would appoint a manager. One example is the project River Fucha: A Road of Life, which included 10 government institutions in Bogotá and had a budget of 6 billion pesos in 1997 (Escallón and Sudarsky 2002, p. 7).

Another innovation was accountability meetings, in which local and central government officials visited localities to provide advance information about projects and investment. Written reports were handed in. There was also a system of telegrams in which citizens wrote to the city council or to the local boards with questions that were to be answered within a period of 10 days. However, the project did not succeed because most of the questions were directed to the mayor, confirming the belief that all solutions depended on him (Escallón and Sudarsky 2002).

Works with Pedagogical Balance was another initiative that was launched in order to increase the learning experience on the part of the communities. This program incorporated community leaders belonging to the Community Action Committee, who were trained and together with the community built 190 projects. Through Fundación Corona, a private foundation, there was a contest to determine the best practices, which were selected and awarded a certificate of recognition.

Mayor Enrique Peñalosa, who distrusted local governments, introduced some measures to improve the efficiency of the system, such as special central offices, but some of these measures were detrimental to local participation. Velazquez (2001, p. 221) argues that the special central office schemes “have hindered a process of constructing more legitimate, accountable and closer authorities.” However, Peñalosa introduced an important modification to the process of participatory planning, called Citizen Encounters, which aim to include local residents in local plans and even beyond local plans through involvement in constructing the yearly budget (Velazquez 2001). Approximately 127,000 residents participated in 1,249 citizen encounters in 1998 and 2000 (Escallón and Sudarsky 2002, p. 8).

With the reelection of Antanas Mockus, citizen encounters were neither dismantled nor modified. On the contrary, the new administration “decided to embrace the Accord and to postpone its modification until it was possible to learn from it, once it has reached its complete implementation” (Escallón and Sudarsky 2002, p. 14). The new administration formed an interinstitutional committee and invited Fundación Corona to monitor the process and reflect on its implementation.

Citizen encounters are implemented in accordance with the principles of the development plan *Living Together on the Same Side*, which states that there is a need to improve public discussions and use democratic procedures to celebrate accords and change norms. Thus, one of the objectives of local planning is to enhance in communities the sense of the scarcity of resources and the need to prioritize.

To facilitate local planning, each locality formed a working commission for each objective of the plan. The commissions were aggregated in extended committees. One advantage was for participants to specialize by theme and later to assign resources for each objective. An important task for each extended committee was to make decisions about which projects would receive financing and which ones should be discarded or postponed. A zero-sum exercise was conducted in each committee, where the objective was to draw a line between projects to finance and those not possible. The main objective was to assume the responsibility and not to delegate that responsibility upward. The difficulty of this assignment was made evident in the reluctance of several members to assume this responsibility due to the possible political cost (Escallón and Sudarsky 2002).

Despite the effort in participatory planning, there is a belief that clientelism is still predominant. According to a survey on urban culture in Bogotá (Observatorio de Cultura Urbana 2002, p. 45), 60 percent of the respondents think that “the only way to get a public post is through *palancas* (patronage).” And 64.5 percent think that “people do not participate because they do not gain anything.” This attitude is reinforced by the belief that “the only way to influence politics is if you are a friend of a city councilor,” an opinion held by 45.6 percent of the respondents.

Overall, the level of citizen participation on local boards is above average. For example, 24 percent of the respondents to a survey say that

they have attended a public meeting in their locality or school board; 17 percent have participated in a social movement or protest; 8.3 percent have participated in a local organization; 4.6 percent have participated in a group that has aimed to influence a public policy; and 2.2 percent have made donations to a political party or organization (Observatorio de Cultura Urbana 2002, p. 49). Citizen encounters and community action meetings are the most common mechanisms of participation, and also the most valued as a channel for influencing policy in the city (Observatorio de Cultura Urbana 2002).

Peaceful Coexistence

An underlying motive supporting the transformation of civic culture was to contribute to peace in a country torn by violence. A main assumption is that if individuals are better prepared for making sustainable agreements and following laws, they will be better prepared for constructing a more peaceful society (Mockus 2001). The theoretical basis for the program, as elaborated by Mockus, is the need to bring together law, morality, and culture.

Emphasis on sanctions or gratification enhances the accomplishment of laws. For example, individuals can obey the law because they are afraid of the legal sanction (a fine for violating a transit law), because they feel morally guilty (when stealing, for example), or because of a feeling of shame or cultural sanction (if they feel they are under the gaze of their peers). An activity that includes various sanctions and gratifications (admiration for the law, moral satisfaction, or congratulations) has a better effect than an action that includes only one. In this manner, the program combined a pedagogy that introduced moral and cultural sanctions to increase good behavior. Therefore, a strategy centered on the three gratifications (legal, moral, and cultural) has more probability of success than one centered on legal punishment only (Mockus 2002a).

After a decade of implementing the culture of citizenship program, the results are astonishing in terms of the reduction in the mortality rate caused by homicides and accidents. In 1993, Bogotá's homicide rate reached 81 (per 100,000), which was slightly greater

than the national average. This meant there were 4,452 reported cases of homicides (see Figure 11.4). In 2002, the homicide rate in Bogotá was 30, half the national average (Figure 11.5). Reported homicides decreased to 2,238 in 2000. Compared with Medellín and Cali, the results were even more impressive: in Medellín the homicide rate was 200 and in Cali it was 80. According to this measure, Bogotá is less violent than other cities in the region, such as Washington, D.C., Rio de Janeiro, and Caracas. But effort is still needed to reach the rate of cities like Santiago and Buenos Aires.

Road safety also contributed to saving lives in Bogotá. Deaths due to car accidents reached a peak in 1995, when 1,387 people died (Figure 11.6); in 2001, the number dropped almost by half (745 deaths). Several practices have contributed to the city's success in saving people's lives. One of the most popular practices is the so-called "law of squares," which consists of closing bars at 1:00 a.m. The measure was motivated by the relationship between alcohol consumption and the number of homicides and road accidents (Mockus 2001). A legal sanction for bars closing after 1:00 a.m. was accompanied by measures to promote self-regulation of behavior, as in the campaigns Hand Over the Keys of Your Car, and Select Your Driver, as well as moral campaigns such as the educational program Knowing before Drinking, the Responsible Use of Alcohol.

The development plan Living Together on the Same Side institutionalized the program Life Is Sacred, which comprises projects like voluntary disarmament, protection of lives and property through police mechanisms, intervention in sectors and groups of populations at high risk, and strengthening mechanisms of conflict resolution. The campaign of voluntary disarmament was an innovative program that called on residents to voluntarily turn in their arms. The private sector and embassies collaborated in a campaign called Let Arms Rest in Peace during Christmas, in which arms were exchanged for bonuses to acquire gifts. As a result, residents turned in 2,500 arms, which were molten and converted into teaspoons with the legend "I used to be a weapon."

Another frequent form of violence is violence against children. This kind of violence may not be perceived as a problem by society, and there is a low level of reporting to the authorities. In order to create sensibility toward this problem and to increase institutional services for

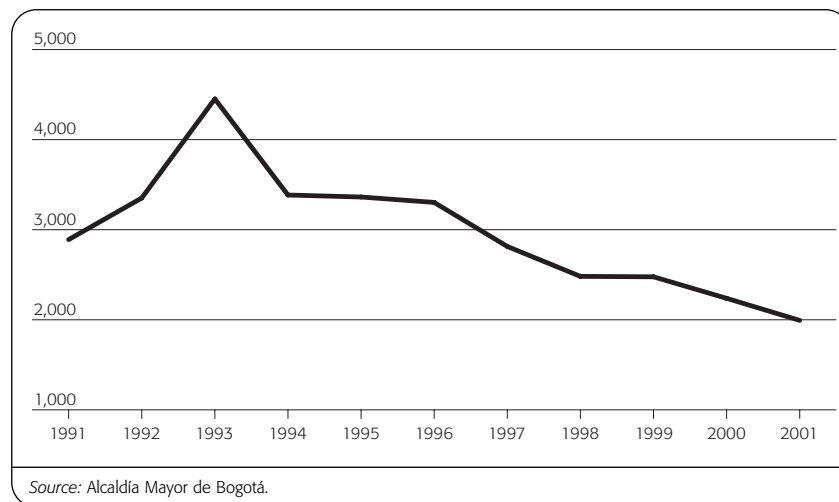
Figure 11.4. Homicides in Bogotá, 1991–2001

Figure 11.5. The Homicide Rate in Selected Latin American and U.S. Cities, 2002
(Homicides per 100,000 people)

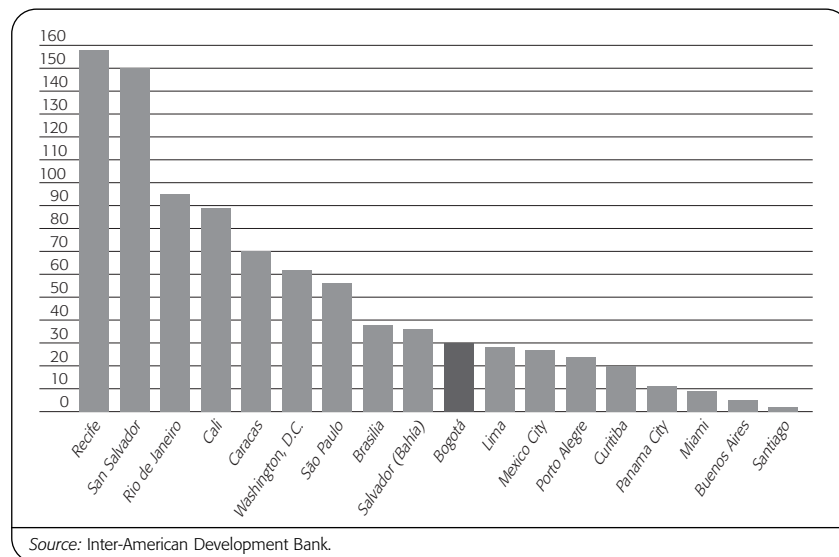
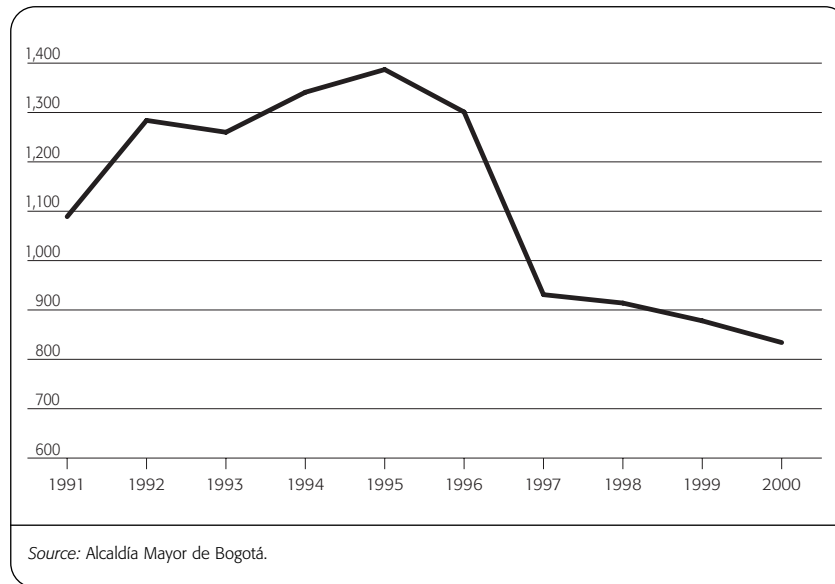


Figure 11.6. Motor Vehicle Deaths in Bogotá, 1991–2000

victims, the city organized two campaigns of vaccination against violence, in which nearly 45,000 people participated.

Institutional factors have played a role in lessening violence and improving security. These factors include the professionalization of the police force, creation of units of attention, and security posts in neighborhoods (Acero 2002b). Comparison with Medellín and Cali is illustrative, because both cities were pioneers in establishing security programs. Medellín inaugurated the first advisory office aimed at reducing violence in the city's most violent areas through social programs. Cali, under the leadership of Mayor Rodrigo Guerrero, was a pioneer in implementing an epidemiological approach to violence, through the program *DESEPAZ* (Make Your Own Peace). Bogotá learned from both experiences. A main difference is that Bogotá institutionalized the project, initially with an advisory department staffed with 20 experts in the area. This office was strengthened under the Peñalosa administration. An element of continuity has been that the same person has been in charge of this office during the past three administrations.

It was also important to change the concept of security. On the one hand, the concept was broadened to include citizen security centered on individuals and not exclusively on police institutions. According to Acero (2002a, p. 20), director of the program, “evidence showed that in order to confront insecurity phenomena it was not enough with the trilogy police-justice-prison. It was necessary to develop a security and congruous living policy of an integral character that contemplated preventive action.”

This transformation in the concept of security is summarized by Mockus (n.d., p. 6): “The basic idea was to transform the problems of security into a problem of coexistence. And to foster a view of coexistence as a topic of relationship between law, morals and culture. This vision, instead of stigmatizing the delinquent or violent individual through exclusion, builds an inclusive approach with diverse degrees of tolerance, moral and cultural, to illegalities.”

