Decentralization, Local Government and Democratic
Political and Economic Development in Latin America:
An Overview and Assessment

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Abstract

Historically, Latin America has been characterized by highly centralized governmental structures and oft times dictatorial executive and military leadership. Over the course of the past four decades, significant efforts have been underway to encourage decentralization through the strengthening of the hemisphere’s local governments. Those efforts and the various rationale made for them are reviewed and assessed here. Particular attention is given to the relationship between decentralization and democratic institution building, and local government and economic development. The article concludes with five suggestions regarding ways to continue the process of decentralization and the strengthening of local governments in Latin America.

In many parts of the world, including much of Latin America, the past four decades, despite occasional setbacks, have been characterized by significant efforts to build more democratic societies. At the heart of many such undertakings have been initiatives that sought to encourage simultaneously both governmental decentralization and the strengthening of local government. In part, these efforts have been the result of local demands for more responsive, participatory and accountable governance. They also have been very strongly encouraged and supported by various international organizations and national aid agencies as a means to improve the quality of public service delivery. In more recent years, these efforts also have been guided by a growing recognition that strong local governments have the capacity to play important roles in local, regional and national economic development.1

From its inception, the decentralization movement, in Latin America, as elsewhere, has also been fueled both by a general disillusionment with highly centralized governments and economic systems and a belief that decentralization would facilitate the dispersion of political, governmental and economic power that, often in the past, had been overly concentrated in frequently authoritarian and dictatorial regimes. The collapse of the Soviet

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Union gave additional impetus to such beliefs. However, even prior to the fall of the Soviet Union, decentralization initiatives were slowly beginning to help reshape Latin America.

During the 1960s and 1970s, many Latin American countries had come to be governed by highly authoritarian and, frequently, very centralized dictatorships – both military and civilian. In the late 1970s and 80s, many of these dictatorships – several of which were characterized by much brutality and violence - began to collapse of their own economic inefficiency, political incompetence and the societal resentment engendered by their abuse of human rights. The disintegration of these authoritarian regimes reinforced the emerging opposition to Latin America’s traditionally highly centralized, often dictatorial governments.

As was the case in other parts of the world, it was anticipated that the dispersing of governmental and political power would provide opportunities for the emergence of more pluralist political systems and more active civil societies. While these efforts may not have met all expectations, in some basic ways, they have been very successful. For example, forty years ago, only three countries in Latin America elected local officials. Today, all of them do, although in the case of Cuba, candidates are drawn from a list that is predetermined by the Communist Party. Similarly, during this same period, many countries established and/or strengthened regional governments increasingly being led by elected officials. For many generations, in most of Latin America, regional governance arrangements had been led by tightly controlled, presidentially appointed officials.

Nevertheless, the overall impact and consequences of government decentralization in Latin America remains a matter of considerable controversy and, in certain ways, has become a bit of an enigma. Even after three decades of decentralization initiatives throughout Latin America, as well as numerous legislative and judicial reform initiatives, there still remains a general tendency towards the preeminence of the national executive branch and relatively centralized politics. Moreover, various recent assessments have questioned both the competence and the integrity of local officials, as well as the effectiveness of municipal service delivery. Other commentators have suggested that newly empowered local governments often undermine national fiscal stability and governmental unity.²

Given the emerging controversy as regards the region’s considerable decentralization efforts, it is surprising that there have been almost no efforts to provide a broader overview or a general synthesis as regards these initiatives. Similarly, for the most part, there have only been case specific assessments of what have been the most important factors either facilitating or hindering decentralization efforts in the hemisphere.³ In this


article, we shall seek to review and assess the current state of the decentralization movement in Latin America (both in terms of achievements and limits); look again at the rationale for decentralization; and assess what have been found to be the key elements either inhibiting or contributing to successful decentralization.

The State of Decentralization and Local Government in Latin America

Latin America is a very diverse region of over 570 million inhabitants. It is highly urbanized (77.8% of its population lives in cities), and with great social and economic inequalities. One indicator of the region’s diversity is seen in the variation in number of municipalities found within its different countries. Brazil has over 5,000 municipalities and Uruguay only 19. Colombia, Peru, and Argentina have over 1,000 municipalities each; while Ecuador, Paraguay, El Salvador, and Honduras each have around 200 municipalities. Municipal populations vary greatly within and among countries as nearly 90% of Latin America’s municipalities have less than 50,000 inhabitants. However, Sao Paolo has an estimated population of about 20 million and greater Mexico City, at least the same and perhaps as much as 25 million.