As an example of the continuity of policies between the two most recent administrations, it is worth mentioning the case of the program Bogotá Mission, which was launched by Peñalosa in 1998 and continues today. The program emphasizes the inclusion of youngsters in high-risk situations, especially those marginalized in terms of social services (Alcaldía Mayor de Bogotá 2002). This population includes young people who belong to gangs, bands, displaced youth, prostitutes, and those recycling garbage. As stated in the description of the program (Alcaldía Mayor de Bogotá 2002, p. 3), “the aim is to transform a potential delinquent into a good citizen, responsible for the exercise of their rights and obligations, and also able to transmit this responsibility to other citizens in contact with him/her.”

An activity to accomplish this goal is the formation of civic guides, who are trained as social agents and hired by the program for six months. For example, in Transmilenio, they encourage users to make good use of the service; they are also located in sites of high rates of accidents, instructing pedestrians on the use of bridges, crossing the streets in the demarcated areas, and respecting the laws regulating the transit of vehicles. They also work at public events, where they provide information and create a sense of safety. And they work as guides in public libraries and heritage buildings.

A paradox presented to government authorities is why, despite the reduction in homicide rates, citizens do not feel safer and more secure in their surroundings. Less than one-third of the residents think that Bogotá is a safe place (Observatorio de Cultura Urbana 2002, p. 32; see also *Bogotá Como Vamos*, February 2002). This perception is explained by the high percentage of common delinquency and high unemployment.

Recession and high levels of unemployment exacerbate the perception of insecurity. Citywide, residents in Bogotá are pessimistic; when asked about how they think things are going, 63 percent answered that they are going in the wrong direction (*Bogotá Como Vamos* 2002). This proportion increases to 72 percent when the question is addressed to the poorest people living in the southeast part of the city. More than half of them give as a reason that someone in their family lost their job and that the cost of services increased.

Social Citizenship

The theme of social justice has not been absent from the development plans of the past three administrations. Comparing the two Mockus mayoralties, social justice has been more prominent in the most recent plan (Plan de Desarrollo 2001). Mayor Peñalosa made education and the program to improve marginal neighborhoods two centerpieces of his administration. His administration created 200,000 additional places in the school system and connected public schools on the Internet. He built three main public libraries in marginalized sectors of the capital. More than 1.5 million residents have visited these libraries. He implemented an innovative system for improving the quality of public schools, called Schools in Franchise, which built an alliance between private and public schools (*Semana*, 2001, ed. 994, May 18). This practice was continued under the Mockus administration, which added 68,000 new places in the schools and planned to add an additional 57,000 in 2002 (Mockus 2002b).

An evaluation by the National Planning Office gives Bogotá a high rate of approval in terms of the basic needs of the population (DNP 2002). Bogotá has an illiteracy rate of 3 percent, the lowest in the coun-

try; the national average is 11.2 percent. In Bogotá, the average years of schooling (8.1 years) is greater than the national average (6.1 years). The proportion of the population living in poverty decreased from 15.1 percent in 1998 to 13.4 percent in 2001 (Table 11.1).

Measuring poverty by income, the situation has deteriorated. In 1997, 32.4 percent of the population was living in poverty, and in 2000, 49.6 percent was below the poverty line (Table 11.2). In 2000, 14.9 percent was extremely poor, compared with 6.1 percent in 1997. In Bogotá, 3.2 million residents are poor and almost 900,000 are extremely poor.

An important factor contributing to the increasing level of poverty has to do with the nature of public policies. The evaluation of decentralization for the education sector in Bogotá is discouraging as measured by the progressiveness of the educational system (DNP 2002, p. 34 and passim). Bogotá did not increase the number of places in public basic or secondary schools in 1993–97; the increase in places was mainly in the private sector. And the education system is regressive, meaning that the supply of education has not focused on low-income students. Despite the effort to increase coverage, 17.6 percent of the population in the lowest-income 20 percent of the population does not have access to education.

Additional factors should be taken into account, such as the conflict in Colombia, but it is difficult to isolate the effects on Bogotá. The increasing number of internal displaced individuals arriving in the capital is an important factor. It is estimated that one displaced person arrives every day, making Bogotá the third-largest destination (*El Tiempo*, October 13, 2002). Unemployment within the displaced population reached 60 percent; 42 percent are 18 years old or younger; 44 percent are women; 9 percent are uneducated; and 56 percent have had five or fewer years of school.

A more definitive conclusion in terms of the sustainability of the development model in Bogotá will need more serious research. The available data indicate that there will be serious problems if current trends in poverty and unemployment continue. In this sense, social issues could undermine the advances made in forging a culture of citizenship.

**Table 11.1. The Poor and Destitute Population in Bogotá,
Basic Needs Measure, 1998–2001**
(Percent)

Indicator	1998	1999	2000	2001
Basic needs not met	15.1	14.5	14.0	13.4
Destitute	3.0	2.8	2.6	2.4
Source: Fresneda (1998).				

**Table 11.2. The Poor and Destitute Population in Bogotá,
Poverty Line Measure, 1997–2000**
(Percent)

Indicator	1997	1998	1999	2000
Below poverty line	32.4	36.6	46.3	49.6
Below destitution line	6.1	7.8	13.2	14.9
Source: Data from the Departamento Nacional de Planeación.				

The Leap from Cultural to Political Citizenship

Further research is needed on broadening democratic spaces beyond citizen participation in local development plans. This has to do with moving from direct participation to a more representative democracy. As expressed by Paul Bromberg, former Mayor of Bogotá (Bromberg and Medellín 2001), “the governability of the city is in question.” In his view, the most important centers of decisionmaking are still not connected to the localities. According to Bromberg, a different problem of governability has to do with the crisis of the political parties and the rules that define the electoral game. One result is the proliferation of uni-personal lists for electoral posts of city councilors, who can win with 1,200 votes. The electoral game is played at the level of the neighborhood.

A related problem is the low level of linkages between the neighborhood and higher levels of decisionmaking (personal interview with John Sudarsky, June 24, 2002). Beyond neighborhoods, there are no interme-

diate levels linking the citizens with their representatives. People do not know who their representatives are for the City Council, local boards, Senate, and lower chamber (Sudarsky 2002b). The results of a survey on the culture of citizenship confirm the skepticism about democracy. One-third of the respondents think that some people are born to give orders and the rest to obey them, and that this situation cannot be changed (Observatorio de Cultura Urbana 2002, p. 9). In 2001, only 18 percent of the residents believed that there was solidarity in the city (Franco, Proyecto Bogotá Como Vamos); although the percentage increased as compared with 12 percent who held the same belief in 1998, it is still a low proportion. The main reasons for the low recognition of solidarity were lack of awareness of the need to help others (52 percent); egoism (41 percent); fear (30 percent); and lack of trust (25 percent).

Overseeing Progress in Bogotá City

An important contributing factor to forging a culture of citizenship is the involvement of civil society organizations in overseeing the city's progress. The private foundation Fundación Corona; the most important newspaper in Colombia, *El Tiempo*; and the Association of Merchants of Bogotá (Cámara de Comercio de Bogotá) established an alliance to oversee the implementation of development plans. The program *Bogotá Cómo Vamos* (Bogotá: How Are We Doing?) was created with the objective of promoting more transparent and effective government; a better-informed, participative, and responsible citizenry; and alliances centered on the quality of life. One of the priorities of the program is to develop indicators and carry out citizen surveys.

A process of diffusion of the results to citizens follows each survey. The follow-up focuses on the following areas: education, health, security, transportation, economic development, environment, public services, urban development, public management, citizens' responsibility, and children. Indicators developed in each area are measured against a baseline (year 2000) and against the goals established in each development plan. Quantitative information is complemented by expert reports on each topic. This external oversight mechanism contributes to transparency and continuity, as long as the survey does not change with a

change in government. It is also a mechanism of self-reflection by asking people to evaluate their behavior—for example, whether they pay taxes on time or follow traffic regulations.

Conclusions

Decentralization has opened the door for change in Colombia's capital. The ability to elect the mayor increased the capacity of residents to express their vision of what was in their best interests. Thanks to the 1991 Constitution, Bogotá was able to enact its own fiscal and administrative legislation, which proved crucial in improving the city's finances. Mayors were more accountable to their citizens as long as their mandates were the subject of citizen oversight, as specified in the 1991 Constitution.

Decentralization is not enough to explain the transformation that has taken place in the capital. Its success is the result of human agency and unintended consequences that together have the power to transform the culture of citizenship. Transformation of a culture of citizenship is a purposeful design on the part of the government of the city. This is commonly referred to as the "Mockus factor" (personal interview, Juan Carlos Flores, June 27, 2002). What makes this experience meaningful is that at the base of this transformation was a change in regimes of representation that facilitated a new form of interaction among citizens and between citizens and city officials. A culture of citizenship is created in the constant exchange between citizens and the government.

The case of Bogotá makes clear the importance of providing a collective space for representation. In this space, the symbolic and the material are interwoven. A bridge, a bus system, a bike path, or a public library can produce multiple beneficial effects.

The experience of Bogotá shows that transformations are not only the result of purposive individuals. Furthermore, once a change in representation is unleashed, it runs independent of the individual who invented it. The continuity between the administrations of Mockus and Peñalosa demonstrates the enduring power of the changes in Bogotá.

Communication has played an important role in improving the relationship between the city and its residents. Face-to-face communi-

cation took place during the process of local planning and citizen consultations. The mass media and the use of symbols with the capacity to capture the attention of the public were part of the success in focusing attention on common problems and solutions. These symbols have multiplied and are employed with more frequency in educational campaigns and civil resistance against violence.

Finally, norms and institutions have played an important part in forging a culture of citizenship. The institutionalization of a program of citizenship security and the staffing of this office with qualified personnel guarantee continuity and learning capacity. Legislation on tax collection and changes in the databases and collection systems have improved the city's finances. These changes were accompanied by educational campaigns and changes in the responsibilities of taxpayers and city officials. The effort to reduce the gap between culture, law, and morality ensured that the various mechanisms supported each other and, more important, that culture was preferred to coercion as a mechanism of citizen control.

Bogotá provides meaningful lessons for the international community as well. In October 2002, the World Health Organization recognized Bogotá's efforts in reducing violence. The United Nations acknowledged Bogotá for its efforts in sustainable development. According to the Stockholm Partnerships, the city is a model in alternative systems of transportation; the institutionalization of a car-free day was the object of an international award, the Stockholm Challenge Award. In the Latin American region, Bogotá was the first city to sign a credit with the World Bank. According to JP Morgan and ING Baring, Bogotá received the rank of the most innovative credit in 1996 in the category of new type of client (personal interview, Carmen Saldías, June 24, 2002).

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CHAPTER 12



PARTICIPATION IN PLANNING AND BUDGETING IN VILLA EL SALVADOR, PERU

Mario Zolezzi

Citizen participation in planning and budgeting has become an indicator of good governance in municipalities throughout Latin America. The results achieved and the initial dissemination of relevant information has sparked the interest of other cities in the region and all over the world. Participatory planning and budgeting are part of the larger process of decentralization. In Peru, this process has been complex and frustrating, but has generated some interesting cases, such as the district of Villa El Salvador.

This chapter looks at this case and the lessons from the broader decentralization process in Peru. Throughout this process, participation and democracy appear as important pillars of governance with less social exclusion, greater accumulation, and improvement of quality of life conditions. Villa El Salvador, with its commitment to more autonomous forms of local government, is a good example of decentralization and strengthened local governments.

Municipalities and Decentralization in Peru

From the beginning of the 1980s, when the system of electing governments through universal elections was established, to the start of the 21st century, there were two periods in Peru. One was a period of democratization and decentralization (accompanied by serious armed conflict and a severe eco-

conomic crisis that burst into hyperinflation), and the other was a period of centralization and authoritarian politics linked to economic stability.

In April 1992, the government decreed the termination of regional assemblies, regional councils, and regional presidencies, all of which had been elected by popular vote. Later, constitutional order was partially restored through elections for the Constituent Assembly. Regional governments went on to be ruled and administered by regional administrative councils, which are still functioning today. The sudden end of regional authorities meant a clear step back in the process of citizen participation and democratic government. Local government autonomy, functions, and resources were taken over by the national government. The national public administration includes 16 ministries, 63 decentralized departments, 24 regional administrative councils, 11 regulatory offices, 120 public enterprises, and numerous special programs.

The issue of the recovery of municipal control, accompanied by the corresponding resources, is of primary importance. I believe that one of the requirements of a globalized world is that municipal governance be strongly decentralized. Thus, it is essential to reestablish authority and resources at the municipal government level.

Decentralization consists of delegating power, legal and formal responsibilities, and political and financial resources from the national government to the municipal level in three possible ways. The first is an intergovernmental process of transfer of staff and responsibilities to regional and municipal governments. The second is decentralization from any level of government to the market and private enterprise. The third is the transfer of responsibilities and functions to social organizations, which might be entrepreneurial, academic, community, or neighborhood organizations. Thus, decentralization can take place in three dimensions: other levels of government, the market, and society.

However, decentralization alone cannot propitiate or achieve individual, social, or community development. Decentralization and development imply in the first place a reference to administrative deconcentration and function delegation to regional and municipal governments. Function delegation is the most important expression because without it neither decentralization nor administrative deconcentration can operate effectively.

Administrative decentralization means creating units endowed with human, material, and financial resources for operation. But administrative decentralization is not effective unless it is endowed with full attribution through function delegation. Decentralization must be integral, without impairing the executive's legally nonassignable attribution. That is, assignable functions must be fully endowed. Adequate control, surveillance, and supervision are needed to detect ineffectiveness or anomalies, but without impairing the normal functioning of local management.

Effective distribution of functions, through effective delegation to regional and municipal governments, would produce positive results for reaching the goal or goals set in the shortest time frame and with the best use of resources. The challenge of this process is to generate the institutional conditions to deal with problems at the local level as much as possible, promoting redistribution of authority, responsibilities, and resources toward regional and municipal governments. This will require larger levels of decentralization, and the diminishing of bureaucratic chains and high levels of verticality.

Decentralization and deconcentration separate staff from the center and diversify central government activities in order to achieve larger and better results. This is quite a challenge in Peru, which is one of the most centralized countries in the world, although it has more than 2,000 municipal governments. In 2000, 87 percent of public income after transfers was concentrated at the central government level. The average in middle-size and large countries in the region is 65 percent, and in industrial countries it is 54 percent. In 2000 in Peru, 12 percent of public expenditure was allocated to subnational governments; the average for Latin America was 34 percent, and for industrial countries, 43 percent.

Spatial, market, and administrative decentralization are also important. Spatial decentralization is the process of disseminating activities and urban population to regions that are geographically far from the large modern agglomeration of cities. This is commonly known as regional policy, but it has been nonexistent in Peru for decades. However, Peru has had some experience with market decentralization, or economic liberalism, in which economic activities are carried out through market structures instead of state planning. Today Peru is con-

fronting the challenge of administrative decentralization, which is the transfer of planning, administration, taxation, and expenditure responsibilities from the central government and its departments to the regional or local government subordinate units of its departments, functional authorities or deconcentrated government, or nongovernmental organizations.

Wider participation and consolidation of local governance capabilities would promote new ways of regional planning for sustainable development. Particularly strategic would be municipal strengthening through increased, better-oriented resources, greater support, and a deeper understanding of local problems. Strengthened municipal culture would lead to decentralization and a new conception of regional and human development. This should prove beneficial for rural communities and for social reform based on representative, democratic, and agile forms of organization of society.

Centralism aggravates inequality, hinders democracy, and disables the harmony of development across regions in the country. In order to strengthen the democracy, a balanced distribution of public power between the various organs and scopes of government is required, as well as a vigorous relationship between the regional government and municipalities based on decentralization, so that councils can accurately fulfill their responsibilities.

According to official discourse, the decentralization currently under way seeks to strengthen the municipalities and fight centralism. Strengthening municipalities means expanding their capacity to respond to new forms of social participation; to social movements that seek to satisfy their demand for goods and services in neighborhoods, shantytowns, villages, and communities; and to social, nonprofit, nongovernmental, and voluntary association organizations that claim issues of collective interest. The idea of decentralization as an unavoidable condition to democratize the management of central government has established itself prominently in political discourse on institutional reform in the country. Indeed, all parties in power have agreed with unusual unanimity. Decentralization thus can be said to have been incorporated into the new common sense of Peruvians. This process has received inputs from the Villa El Salvador experience.

The Current State of Decentralization

Between 1985 and 1990, the Peruvian government carried out a decentralization process that had several design problems. First, it involved the creation of 12 regions in which the 24 historically existing departments were placed, generating struggles among them for political influence and the budgetary allotment within the regional governments. Second, the transfer of an important number of competencies to the regions was swift and unprepared for, which generated administrative disorder in both the national government ministries and the regional governments. Third, regional presidents elected by regional assemblies had little incentive for direct accountability to citizens. Fourth, the disorderly fiscal regimen was not consistent with the reassigned responsibilities.

The Peruvian Constitution defines three levels of government. However, in 1992 the government suspended the regional administrations and replaced them with regional administrative councils. The councils depended on the Ministry of the Presidency and functioned as deconcentrated entities from the central level. They produced some state deconcentration, but not decentralization.

Centralism in Peru goes beyond institutional aspects. The largest part of productive activities is concentrated in Lima, which has 86 percent of the country's tax collection, 57 percent of industry, 62 percent of commerce, 46 percent of the economically active population, and 53 percent of the gross national product. This situation is clearly perceived by politicians, academics, and especially members of civil society, who have demanded urgent decentralization of the country.

Since the beginning of the 2001 transition government, a wide consensus has developed among the political, economic, professional, academic, and other civil society organizations on the need to modernize and decentralize the national government. The diverse actors support the idea of strengthening the democratic character of public institutions and improving the government's ability to provide high-quality services. President Toledo's government has given this policy high priority and has assigned the responsibility of coordinating it to the Presidency of the Ministerial Council.

However, in nearly 80 percent of the districts and provinces, territorial disputes have caused technical and cartographic problems. These are potentially significant issues because the allocation of funding to subnational governments depends on territory and particularly population.

Table 12.1 shows expenditure and income at the national and municipal levels of government. There is no intermediate level of government. The bias to the central level in the expenditure and income distribution shows that local government has scant possibilities of contributing to the improvement in service delivery that is associated with decentralization.

Among the main difficulties for effective state decentralization, administrative deficiencies in the organization of the public sector stand out. The strong discrepancy between assigned competencies and the effective exercise of them shows clearly the weakness of municipal governments and the omnipresence of central government in state sector management. Indistinct delimitation of competencies generates an additional problem in the administrative scope of decentralization: the overlapping of functions between levels of government results in an inefficient allocation of resources destined for social expenditure, impairing potential beneficiaries.

At the same time, the local governments' limited management capacity and lack of adequate tools for service delivery are additional obstacles for effective decentralization. Planning and budgeting, cadastre and zoning updating, project elaboration, program financing, and personnel training plans are among the areas that need improvement at the local level.

There is a certain degree of fiscal decentralization in the government. For example, there is disaggregation of municipal income, with local governments having relative financial autonomy, depending on the socioeconomic characteristics of the population. Likewise, the central government collects some taxes that it passes along to the municipalities. Some local governments are financed through canon tax resources or internal debits.

Although the municipalities have several income sources, local governments are characterized by having difficulties in their financial structure. Municipal income comes from rates charged for services rendered and from municipal taxes. Actually, the majority of local govern-

Table 12.1. Central, Intermediate, and Local Government Income and Expenditure in Peru and Latin American and Industrial Countries, 2000
(Average percent)

Item	Peru	Latin America and the Caribbean	Industrial countries
Income (with allotment)	100	100	100
Central government	87.3	64.9	53.5
Intermediate government	0.0	24.6	27.5
Local government	12.7	10.5	19.0
Expenditure	100	100	100
Central government	88.4	65.9	56.9
Intermediate government	0.0	24.7	26.4
Local government	11.6	9.3	16.7

Source: Centro de Investigación de la Universidad del Pacífico (2001).

ments have little taxation capacity because of the poverty inherent in the country and high levels of tax evasion. Municipalities, principally the poorer ones, depend excessively on central government transfers. And in many cases, municipal indebtedness is significant, increasing, not payable, and explosive.

Transfers come from national taxes that are specially designed to finance the municipalities. This tax collection goes to the Municipal Compensation Fund (FONCOMUN) and is distributed among the provinces according to their levels of population and infant mortality. The Glass of Milk Program also constitutes a specific transfer. As shown in Table 12.2, local governments are dependent on FONCOMUN resources. However, the importance of this item inside the budget and the security in receiving the resources do not offer the necessary incentives for municipalities to increase fiscal efforts or improve poverty levels.

By means of transfer advances, the Bank of the Nation is the main source of financing for the municipalities. The municipalities possess important future obligations, which correspond to pensions, provisional funds, and even judicial court sentences.

According to a World Bank study, the short-term debt of the municipalities is as high as 1,500 million soles, amounts to 12 percent of the

Table 12.2. Transfers from National Tax Revenues
(Percentage of district budget)

Total	Total excluding Lima	Lima
41.61	59.26	11.66
Source: Centro de Investigación de la Universidad del Pacífico (2001).		

gross national product, and is growing at a rate of 13 percent a year.¹ Thus, it is likely that in a short while, the municipalities will have difficulties covering their current expenses, with the increasing probability that they will have to stop payment. In this context, the challenge of decentralization appears as an opportunity to rebuild finances.

Villa El Salvador

Villa El Salvador is one of the few districts in Peru that was created as a self-governance model based on local planning. Its history is that of the shantytown population that has saturated Lima since the 1940s.² The district emerged in 1971 in the middle of some sandbanks, with people coming from all parts of Peru, immigrants as well as part of the poor population of Lima that lived in low-quality rental housing. In other words, the residents are low-income people whose real options were only the slums or a shantytown. But Villa El Salvador has some distinctive characteristics.

Villa El Salvador is an interesting case because of its history and the way people settled there. The young town has turned into a city within a city, and has been institutionalized as a district since 1983. It has had the valuable experience of having a development plan and a participatory budget, both of which contribute to the debate about state decentralization in Peru.

¹ Peru: Public Expenditure Tracking Study, June 2002, www.worldbank.org/tools/Peru.

² Lima has nearly 7.5 million inhabitants, and the majority live in shantytowns. Shantytowns are poor neighborhoods that were self-built and constitute the place of residence of 60 percent of city residents in the country.

During its first few years, Villa El Salvador was a privileged settlement of the reformist military government of General Juan Velasco. It was the first planned shantytown in Peru, and pursued from the start an organized occupation of space and investment in public services and equipment with organized citizen participation.³ The military government turned what had been just one more invasion onto desert land into a showcase of reform. It was not just one more settlement, but also the application of urban policy for the low-income population. The initial motivating force made an impact that is still present.

When Villa El Salvador was established, ideas about social justice, self-governance, community, and popular participation were part of the daily discourse. In this context, the first settlers set as their objective to be a self-governed community. Along with this purpose was a grounded communitary ideology based on the idea of survival through solidarity and cooperation. The Catholic Church maintains an important presence through Christian communities. For example, the Church mobilized more than a million people in Villa El Salvador and in shantytowns across Lima when Pope John Paul II visited in February 1985. In synchrony with this spirit, diverse organizational forms have flourished along with neighborhood organizations, such as libraries, youth groups, mothers' clubs, community kitchens, and microentrepreneur associations. They are all united in their unique identity of being neighbors in Villa El Salvador.

Villa El Salvador is a consolidated city with more than 300,000 inhabitants. It has an industrial park, Parque Industrial, which is an area of small and medium-size enterprises that hosts 1,200 micro, small, and medium-size entrepreneurs and speeds the commerce of products of thousands of other small domestic producers that work and produce in the residential area.⁴ The industrial park is well organized and provides services to its associates, organizes fairs and sales campaigns dur-

³ The urban structure of a great part of Villa El Salvador is made up of residential groups that are repeated, each of which has 16 blocks divided into 24 lots that surround a central plaza. Each block has delegates to the residential group directive.

⁴ According to the Enterprise Promotion Direction of the municipality of Villa El Salvador, in 2001 there were around 12,000 micro and small enterprises. Many of these enterprises sell their products at commercial fairs and stores in the industrial area.

ing the year, and has a national market as well as export business. The main lines of production are carpentry, leather and shoes, handicrafts, and clothing, which generate nearly 15,000 jobs.

Organization

Neighborhood organizations in Villa El Salvador have been active since the first days in meeting the needs of families, negotiating with the government, and consulting neighbors. This massive and impressive organizational process—which involves more than 4,000 organizations—includes geographic, functional (linked to the population's daily needs), and municipal organizations.

During the first 15 years, community kitchens, mothers' clubs, informal workers, small entrepreneurs, and other groups were organized to strengthen the Village of El Salvador Self-Governing Urban Community (CUAVES) as a centralized and representative organ of all the organizations. However, this organizational and social fabric has decayed significantly during the past 10 years as a result of the struggle against terrorism, which systematically attacked democratic popular leaders, and the neoliberal economic model, which significantly affected democratic community proposals.

Nevertheless, Villa El Salvador still has many neighborhood leaders, including a federation of small entrepreneurs and a district federation of women (composed of mothers' clubs, community kitchens, Glass of Milk organizations—mothers' groups organized to provide food to their small children—and women micro entrepreneur associations). And there are school parent organizations and dozens of youth associations representing youth cultural, artistic, and sports interests.

The Planning Option

A few months after establishing Villa El Salvador, the population carried out a self-census in order to know who they were and their needs and capabilities. (In 1982, in the face of the need to update information about the district's population, CUAVES carried out a second self-

census.) Thus, from the start, the residents wanted to have participatory planning tools for development.⁵

During its first years, the Villa El Salvador urban community, with the government's support, formulated several entrepreneurial projects to generate jobs and provide services for the population. A large section of land was reserved for a future industrial area. Therefore, a distinctive characteristic of Villa El Salvador was its capacity to combine housing with production by reserving 420 hectares, an important part of its initial area (3,141 hectares). The industrial zone was to provide the inhabitants with jobs, and another area was designated for agricultural production and farming.

Later, residents established the district as a new municipality in the Southern Cone of Lima, which has governed its own development since 1984.⁶ From then on, the municipality's social and political organization has been based on consensus. It is significant that during the first mayor's term, the mayor's office acknowledged CUAVES under the principle that "community law is municipal law." The local government gradually assumed greater responsibilities and took charge of the organizational leadership in Villa El Salvador, but always based on the logic of self-government. To this end, the municipal government and the citizens developed a popular development plan that designated areas in the district as residential, agricultural, or industrial. This was the framework for local development consensus and planning.

Although this process was an effort to incorporate self-government organizations and their leaders in the process of planning and development management, it also opened up new tensions between community-elected leaders and municipal authorities that were encased in the regulations of the constitutional state. The municipal authorities began to manage the human resources, budget, and service obligations of the

⁵ Throughout its history, Villa El Salvador has had the Villa El Salvador Global Development Plan, VES Urban Development Plan, Integral Development Popular Project, and, currently under preparation, the Villa El Salvador Integral Plan of Development and for the third year, the Participatory Budget.

⁶ The Southern Cone of Lima, with more than 800,000 inhabitants, is an area formed by four districts. One of these is Villa El Salvador, with an estimated population of 300,000 inhabitants in 2002.

municipality. Thus, there was a gradual change in the performance of the leadership and the roles of those in the CUAVES leadership and those who, besides being popular leaders, took on roles as public municipal functionaries and administrators.

In 1999, a development plan was formulated under the new participatory process. The plan's goal and main objectives were decided directly through voting by residents of Villa El Salvador who were over 16 years of age. This third participatory plan set out to be a plan for the city and not just the municipality. For this purpose, the strategy has been to develop a participatory budget for the plan's management.

In fact, Villa El Salvador is not the only place with this type of experience. There are approximately 350 local development plans out of a total of nearly 2,000 municipalities in the country. Some of the other municipalities have developed successful participatory budget processes, such as Huamachuco (Andean northern province), Canchis (a province of Cusco), Independencia (Huaraz), Picota (Amazonian province), and Ilo (coastal southern province).

Issues and Challenges

Villa El Salvador has several problems: unemployment, youth gangs, lack of services, and a shortage of housing. The district urgently needs to face the challenges of globalization and competitiveness in a framework of democracy and participation.

Seventy percent of the inhabitants are under 25 years old, and 25 percent are between ages 15 and 25. Young high school graduates for the most part do not have job options or technical training. Less than 15 percent have access to higher education, and the percentage of those who are able to complete their education is even lower due to lack of resources.

Approximately 30 percent of the district's population is persistently unemployed, and 54 percent of the inhabitants have family income below the level required to cover their basic needs. The serious unemployment issue, with no social security or protection whatsoever, promotes vagrancy and the emergence of youth gangs (principally

composed of males between ages 16 and 25).⁷ These youths occupy a significant part of their time in planning and carrying out illicit activities, organizing fights, and disrupting public order and peace.

The growth of Villa El Salvador has largely surpassed the urban project that originated it. The district faces a crisis and distortion of the original model for various reasons. Garbage disposal and public sanitation are unsolved problems, and safe water is rationed and less available during the summer months. The lack of enough recreational green areas is more evident than ever due to the increase in population, as is the poor distribution of markets and commercial areas, which makes urban life more difficult.

Residential areas have emerged that do not adhere to the district's characteristic design, and industrial and agricultural and farming areas have been cut back to make way for commercial areas and housing. Finally, the flow of new people into Villa El Salvador poses the need to retake control of the district's growth. That is, the district needs to create spaces in which to build new, higher-density housing for the new inhabitants and children of the current ones.

Problems and Challenges of Globalization

Now more than ever, a local perspective is strategically important for the residents of Villa El Salvador. Globalization has established a new social determinism; the local aspect has come back as the strength of society, families, and individuals. Local governments and organizations have recaptured the fundamental importance of advancement of citizenship and improvement in the quality of life. Villa El Salvador is no exception to this rule.

Globalization is a challenge that Villa El Salvador confronts pragmatically, especially in the dimensions of communications and the global economy. For many years, the district has had a television channel and radio stations. Recently it has gained Internet cafes, which are

⁷ Most Villa El Salvador inhabitants work in the informal sector of the economy, which is why they do not have fixed, regular wages. Only 48 percent of the economically active population earns a salary, with the average level of income being US\$125, which is one-fourth of a basic family basket for Lima.

often full of young people communicating in cyberspace. When it comes to the development of businesses and commerce, the managerial potential and vision that Villa El Salvador has are comparable to those of the best urban towns. Villa El Salvador has shaped many leaders in the urban world and will continue to do so.

Frequently Villa El Salvador serves as an example to other towns and districts that are less organized and aspire to be like it. The low-income sections of the cities in Peru look at Villa El Salvador with hope as they struggle to obtain a better quality of life and an appropriate and worthy place to live. Villa El Salvador acts as a barometer for other low-income districts and neighborhoods.

Peru's Local History

Town councils, which were previously known as *cabildo*, have played an important role in decentralization in Peru. In the past, cities were not important for market transactions or the development of civil society. They were rather centers to monitor vertical structure, which was inconsistent with civil participation. During the pre-Inca years, there was religious and military control, and during the Tawantinsuyo years, there was political control. Cities continued to be centers of power during the colonial years within the domain of the Spanish government, in a dual system of a republic of Spaniards and another of indigenous people.

Urbanization in Peru was established during the conquest: production was rural, either farming or mining, but control and authority were always urban and centralized. In the 16th century, mining and food production depended on indigenous labor in the mines. Although such activities were performed in the countryside, control was urban in nature because the economy in which this system was established was meant to assist other areas under tight metropolitan control. This is why Peruvian cities have an administrative character, which has lasted until now.

During the 19th century, municipalities in Peru lacked popular representation. For more than a century, the president of the Republic selected the district and municipal mayors. The cities and urban centers have been distinguished by their administrative character rather than as

productive or democratic centers. At the same time, cities have grown increasingly segregated based on social and economic factors.

During the 1960s, mandatory suffrage was established for all registered citizens in the electoral registry. With suffrage, democratic elections emerged for mayors and town council members.

Peru has experienced a historic tension of integration between the local government based on colonial laws (the *cabildo* and its subregional levels) and that based on indigenous laws. This integration was forced by the responsibility for taxation and the limited resources and workforce. None of the indigenous institutions was set up to arbitrate disputes between communities; therefore the Repartimiento (the colonial system of distribution of wealth) and the parishes imposed weak integration. Similarly, Spanish religious symbols created greater loyalty than the ethnic and social stratum, consolidating society. An important problem is the recovery of the indigenous/local values in order to open a dialogue in a multiethnic and multicultural world. An urgent matter is that of the contemporary national identity. Many factors are involved in the promotion of community development. For example, it requires a minimum standard of education for all citizens, and individuals who can make decisions, take on new responsibilities, and have a shared vision of the future.

Statutory Municipal Law No. 23853, enacted in May 1984, indicates the frame of reference for local governments in Peru. Although it was a modern adaptation of the previous municipal law (enforced since the end of the 19th century), it did not facilitate the national decentralization process due to the lack of fiscal resources that would have allowed adequate completion of the various functions assigned to each municipality. On the contrary, the law generated a confrontation between the municipalities and the national government, or rather an adaptation of certain paternalistic schemes in the context of partisan affinities among poor municipalities and the executive power. The little income the municipalities had was cut in the 1990s.

Legal mechanisms and devices related to finances have affected the municipalities in an unusual way. In some cases, the national government transferred taxes and contributions from the local government to the national government. Even worse, in some cases, the national gov-

ernment cut off the local government's authority over its own territory. During the 1990s, the Peruvian experience was that of constant setbacks in competencies and municipal measures, particularly at the provincial level. The local governments were not allowed to contribute to the development of their communities or the nation as a whole.

There are two fundamentally evident contradictions in the Peruvian municipalities. For one, the norm of institutional operations that is currently in effect was inspired by the 1978 Constitution, which is no longer valid because a new constitution was enacted in 1993. The other contradiction is that municipalities make up the structure of the state and are the only territorial form of government, while the functioning of the national government is strictly by sector. Thus, there is a contradiction between sectors and territories. In addition, there are other functional contradictions; municipalities are the most complex and complicated institutions in the country, made up of the following four dimensions: political, public administration, local development, and territorial administration (Azcueta Gorostiza 2001).

The statutory law takes into account that the municipalities must have a development plan. This plan is a tool used to define the functions and responsibilities of the economic and social components in a district or province. The plan is needed to institute an essential consensus between the private and the public sectors, between neighbors and businesses, and between local and global interests. In practice, the municipalities that govern themselves using this tool for planning and management are more efficient. The government that came to power in July 2001 faces the challenge of restoring democratic power at the municipal level in a scenario of extensive decentralization, and stimulating efficient use of resources and potential within the administration.

In September 2001, a Supreme Decree was passed (No. 107-2001-PCM) in which the current government created the National Commission for Decentralization. One of its major goals is to create a strategic vision for the short- and long-term decentralization of the country. Likewise, it aims to create relevant legal devices that would encourage the involvement of every provincial and district municipality and civil society as a whole. This decree shows that Peru is trying to take measures toward the process of strengthening local governments

and facilitating the transfer of responsibilities from the Ministry of the Presidency and other segments of the central government to regional and local governments.

The Beginning of a New Era

The participatory measures imposed by the latest municipal administrations help explain the recent strengthening of the municipality as a public element in Villa El Salvador. In the municipality's last administration, a consensus process was initiated in order to formulate a new development plan. The plan was based on three major pillars: productivity, community, and health. The main objective of the new plan was to create a participatory process in which organizations, local institutions, and the community in general take part in the plan's elaboration and administration.

At the same time, Villa El Salvador's 1999–2010 development plan had, from the beginning, the following strategy for consensus: one phase for making the plan and another for administering the plan. This would be Villa El Salvador's third plan. Both phases are well defined and include a vision for development and strategic objectives. The budget is not conceived as an objective in itself, but as a tool for the sustainable plan. This tool has been the principal factor in mobilizing the people.

The development plan is part of the process of local planning, which the local government presides over and manages. The main tool in this process is consensus. Therefore, in order for the plan to be successful, the process requires the institutionalization of community participation.

The Strategy

At the end of 1998, a general strategy was elaborated for the current sustainable plan. The strategy consisted of the following two extensive phases:

- The *elaboration phase* entails a process of social consensus, in which the expectations of the population and the local institutions are transformed into tangible objectives.

- The *execution phase* is an ongoing process in which the community and institutions execute specific projects oriented toward the district's sustainable plan.

In 1999 the municipality began a process of participation, discussion, and debate about its challenges and obstacles. Creative workshops in the urban parts of the district focused on specific topics and discussed the model of development that the population envisioned for the coming years. At the workshops, or thematic roundtables (subject matter workshops), representatives presented proposals on the issues at stake. Management committees or geographic coordinator committees worked at the local level with local organizations, institutions, and community members to define the priorities of their segments of the district.

The main objective was to undo the formulation process in the third sustainable plan by using their political goodwill to reach an agreement with the local population, organizations, and leaders. In this way, the community prioritized issues and elaborated proposals. The community used consensus and planning tools at the thematic roundtables to allocate resources for the execution of community initiatives. The strategy's three main benefits are the following:

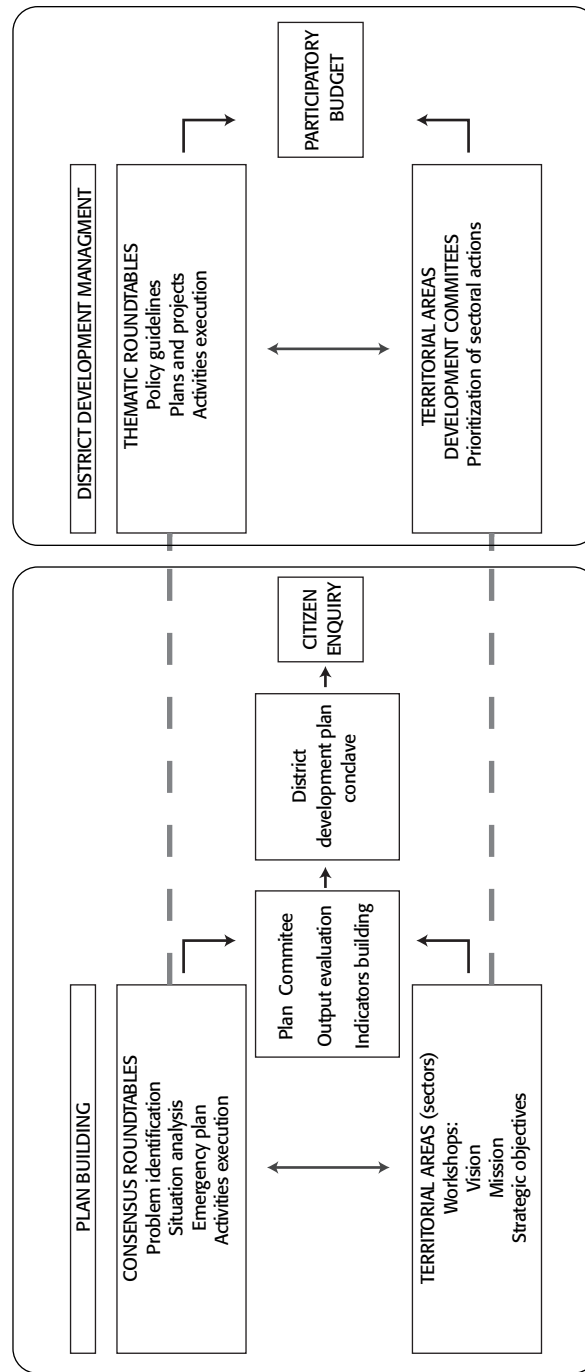
- Strengthened citizenship
- Improved district governance
- Concerted action that multiplies—not only adds—the existing resources and increases the efficiency and legitimacy of the municipal government.

The development plan is the main pillar that facilitates the advancement and execution of the creation of priority objectives for the community, guaranteeing the process will be carried out. The participatory budget process puts into practice the development processes (see Figure 12.1).

The Development Plan

In 1999—the first year of the new municipal administration—the development plan emerged in a participatory manner. The process was initi-

Figure 12.1. Strategic Design for the Integral Local Development Plan for Villa El Salvador



ated in February with a forum called Participation, Consensus, and Human Development, which was created as a process of participation and consensus. It was here that the first proposals and alternatives arose around a set of priority subjects for the district.

In mid-February, the municipality summoned the leaders of social organizations, municipal authorities, and representatives from government institutions and nongovernmental institutions. The forum was divided into four dialogues on a healthy city, productive district, healthy community, and youth. On the day the event took place, 100 delegates participated.

As a result of the forum, the thematic roundtables were held in March to analyze the district's concerns and make the respective plans. These workshops focused on youth; employment and production; urban development; health and environmental issues; citizen security, education, and culture; and governance and local participation. The workshops were carried out as meetings in each territorial area of Villa El Salvador. The main purpose was to obtain the residents' contributions to the development plan and identify common objectives that would serve as a foundation for consensus and participation. In July, nearly 200 thematic roundtables were held to discuss proposals gathered by the municipality and its advisers.

The next milestone was to call a mass meeting with leaders and representatives of all of the organizations and institutions linked to the process. It was called the District Conclave, and it consisted of a full working day to define and approve the shared vision and objectives for the next 10 years.

The most significant step for the improvement of the whole process was the call to a citizenship enquiry that was held in November 1999. The civic day for citizenship enquiry allowed all members of the population age 16 and older to participate and identify priorities for the district's development. As a result, Villa El Salvador's major objectives have been approved by almost 84 percent of the nearly 50,000 voters. And the district has a list of voters' priorities through the year 2010. The people prioritized the following five strategic objectives: health (63.1 percent), education (40.7 percent), production (34.6 percent), leadership and solidarity in the community (24.6 percent), and democratic community (20.7 percent).

District Meeting at the End of the First Year

With the results of the enquiry along with the agreement on the vision and the main objectives, the municipality and the commission in charge of the execution of the development plan met to evaluate the results and to plan the subsequent phase of the process. The district meeting was called Governance, Administration, and Participatory Budget for the Development Plan. The meeting reaffirmed the proposal to create open space for all of the participating elements in the development of Villa El Salvador. The following bodies were defined for this purpose: the district committee for local development, the local coordinator committees, and the thematic roundtables.

The district committee is the uppermost body, made up of municipal authorities and representatives from institutions and organizations in Villa El Salvador. Its role is to guarantee that the development plan approved by the population is carried out fully.

The local coordinator committees make room for debate and decisionmaking in each segment of the district. Organizations, financial agents, private and public institutions, municipal agencies, and residents participate as committed members of the community.

The thematic roundtables make room for thought and reflection on specific subjects, such as education, health, the environment, youth, businesses (small and large), and citizenship security. Participation is open to everyone and the municipality, and the nongovernmental organizations are the main coordinators.

Participatory Budget and Operating Structure

In 1999, the sustainable development plan was established, with the thematic roundtables as the main protagonists, and focusing on the city's vision and objectives. In 2000, the participatory budget focused on local areas, stronger participation on the part of municipal agencies, and prioritizing public works.

The next step was to put into practice the development plan that was to begin in 2000. This meant the approval of the municipal participatory budget in which the local authorities committed themselves to

an agreement on the alignments and objectives expressed by the citizens of Villa El Salvador. The year 2001 was a period of normative institutionalization, and 2002 was a period of adjustments to establish a clear connection between the development plan and the budget.

In order to achieve this, the government enacted a municipal decree enforced as a law, institutionalizing the validity of the participatory budget as a democratic tool for participatory measures. The approval of the decree got the attention of the officials in charge, who with some of the leaders proposed a law that would improve the decree, which was finally approved by the municipal council.

Similar to the municipal commitment, the local civil organizations and institutions, as well as the national government, had to adjust their projects to correspond to the vision established for 2010. However, this has not been carried out in a suitable way because of the central-based logic and actions of the national government, which cannot be applied successfully to local communities. There is no local participation in the design and subsequent evaluation, during which some adjustments and changes can be made to the plan and its budget.

Villa El Salvador's development plan is the whole district's plan and not just a plan to be executed by the municipality. Therefore, the main challenge now is that the intentions and wishes of all the participating economic and social agents in Villa El Salvador be expressed in a participatory manner. In 2002, the achievements in this matter were not very extensive in the local scheme. On the one hand, in the daily management of the municipality, there are the legal, bureaucratic, economic, and administrative demands of the traditional municipal entity without taking into account the population's demands. And on the other hand, there is the political will associated with a development plan that derives from participatory management and is managed by the residents through a participatory budget.

The municipality's limited resources make the training and recycling of personnel difficult, and therefore the organization and administration of the participatory budget and development plan are inadequate. The officials responsible for the participatory budget tend to complain in private about the insufficient support they obtain and about the fact that the administration has given priority to spending

(through traditional channels) on works that do not follow participatory procedures.

The experience in Villa El Salvador has limitations, but it has made some impact. For example, it is significant that the Ministry of Economy and Finance has arranged that starting in 2003, every municipality in the country needs to have a sustainable plan and a participatory budget. However, this measure is still general and cannot yet be analyzed.

The successful management and follow-up of the development plan and participatory budget depend on the participation of neighbors and citizens in general. This is the reason for the thematic roundtables. Unfortunately, the District Committee for Local Sustainable Development has been just an aspiration and not an actual fact. However, calling different local leaders to evaluate and render the accounts of the 2000 participatory budget strengthened the social organization. There was also a closer relationship between the municipality and the various social organizations. The meeting and assemblies to determine the works and projects for the 2001 participatory budget created more credibility and trust in the municipal administration.

The objective is to achieve the consolidation of participatory budgets in Villa El Salvador and all the municipalities in the country. This will require training and the determination of the residents. It must be understood that allowances for public expenditures have to come from all of the public institutions that carry out investments in the district, and from the priority that the private sector gives to public sector initiatives.

The participatory budget is not to be conceived as an objective in itself, but as a tool in the development plan. Throughout the years, this tool has been a main factor in the mobilization of the population. The main benefits of promoting a plan and budget in a participatory manner are the following:

- Strengthened institutionalization and promotion of decentralized citizenship
- Concerted action that multiplies the existing resources, increasing the efficiency and legitimacy of the local government
- Improvement in the district's ability to govern and seek the most efficient use of scarce resources through democratic, participatory practices.

Some tasks under way in Villa El Salvador are the following:

- Finalizing the 2010 development plan document
- Redefining and updating the management model for the sustainable plan and the debates about the relationship between the thematic roundtables and the local areas
- Developing the communications strategy.

Four main aspects must be taken into consideration during the process: transparency, thematic roundtables, information, and the district managing committee. Achieving transparency will require discussion and updating the rules each year in the subject matter groups and at the local level. A normative process is needed for the participatory budget and all the other agents in the management of the development plan.

The explanation of the subject matters for the thematic roundtables is a priority. The district committees are in charge of the process in the localities. It should be clear that the main objective should be to favor the social organizations.

A very important aspect is the necessary information to make decisions. It is fundamental to have the necessary elements handy at the time of deciding on the priorities. The local government, through its municipal agencies, has been concerned with giving this information to the leaders in charge of making decisions in their localities. However, the lack of resources (insufficient qualified technical personnel and other operational resources) has made the advancement slow.

Lastly, a major pending matter and a substantial part of the municipal debate has to do with the role of the district development committee and its position in the development plan. The idea of the development plan and budget as “two faces of the same coin” was innovative, and as such it was necessary to follow the dynamics that were being generated. Defining priorities and allocating resources are a challenge to the traditional social forms, but these practices would broaden the abilities of the population to exercise their citizenship and legitimize the governance of the city by popular demand.

Conclusions

The process of citizen participation in planning and budgeting in Villa El Salvador has had several strengths and weaknesses. Peru does not have a broad process of participatory municipal planning. However, the dynamics of globalization and experiences such as that of Villa El Salvador are producing reactions at the local level, and people are demanding autonomy and citizen participation.

Localization in cities, regions, and towns highlights the effective possibilities of strengthening citizen participation to improve the quality of life. Strengthened local participation is perceived as a successful stage in the competition for local interests in the regional, national, subregional, and citizenship frameworks. As such, decentralization makes sense as part of a process focused on local aspects, participation, and democracy.

The interpretation of citizenship should include acknowledgement of the contributions made by historical experiences, including indigenous cultural contributions to institutionalization, participation, and democratic practices. Models are catalysts for processes that unravel with autonomy and creativity. The process of social and citizenship apprenticeship has become a way of managing while learning.

When mechanisms of participatory municipal management are under way, it is possible to attain consolidation if these come with objective images or visions of the future. The sum of these proposals is key to consolidating local identities as well as the national identity.

Villa El Salvador and its participatory budget provide the following lessons:

- The consensus of the agents around a collective vision of the future that is shared and built by everyone strengthens the territory's identity and social networks.
- Governance of a poor municipality and optimization in the use of scarce resources around participatory mechanisms facilitate the process of sustainable development.
- Improvement in the quality of life of the inhabitants of a city made up of a population with few economic resources involves

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proactive local agents and citizens facing new challenges in their social, economic, and political communities.

Departing from the local (the citizens' level of identity and real commitment), it is likely that some decentralized and participatory schemes will crystallize in some municipalities where there will be a national project with credibility: a horizon, a vision for development. This vision is a great challenge, particularly in the Latin American region, where democracies have to deal not only with institutional development, but also with economic processes of citizenship exclusion and general lethargy in social movements.

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PART IV

DECENTRALIZATION IN JAPAN

CHAPTER 13



LOCAL GOVERNMENT IN JAPAN

Kiyotaka Yokomichi

The population of Japan is just more than 120 million, and the country covers an area of 380,000 km². The local government system is two-tiered, with 47 prefectures and more than 3,000 municipalities. Since Japan became a modern nation in the Meiji era, the number of prefectures has not changed much, but the municipalities have gone through two major amalgamations, and their number has greatly diminished from 70,000 at that time. The average prefecture has a population of 2.7 million and covers an area of 8,000 km²; the average municipality has a population of 37,000 and covers an area of roughly 100 km².

However, population and area vary widely. Metropolitan Tokyo has a population of 12 million, while Tottori prefecture has only 600,000. Municipalities exhibit a broader range, from the largest population of 3.5 million in Yokohama City, to the smallest of 200 in a village called Aogashima-mura, located in Tokyo. Japan's local governments are indeed diverse.

Authority of Local Governments

Local autonomy is guaranteed by the Constitution of Japan, and local governments are constitutionally guaranteed entities. The Constitution also provides for the authority of local governments. The three powers usually refer to the three separate powers of legislation, administration, and judiciary, but the Constitution (Article 94) gives local governments both administrative and legislative powers. Their powers of legislation include ordinances decreed by the assembly and regulations established by chief

executive officers (governors and mayors) within the range of the laws of Japan. The officers do not have judicial power, but they do have police authority. For instance, when a crime is committed, local governments (prefectures) have police authority to catch the culprit. Yet, bringing the case to trial, holding the trial, and executing a sentence are within the scope of the central government's authority.

Comprehensive Authority

Local governments are vested with the authority to enact ordinances and perform administrative functions within the bounds of the law. This authority is comprehensive and extensive. It is not limited to only certain functions, but applies widely to all affairs related to the region under the jurisdiction of a local government, whether it is a prefecture or municipality. From education, public services, social welfare, health care, fire services, law enforcement, to public corporations, local governments have wide-ranging and extensive authority. Nevertheless, this authority is exercised according to a scheme in which municipalities first address issues they are capable of managing, and prefectures process broad-based matters and other matters that municipalities cannot handle. In effect, Japan essentially adopts a concept similar to the principle of subsidiarity.

Allotment of Functions

Various duties are allotted to the central government, prefectures, and municipalities. In general, the central government is responsible for diplomacy, defense, justice, expressways, and universities. Prefectures are allotted law enforcement, high schools, health care, industry, and vocational training. Municipalities provide services to citizens by taking charge of such areas as citizen registration, fire services, urban planning, compulsory education, waterworks, waste treatment, and social welfare, such as child welfare and welfare for the elderly.

Thus, in terms of domestic affairs, local governments process more work than the central government does. In terms of budget (annual expenditure), local governments spend more money and do more work than the central government at a ratio of six to four. Among local governments, this

proportion is roughly 50-50 between prefectures and municipalities. Therefore, from the perspective of budget scale, this means that the central government, prefectures, and municipalities are working at a ratio of 4:3:3.

Government work is processed in two ways. In the first, the central government, prefectures, and municipalities share the same function. This is easily understood by taking compulsory education as an example. The central government provides guidelines for compulsory education and bears half of the salaries. Prefectures assign personnel and cover the other half of their salary. Finally, municipalities construct and manage schools, and actually provide education to children and students. Such sharing of functions can be seen in many other fields.

The second way in which government work is processed is by specialization and overlap. This characteristic can be seen in regard to hospitals, for example. There are hospitals built by the central government, as well as those created by prefectures or municipalities. In some cases, national or prefecture hospitals may be more specialized, but the central government, prefectures, and municipalities may offer the same hospital services, thus providing overlapping administrative services. The same is true for roads. There are national roads, prefecture roads, and municipal roads. In fact, this feature is applied to libraries and various other facilities as well.

Central Government Involvement in Local Governments

Legislative Involvement

Partly because of functional sharing, the central government is involved in various aspects of local government functions. The central government enacts laws, and the interpretation of those laws is ultimately judged in trials conducted by the central government. As long as laws are established by the central government, local governments must adhere to them. However, this does not mean that any sort of law can be enacted. The Constitution (Article 92) stipulates that laws must be in accord with the principle of local autonomy. Certainly there are some limits in this respect, but if the central government makes a law, normally, local governments must carry out their administrative functions

in compliance with the law, and regulations established by local governments must fall within its scope.

Administrative Involvement

Administrative involvement can be divided into authoritative (permission, order, instruction, etc.) and nonauthoritative (counsel, recommendation, notice, etc.) involvement. However, the central government is involved with local governments to a great extent in both aspects. The system of delegating administrative functions to local governments forms the core of the central government's involvement. In this delegated function system, chief executive officers of local governments (governors and mayors) are regarded as administrative organizations of the central government. They are delegated certain central government functions despite the fact that they are politicians elected by citizens. In this respect, local governments serve as an administrative organization for the central government. Furthermore, as administrative organizations (local agencies) of the central government, local governments are placed under the comprehensive control and supervision of the central government, and are subject to orders and various other forms of administrative involvement by the central government. Such delegated functions have continued to dominate a large part of the work of local governments.

Financial Involvement

The central government distributes financial resources as subsidies and local allocation taxes to local governments. This is one way in which the central government controls the functions of local governments. Although local governments have the authority to contract a debt, they require permission from the central government to do so (note that this system of obtaining permission is to be replaced by a system of consultation). Japan has a substantial supply of local taxes in international comparisons, but it is not adequate in relation to the large volume of work that must be processed. Because local governments cannot function without receiving subsidies or local allocation taxes from the central government, and also

since they cannot contract debts without central government permission, they are under strong financial control by the central government.

Standardized Local Autonomy

Local autonomy in Japan has become extremely standardized with respect to organization and administrative management. Every prefecture has the same kind of organization and conducts the same kind of work in the same way. Although they may vary in size, even municipalities have basically similar organizational forms and functions. However, this is not necessarily a negative situation. In particular, standardized local autonomy contributed to the country's ability to provide a minimum standard of living for all citizens after the country became a modern state in the Meiji era and after the postwar years of recovery from World War II. In other words, for example, standardized administrative services for education and welfare were provided throughout the country. Moreover, the policy of balanced national development allowed local governments to invest in roads and other infrastructure.

Citizen Participation in Local Government

Electoral System and Direct Petition System

A dual representation system is one of the major characteristics of local governments in Japan. According to the Constitution (Article 93), not only members of the assembly, but all chief executive officers (governors and mayors) are selected by direct election. The Constitution also acknowledges citizens' right of direct petition. On collecting a certain number of signatures, citizens can petition for the enactment of ordinances, audits, dissolution of the assembly, or the recall of the chief executive officers and assembly members. Furthermore, as a mechanism to correct unlawful or inappropriate expenditures by local governments, such systems as citizen petitions for audits and citizen lawsuits are also in place. The citizen participation system, therefore, is considerably thorough and well developed.

Forms of Citizen Participation

In order to encourage greater citizen participation, many local governments have enacted information disclosure ordinances and introduced a system whereby information is disclosed as petitioned by citizens. Local governments are also making an effort to listen to citizens' voices through various routes in addition to the assembly, and are establishing systems for conferences, citizen committees, and public comments so that citizens can participate in planning and legislating bills. Furthermore, several local governments have adopted the local referendum system in which issues are determined by votes cast by citizens.

Challenges for a Decentralized Society

Decentralization Reforms

As a recent large-scale change in local autonomy, decentralization reforms have advanced in Japan as well. Especially noteworthy is the Collective Decentralization Law, which was enacted in 1999 and has been in force since April 2000. The law's greatest achievement has been the reduction of central government involvement in the functions of local governments, especially administrative aspects. Symbolic of this reform is the abolishment of the delegated function system.

Local governments, as local agencies of the central government, have hitherto carried out their functions in compliance with the disposition of the central government. However, the Collective Decentralization Law has enabled local governments to process all work as their own (although, of course, some involvement by the central government remains), and with greater discretionary power than ever before. This means that the standardized form of local government in Japan that has prevailed until now will be changing to more diversified forms hereafter. It also signifies the obligation of each local government to process its own work under the principles of self-determination and self-responsibility.

Issues for the Future

Amid such changes, one of the primary issues that must be addressed is the establishment of a local administrative system that can respond to recent decentralization reforms. This is hardly a problem for prefectures. However, small municipalities that are not compatible with such reforms must merge with others and expand in scale. As a result, amalgamation is a major issue among municipalities once again.

The second issue is to push forward with administrative reforms. If local governments are to function with self-determination and self-responsibility, they must make an effort to create a more efficient administrative system. Present economic and financial situations are also promoting this reform.

Third, decentralization reforms must be brought to a higher level. Decentralization reforms this time around were focused on review and reform of the central government's administrative involvement. It remains to curtail the central government's involvement in local financial matters. On the one hand, subsidies from the central government must be reduced, and on the other hand, fiscal revenues mainly represented by local taxes that can be used freely by local governments should be increased. Reforms based on such perspectives are becoming necessary and are presently being examined.

The last issue is the further promotion of citizen participation. Up until now, municipalities and especially prefectures have strongly exhibited the characteristics of a local state agency on account of the delegated function system. However, with the abolishment of this system, it is becoming even more necessary for local government to serve as an institution that looks toward its citizens rather than the state, considers the needs of citizens, and provides administrative services in response to those needs. This will require increased collaboration with citizens, in part for financial reasons. Citizens should not expect the administration to do everything for them. Rather, the administration should do its share and the citizens should do their share as well, and together they should maintain and enhance the standard of public services. Efforts must be made to achieve this ideal.

In sum, since the Meiji Era, Japan has aimed to build a modern nation and a welfare state. To this end, it has attempted to provide the same stan-

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dard of administrative services throughout the country by involving the central government in the functions of local governments. At the same time it has pushed forward with developments aimed at balanced growth. Now that a certain level has been achieved, the central government must relax its involvement (administrative and financial) and build a diversified and decentralized society in which each local government can independently conduct its regional administrative functions in consideration of the needs of its citizens and with their cooperation. I believe this means we are entering a new age.

CHAPTER 14



FISCAL DECENTRALIZATION IN JAPAN

Katsuhito Imai

Japan is a unitary state, that is, the government is two-tiered, composed of the central government and local governments. Fiscal decentralization in Japan is therefore an issue between the two levels of government. By contrast, in federal states the government is three-tiered, composed of the federal government, provincial governments, and local governments. Fiscal decentralization in federal states can be said to be an issue related to federal and provincial governments. In this way, when referring to fiscal decentralization, it must be noted that the focus of the issue differs between unitary and federal states.

Local governments in Japan include 47 prefectures and more than 3,000 municipalities.¹ In regard to the division of functions across the large number of local governments and the central government, the Local Autonomy Law stipulates that the central government is charged with administrative affairs related to the following:

- The existence of the state in an international community
- Basic common rules concerning citizens' activities and local autonomy, which are considered best established uniformly throughout the country
- The projects that ought to be undertaken on a national scale or from a national perspective
- Other activities that should essentially be conducted by the state.

¹ Prefectures and municipalities are together called ordinary local authorities. The 23 special wards of Tokyo and other special local authorities are also local governments, but in this presentation local governments refers to prefectures and municipalities only.

Local governments should broadly assume the role of autonomously and comprehensively carrying out regional administration under the basic principle of promoting citizens' welfare. Prefectures conduct administrative affairs that necessarily require broad-based processing, and municipalities or basic local authorities manage administrative affairs except for those conducted by prefectures.

Two Types of Decentralization

In general, there are two types of decentralization, namely, a separatist model and an integrationist model. Recent discussions seem to indicate a predominance of the former, which originated in 19th century England, over the latter. Behind the predominance of the separatist model is its strong logical consistency with the market economy model. Thus, the separatist model places strong emphasis on competition among local governments based on the notion of "voting with one's feet."

By contrast, the integrationist model places importance on preserving a national minimum level of services provided by local governments and maintaining equality in local tax burdens among local governments. The model emphasizes the role of the central government in determining national minimum standards, keeping a rein on local governments so that the standards are maintained, and providing fiscal assistance to local governments when necessary.

I would choose the integrationist model over the separatist model for the following reason. With companies, in particular large-scale corporations, the system of voting with one's feet can be easily assumed, but with individual households, it can be envisioned for only a restricted handful of households at a high-income level. Intergovernmental fiscal relations in Japan provide a typical example of the integrationist model.

Intergovernmental Fiscal Relations in Japan

Allocation of Tax Sources

Table 14.1 shows the allocation of tax sources in Japan. The first point is that a large part of prefecture and municipal local taxes, including such basic matters as taxable items, taxpayers, the tax base, and the tax rate, are prescribed by the Local Tax Law, which is established by the central government.

Recently, in addition to the statutory local taxes prescribed by the Local Tax Law, tax requisitions have been alleviated for local taxes not prescribed by the Local Tax Law. Table 14.1 refers to these as other taxes, such as local discretionary taxes that can be imposed independently by prefectures and municipalities. However, since national taxes and statutory local taxes constitute the bulk of the major tax base, local discretionary taxes account for only a fraction of the total.

The second point is that local tax revenue amounts to 41.5 percent of total revenue from taxes (Table 14.1). This share is quite high for example compared with the United Kingdom, which is also a unitary state. However, not all local governments in Japan can necessarily conduct administrative affairs with statutory taxes only, because the tax base for local tax differs across regions. Fiscal transfer from the central government to local governments is necessary.

Relation between National Finance and Local Finance

The intergovernmental fiscal relation in Japan is a typical example of the integrationist model. The central government distributes a local allocation tax grant to local governments to help adjust the imbalance in their annual revenues and enable them to provide standard services and make basic public investments. In order to uphold the principle of local autonomy, its usage is unrestricted. Local governments that receive a local allocation tax grant may apply it to any purpose they wish. This is essentially the same as local taxes that are imposed by local governments that do not have restrictions on how they can be used.

Table 14.1 Allocation of Tax Sources in Japan, 1999

Tax source	Central	Local	Total
<i>Billions of yen</i>			
Taxes on income, profits, and capital gains			
Total	26,242	15,839	42,081
Individuals	15,447	9,311	24,758
Corporations	10,795	6,528	17,323
Taxes on property	3,449	11,339	14,788
Taxes on goods and services			
Total	19,523	7,440	26,963
General tax	10,447	2,479	12,926
Taxes on specific goods and services	7,932	3,086	11,018
Other taxes on goods and services	1,144	1,875	3,019
Other taxes	—	341	341
Total	49,214	34,959	84,173
Percent			
Taxes on income, profits, and capital gains			
Total	62.4	37.6	100.0
Individuals	62.4	37.6	100.0
Corporations	62.3	37.7	100.0
Taxes on property	23.3	76.7	100.0
Taxes on goods and services			
Total	72.4	27.6	100.0
General tax	80.8	19.2	100.0
Taxes on specific goods and services	72.0	28.0	100.0
Other taxes on goods and services	37.9	62.1	100.0
Other taxes	—	100.0	100.0
Total	58.5	41.5	100.0
<i>Source: Organisation for Economic Co-operation and Development, Revenue Statistics 1965-2000.</i>			

The central government enacted the Local Allocation Tax Grant Law, which provides details for the local allocation tax grant. The framework of the grant has three parts. First, the total amount of the local allocation tax grant is determined based on a fixed percentage of five national taxes (35.8 percent of the enterprise tax, 32 percent of the income tax, 32 percent of the liquor tax, 29.5 percent of the consumption tax, and 25 percent of the tobacco tax) and the standard financial revenue and demand based on the fiscal plans of local governments.

Second, the ordinary local allocation tax grant to be distributed to each local government is calculated as follows:

- Ordinary local allocation tax grant = standard financial demand – standard financial revenue
- Standard financial demand = unit cost x numerical value of measurement unit x adjustment coefficient
- Standard financial revenue = fixed percentage of standard local tax revenues (80 percent for prefectures, 75 percent for municipalities) + revenues from local transfer tax, etc.

Unit cost refers to the cost that is necessary per one unit of service whose unit is established for standard services performed by a standard local government. For instance, for compulsory education costs, a large part is determined by the number of teachers for a fixed number of students, so the unit cost would be the standard salary per teacher.

Third, need is calculated based on the financial capability index, which is standard financial revenue divided by standard financial demand. Local governments with a financial capability index of 1 or greater are capable of fulfilling their functions with revenues from their local taxes alone.

Table 14.2 shows the spread of the financial capability index. Only one prefecture and 155 municipalities have a financial capability index greater than 1. The majority of local governments are not capable of performing their duties with revenues from local taxes alone. The local allocation tax grant system enables all local governments to provide standard services and make basic public investments.

The National Treasury's disbursement allocated to local governments is larger than the local allocation tax grant (expressed as subsidies to municipalities in the central government's annual spending, and as

Table 14.2 Financial Capability Index by Level of Government, 2002

Government level	Less than 0.3		0.3 - 0.5		0.5 - 1.0		Greater than 1.0		Total		Average value
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	
Prefectures	11	23.4	18	38.3	17	36.2	1	2.1	47	100	0.48
Cities, towns, and villages	1,428	44.2	797	24.7	852	26.4	155	4.8	3,232	100	0.42
Large cities	—	—	—	—	10	83.3	2	16.7	12	100	0.86
Core cities	—	—	—	—	10	83.3	2	16.7	12	100	0.90
Cities	29	4.5	111	17.2	403	62.6	101	15.7	644	100	0.71
Medium cities	—	—	1	0.5	131	66.8	64	32.7	196	100	0.91
Small cities	29	6.5	110	24.6	272	60.7	37	8.3	448	100	0.63
Towns and villages	1,399	54.6	686	26.8	429	16.7	50	2.0	2,564	100	0.34
Total	1,439	43.9	815	24.9	869	26.5	156	4.8	3,279	100	—

Source: *White Paper on Local Public Finance, 2002*. Ministry of Public Management, Home Affairs, Pests, and Telecommunications. The Japanese Government.

National Treasury grants in local governments' annual revenue). This is a specific subsidy with a predetermined use. Therefore, with respect to the principle of local autonomy, it is not a desirable subsidy.

Of the central government's annual spending, 36.5 percent is allocated to local governments, and of the annual revenue of local governments, 38.5 percent comes from the central government. Local tax revenues account for only 39.9 percent of the total revenue of local governments. The large-scale fiscal transfer in Japan is an important characteristic of the country's inter-governmental fiscal relations.

Tables 14.3 and 14.4 show how the central and local governments operate based on such fiscal transfers. In Table 14.3, total payment from central to local government minus local finance expenditures equals the National Treasury's disbursement. Local finance expenditures refer to the local allocation tax grant. In table 14.4, 64.6 percent of total government spending is local government expenditures. Excluding the fact that 100 percent of defense expenditures and 93 percent of pension expenditures are borne by the central government, the table shows that most other services are provided by local governments. This is the result of the large-scale fiscal transfer.

Strengthening the Foundation of Local Finance

One of the issues to be resolved in order to realize fiscal decentralization is to reduce the gap generated by the local governments' share in total government spending and total government tax revenue. In Table 14.4, 35.4 percent of total government spending is national and 64.6 percent is on local expenditures. However, in terms of total tax revenues, the state and local governments obtain 58.5 and 41.5 percent, respectively (Table 14.1).

In order to close this gap, it is necessary to reduce disbursements by the National Treasury and increase local taxes or the local allocation tax grant. Considering the significance of fiscal responsibility, perhaps it would be better to increase taxes that local governments can impose rather than the local allocation tax grant.

In any case, implementation would be difficult because every ministry and agency of the central government would resist a reduction in the National Treasury's disbursement. Since the ministries and agencies of the central government exercise control over local governments with respect to

Table 14.3 Transfer of Central and Local Government Expenditures, 2002
(Billions of yen)

Expenditure classification	Total expenditure			Local (B)	Payment from central to local government (C)	Payment from local to central government (D)
	Central government (excluding duplications)					
	General account	Special account	Net total (A)			
Organization	42,235	–	42,235	42,235	42,235	–
Local finance	139,690	309,741	193,124	193,124	193,124	–
Defense	48,407	–	48,407	48,407	48,407	–
National land preservation and development	103,889	86,596	133,440	133,440	133,440	12,694
Industrial and economic	33,129	5,389	33,278	33,278	33,278	–
Education	63,114	–	63,114	63,114	63,114	–
Social security related	172,789	1,803	174,330	174,330	174,330	–
Pension	16,522	–	16,522	16,522	16,522	–
Public bonds	160,839	–	160,839	160,839	160,839	–
Appropriation from the previous year's budget	–	–	–	–	–	–
Other	7,865	–	7,865	7,865	7,865	–
Total	788,479	403,529	873,154	873,154	873,154	12,694

Source: White Paper on Local Public Finance, 2002. Ministry of Public Management, Home Affairs, Posts, and Telecommunications. The Japanese Government.

Source: White Paper on Local Public Finance, 2002. Ministry of Public Management, Home Affairs, Posts, and Telecommunications. The Japanese Government.

Table 14.4 Net Central and Local Government Expenditures, 2002
(Billions of yen)

Expenditure classification	Central government		Local governments		Local governments	
	A - C	Share (percent)	B - D	Share (percent)	E + F	Share (percent)
Organization	39,718	20.0	158,658	80.0	198,376	100.0
Local finance	4,172	100.0	—	—	14,172	100.0
Defense	48,125	100.0	—	—	48,125	100.0
National land preservation and development	76,228	23.9	243,003	76.1	319,231	100.0
Industrial and economic	26,645	26.2	75,167	73.8	101,812	100.0
Education	27,978	13.0	187,699	87.0	215,677	100.0
Social security related	128,393	37.2	216,813	62.8	345,206	100.0
Pension	16,522	93.0	1,252	7.0	17,774	100.0
Public bonds	160,839	62.9	94,911	37.1	255,750	100.0
Appropriation from the previous year's budget	—	—	64	100.0	64	100.0
Other	7,865	100.0	—	—	7,865	100.0
Total	536,485	35.4	977,567	64.6	1,514,052	100.0

Note: A, B, C, D, and E refer to columns in Table 14.3.

Source: White Paper on Local Public Finance, 2002. Ministry of Public Management, Home Affairs, Posts, and Telecommunications. The Japanese Government.

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the business affairs over which they have jurisdiction through the allocation of National Treasury's disbursements, reducing the disbursements would in effect diminish the authority of the ministries and agencies.

The Ministry of Finance would also oppose the transfer of tax sources to local governments. The dependence of central finance on public bonds is as high as 37.9 percent, and therefore the Ministry of Finance wishes to lower that dependency level and desires an increase in tax revenue in order to do so. Simply raising the fixed percentage of the five national taxes that determine the total amount of the local allocation tax grant would also be extremely difficult considering the dire situation of central finance.

There is perhaps apprehension about reducing the National Treasury's disbursement and the local allocation tax grant without considering the fiscal resources of local governments. Instead, governments should implement methods to strengthen the foundation of local finances as described in this chapter.

CHAPTER 15

THE GOVERNMENT
OF METROPOLITAN TOKYO*Tomoyuki Kamiyama*

This chapter discusses administrative reforms of the government of Metropolitan Tokyo. Appendix 15.1 shows the location of Tokyo Megalopolis and Tokyo Metropolis. The government of Metropolitan Tokyo refers to the region including Tokyo Metropolis and the three prefectures of Saitama, Chiba, and Kanagawa as the Tokyo Megalopolis. Various reforms for decentralization are being examined for the entire Tokyo Megalopolis.

Table 15.1 provides some general statistics for Japan, Tokyo Megalopolis, and Tokyo Metropolis. The total area of Japan is a little over 377,000 km², of which Tokyo Metropolis occupies a mere 1 percent. Even Tokyo Megalopolis (Tokyo plus three prefectures) as a whole accounts for only 4 percent. However, approximately 10 percent of the entire population of Japan, which exceeds 126.9 million, lives in Tokyo Metropolis. In other words, 10 percent of the population lives in an area that is 1 percent of the total domestic area. With respect to Tokyo Megalopolis, the figure is 26 percent. This means that one out of every four Japanese citizens lives in a very small area that accounts for only 4 percent of total national land.

Indeed, an exceedingly large number of people are concentrated in Tokyo Megalopolis. Population density is thus also extremely high, with 5,500 people per km² in Tokyo Metropolis as opposed to 336 people per km² in Japan (Table 15.1). In regard to gross prefecture domestic expenditure, which corresponds to GDP for the entire country, the economic activities carried out in 1 percent of the country account for 17 percent of all economic activities. Tokyo Megalopolis conducts about 31 percent of all

Table 15.1 Japan, Tokyo Metropolis, and Tokyo Megalopolis

Indicator	Japan	Tokyo Megalopolis		Tokyo Metropolis	
		Value	Percent	Value	Percent
Area (km ²)	377,873	13,556	4	2,187	1
Population	126,925,843	33,418,366	26	12,064,101	10
Population density (per km ²)	336	2,465	—	5,516	—
Gross prefecture domestic expenditure (millions of constant yen)	473,874,499	144,634,795	31	80,626,763	17
Establishments	6,350,146	1,507,810	24	724,770	11
Total real length of road (km)	1,166,340	132,393	11	23,384	2
Diffusion rate of sewerage (percent)	59	73	—	90	—
Source: Government data.					

economic activities in the country. The number of establishments shows a similar trend to the trend in population, as do the total real length of roads and diffusion rates of sewerage. The area is under the jurisdiction of the government of Metropolitan Tokyo.

Political and Administrative Structure

The government of Metropolitan Tokyo is an enormous organization. The first tier is the legislative body. Below that is the executive body. With the governor as the head, the government is divided into various departments and bureaus. The Governor's Bureau is divided into 16 bureaus, which are public enterprises that control urban transportation, waterworks, and sewerage, in addition to 10 or so administrative commissions.

Table 15.2 provides some data on the government of Metropolitan Tokyo. In its entirety, the number of regular staff was 175,991 in FY2002. Of this number, the Governor's Bureau comprised 33,496; public enterprises, 17,731; the faculty of public primary, junior high, and high schools, 62,487; police, 44,644; and the Fire Department, 17,993. The Fire Department is part of the municipal administration, but it falls under the jurisdiction of the government of Metropolitan Tokyo in the case of Tokyo Metropolis. Thus, the government of Metropolitan Tokyo has more than 175,000 personnel.

The gross budget of the government of Metropolitan Tokyo totals 11,973.7 billion yen, and is divided among general accounts, special accounts, and public enterprise accounts (Table 15.2). Public enterprises—waterworks, sewerage, and transportation—have a share of approximately 2,000 billion yen. These figures include overlaps of roughly 2,900 billion yen in each account, but as a whole administrative operations are covered by a budget of approximately 12,000 billion yen. As such, the fact that administrative operations are carried out by an enormously large number of people is a distinct characteristic of the organization.

Japan has a system of local autonomy, but Tokyo Metropolis has distinct characteristics among all local governments. There are two types of local governments in Japan: ordinary local governments and special governments. Ordinary local governments are further divided into prefectures, which are regionwide governments, and municipalities, which are basic governments. All of Japan is divided and governed by 47 regionwide gov-

Table 15.2 Tokyo Metropolitan Government, 2002

Indicator	Value
<i>Staff</i>	
Number of regular staff (fiscal year 2002)	175,991
Governor's Bureau	33,496
Public enterprises	17,371
Educational institutions	62,487
Metropolitan Police Department	44,644
Tokyo Fire Department	17,993
<i>Millions of yen</i>	
Gross budget ^a	11,973,742
General account	5,907,800
Special accounts	4,070,498
Public enterprise accounts	1,995,444
^a The gross budget includes overlaps of 2,938,253 yen in each account. Source: Government data.	

ernments. Within these, there are more than 3,200 municipalities, which are comprised of 663 general cities, 1,981 towns, 562 villages, and special cities called government-designated cities.

The legal requirement for the establishment of a designated city is a population exceeding 500,000. Operationally, large-scale cities with populations of approximately 1 million have heretofore been designated as such, and have been delegated a part of the prefecture's administrative affairs. There are 12 such government-designated cities, which in effect assume prefecture administrations. Many administrative duties that prefectures normally conduct, such as in the areas of welfare, health and sanitation, and urban planning in particular, have been transferred from prefectures to the cities. Ordinary governments are the basic form, but there are also special local governments. Among these, there are areas called special wards that exist only in Tokyo Metropolis.

The area occupied by the special wards is presently divided into 23 wards, but it originally belonged to one city called Tokyo City. Tokyo City

and the then regionwide government of Tokyo prefecture amalgamated in 1943 to become the present government of Metropolitan Tokyo. On that occasion, the government of Metropolitan Tokyo was vested with the administration of the city in the present area of the 23 wards. Even today, the government of Metropolitan Tokyo directly conducts many administrative tasks in place of the special wards. Many administrative affairs have been transferred from the government of Metropolitan Tokyo to the special wards. However, compared with municipalities in Tokyo Metropolis, the government of Metropolitan Tokyo still plays a large role in the special wards. This can be seen in the fact that the government of Metropolitan Tokyo assumes responsibility for waterworks, sewerage, and the Fire Department.

Social and Economic Changes

One of the major social changes is the rapid change in demographic structure due to the low birthrate and aging population. People age 65 or over are called senior citizens, and their number will increase to a little less than one in every four people in the whole population by 2015, including in Tokyo Metropolis. With the aging population and diminishing number of children, society is sure to show a depopulation trend. This is true for all of Japan, but whereas the entire population of Japan will peak in 2006, it is estimated that Tokyo's population will start to decrease a little later in 2010. Preparations are currently being made for the planning and implementation of a scheme for regenerating large urban areas, especially in large cities in Japan such as Tokyo and Osaka. The country's economic activities are increasingly global, and competition between cities is intensifying. The deflationary economy has worsened, with a decline in industrial competitiveness in manufacturing and other industries.

Under such social and economic changes, several issues confront the administrative authorities in Japan. There has been an unprecedented financial crisis. Due to the recession of the Japanese economy, the metropolitan tax revenue has run extremely low, so that the account settlement indicated losses for four consecutive years from FY1998 to FY2001. Prospects for metropolitan tax revenues in FY2002 were also expected to be seriously bleak. Amid keen competition among cities,

intensified competition is seen among local governments as well. An appropriate keyword for this competition would perhaps be “from standardization to diversification.” Standardization was the norm until the national minimum level of services was attained, but since then, the trend has changed to diversification.

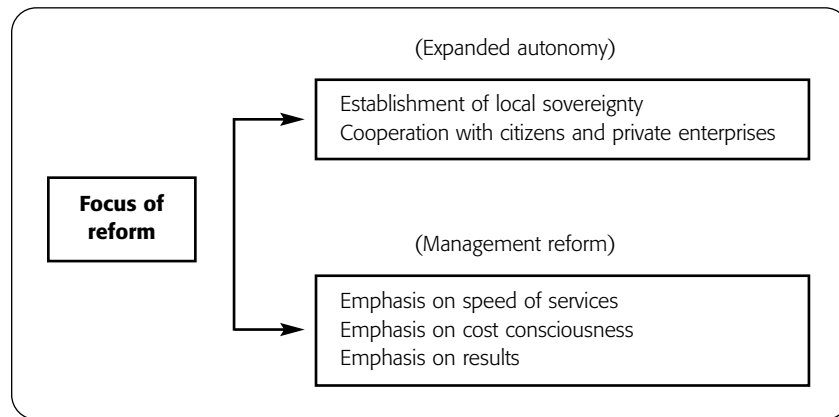
Administrative needs have become increasingly sophisticated and complex, and citizens are showing increased interest in administration. Heretofore, the administration has more often than not emphasized procedures and processes, but it is moving toward attaching importance to results. In addition, the severe financial situation means that the number of government personnel must be reduced considerably. This calls for fuller utilization of the abilities of a limited number of personnel.

Reforms

Administrative reforms in the government of Metropolitan Tokyo have to do with autonomy and management of autonomy. The pillars of autonomy are the establishment of local sovereignty and management in cooperation with citizens and private enterprises, that is, public involvement. On the management side, there are three pillars. The first is emphasis on speed of services. Internal adjustments for decisionmaking take an extremely long time in an organization with a staggering number of people. There have been criticisms that the delay is preventing reforms from keeping up with changes in the social and economic environment. The second pillar is cost consciousness. Again, due to the severe financial situation, the budget is expected to be executed as efficiently as possible. The third pillar is an emphasis on results.

Responsibilities are divided between the administration and the private sector. Until the national minimum was attained, the administration provided most services. Since the minimum was attained, in addition to the administration, various entities—including nonprofit organizations, volunteers, private enterprises, the local community, and citizens—have a role to play in offering public services. The sophistication and diversification of the administrative function has necessitated a change so that each entity can more closely respond to diverse administrative needs (see Figure 15.1).

Figure 15.1 The Focus of Administrative Reform of the Government of Metropolitan Tokyo



Relationship between Central and Local Government

Today, the trend is toward decentralization. The relationship between national and local government has changed from a vertical structure to a horizontal and cooperative relationship owing to the Devolution of Power Law, which was enacted in 1999 and has been in force since April 2000. The central government had been involved in legislative, administrative, and financial aspects of local governments. The Devolution of Power Law restricted the role of the national government to administrative affairs concerning the existence of the nation and other administrative affairs that should preferably be uniform across the country, and policies and projects undertaken at the national level or with a national focus. The law required local governments to conduct autonomous and comprehensive administration at the local level. Under the concept that local governments take on everything that can be handled at the local level, the trend is shifting from national government to local governments.

Yet, there are unresolved issues, one of which concerns taxes. The proportion of national tax collected by the national government and local tax collected by local governments is roughly six to four. A rough estimate of

the expenditure ratio of national and local governments is the reverse, at four to six. This reversal of the ratio occurs due to the transfer of local allocation taxes and national treasury disbursements from the national government to local governments. Some people are calling for the transfer of tax revenue sources from the nation to localities. Other issues include the further devolution of authority and local governments' acceptance of more authority when decentralization advances. Again, amalgamations of municipalities are currently being pursued with respect to these issues.

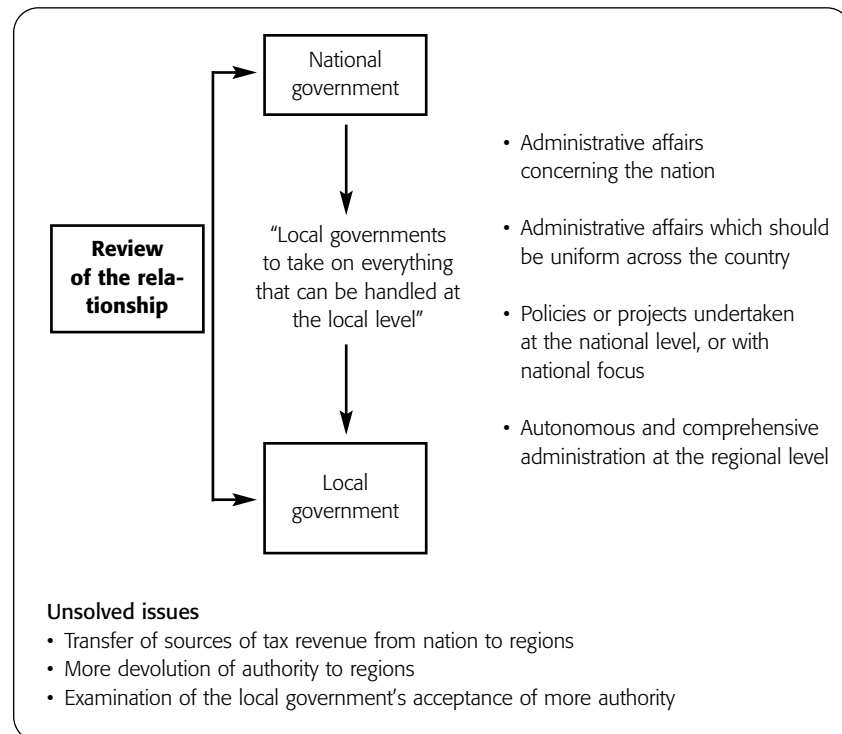
Division of Responsibilities between Tokyo and the Municipalities

In the division of responsibilities between the government of Metropolitan Tokyo and the municipalities in Tokyo, there are three main issues: the further devolution of authority from the government of Metropolitan Tokyo to the municipalities, review of administrative affairs, and support for the municipalities. Devolution of authority is being executed in regard to municipalities as established by individual law, or by ordinance as a special case of administrative management, for example for the establishment of a public health center. In the review of administrative affairs, a part of road management, for example, is being transferred to the municipalities as a result of the review of joint and nonstatutory administrative affairs (see Figure 15.2).

Executive Power

The executive system has also been under review as part of the administrative reforms, which include an organizational review of the government of Metropolitan Tokyo, reform of supervised organizations, and review of personnel management and salary systems. The enormous organization of the government of Metropolitan Tokyo is being reviewed for further simplification and streamlining, with emphasis shifted from project implementation to a policy formation function within the framework of decentralization. Supervised organizations refer to organizations funded or subscribed by the government of Metropolitan Tokyo and to which it provides guidance.

Figure 15.2 Division of Responsibilities between National and Local Government



They correspond to what government-affiliated corporations are to the state. Reforms in the area of these organizations include consolidation, streamlining of activities, review of management evaluation systems, and so on. Personnel management and salary systems are being reviewed in many ways throughout Japan, all of which aim to transform the system based on seniority to one that further promotes ability and performance.

Public Involvement

Public involvement is provided for by such laws as the Local Autonomy Law. However, the government of Metropolitan Tokyo has taken additional steps to promote public involvement. There are three basic policies:

sharing information with citizens, opening up the administration of Tokyo, and reflecting citizens' opinions in public policies.

Sharing information with citizens entails the enhancement of proposal-type public information provision. The government of Metropolitan Tokyo is pursuing a system in which it provides citizens with intermediate proposals concerning plans, white papers, and so on; the government then receives various opinions from citizens. The proposed system is broader in scope than the public comment system that has been implemented by the national government since 1999. Information sharing also requires a system for information provision, which is being addressed by the creation of a website for each of the bureaus of the government of Metropolitan Tokyo.

The government of Metropolitan Tokyo has adopted an information disclosure system and external audit system. And in order to reflect citizens' opinions in public policies, the government has introduced systems to open its councils, publicly solicit members for conferences and commissions, and effect comprehensive assessments. The comprehensive assessment system is a type of environmental impact assessment in which multiple plan proposals are formed at the initial stage of planning and are then presented to citizens. The final plan reflects citizens' opinions. This system was started in July 2002.

The government of Metropolitan Tokyo is utilizing public hearings to include the opinions of citizens in public policies. Discussions with the governor are held two or three times a year, public opinion polls are taken several times a year, there is a system for annually receiving opinions on the government from 500 citizens who serve as monitors, and citizens can present proposals directly to the governor through the Internet.

Administrative Process

The administrative process has two main pillars: promotion of information technology and enforcement of cost management. For the promotion of information technology, the state implements what it calls an electronic government. The government of Metropolitan Tokyo also aims to create an electronic metropolitan government that can provide various administrative services by utilizing the Internet. In line with this goal, it intends to review its administrative processes.

In order to carry out more effective measures with as little expense as possible in response to the severe financial situation, the government of Metropolitan Tokyo is working to realize its plan for fiscal reconstruction as part of its cost management enforcement. It is also reviewing budget making and public relations. The administration has employed government accounting, but is implementing the type of balance sheet and statement of profit and loss system used by private companies to enforce cost management.

Bureaucracy

The decisionmaking process in the government of Metropolitan Tokyo involves various tiers within the enormous organization. Therefore, the responsibility of each and every staff member is bound to be unclear. The government is working with its personnel to improve administrative services. Especially because it has a background of direct administration in the special ward areas, the government values ideas from the field under the philosophy of being where it counts. It is making an effort to provide services with an awareness of speed and low cost. The government of Metropolitan Tokyo is determined to apply itself with a constant sense of crisis, alertly perceiving various changes in the social and economic environment. Lastly, it aims to rise to the challenges by addressing the issue of reform of the bureaucracy with a view to cultivating the spirit of service and sharp management sense and transforming the government of Metropolitan Tokyo.

Appendix 15.1 Tokyo Metropolis and Tokyo Megalopolis