Similarly, Latin American countries do vary on the extent and depth of their decentralization efforts, but over the last 30 years almost all countries in the region have initiated and/or sought to deepen political, administrative, and fiscal decentralization. In some instances, particularly in the case of Venezuela, and to a lesser degree some neighboring countries, varying degrees of recentralization recently has taken place. There are only four federal countries in the region: Argentina, Brazil, Mexico, and Venezuela; but, frequently, each of them have been governed by very centralized, highly controlling political and governmental regimes. All other Latin American countries are organized as unitary systems with varying structures of very limited, and, traditionally, highly dependent, regional and local governance.

Because of the return to democracy in many Latin American countries in the 1980s, much attention has been given to reforms seeking to disperse political power. Thus, many reform initiatives have begun with political decentralization and involved initiating the election of local officials. In some cases, varying degrees of administrative and fiscal decentralization have followed, but in almost all such instances, necessary institutional and

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4 In their early work on the decentralization movement, Cheema and Rondinelli asserted that there were three types of decentralization: political, which involved the electing of local officials; fiscal, involving decision making on revenue raising and spending issues; and administrative, which involved managing the delivery of service. More recently, Falleti has attempted to build on the work of Cheema and Rondinelli by suggesting that the sequencing of these three decentralization activities will determine their success. See Cheema, GS and Rondinelli DA (1984) Decentralization and Development: Policy Implementation in Developing Countries. Beverly Hills: Sage.

5 The government of the late President Hugo Chavez, and the current administration of President Nicolas Maduro, have through various laws and decrees severely curtailed the political, administrative, and fiscal autonomy of regional and local governments. In Colombia, where major decentralization took place in the 1980’s, significant recentralization took place in the post 2000 era.
legal framework reforms remain badly needed. Some South American countries -- Argentina, Brazil, Bolivia, Chile, Colombia, and Ecuador -- have sought to initiate more significant decentralization reforms by devolving important government services, and some fiscal resources, to their subnational governments, but, in most cases, not without many controversies and great difficulties.

Mexico initiated a “new federalism” which helped open up its national political system, but most subsequent administrative and fiscal reform has favored highly centralized, politically regimented state governments rather than its local governments. Peru, in the 1990s, under former president Alberto Fujimori, slowed down the significant decentralization efforts initiated during the prior decade; but since 2000 has somewhat renewed these efforts. Central American and Caribbean countries have moved very slowly in the decentralization process with countries such as Guatemala and Nicaragua incrementally moving towards political decentralization through the election of mayors, and Honduras and El Salvador moving towards very limited fiscal decentralization as well. Costa Rica, arguably the region’s most stable democracy, introduced political decentralization with the direct election of mayors by popular vote in 2002, but has made no significant progress on decentralization since then. Panama, despite local elections, has made little progress in developing autonomous local governments.

In terms of administrative and/or public service decentralization, there has been a trend to decentralize the provision of certain services (in particular, health and education) to subnational levels of government. However, there has been great variation across the countries of the region in terms of the extent of these efforts. Usually, this has been characterized, as has been the case in countries as diverse as Chile, Mexico and Paraguay, by woefully inadequate financing, and the failure to adequately develop the needed legal frameworks for effective local service delivery. Usually local governments in Latin America are in charge of providing, either directly or through very limited regulation of private sector activity, minimum levels of such basic services as garbage collection, water and sewers, urban planning and zoning, parks and recreation, public markets, local transportation services, cultural activities and environmental protection. However, such a listing is misleading since many local governments actually provide very few of these services and, with the exception of a few large or mid-sized cities, those that do struggle to maintain even a very basic level of service provision.

Some countries, principally Bolivia, Brazil, Chile, and Colombia, have transferred to local and/or regional governments services such as primary health care, elementary and secondary education and some social programs. With the exception of Bolivia, and, to a lesser extent, Brazil, this generally has been motivated by a desire to lessen fiscal pressure.

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on national government budgets and little or no effort has been made to enable sub-national governments to adequately fund such activities. In Argentina and Mexico, the delivery of social programs, as well as health and education services, is shared between the three levels of government, but again with limited financial resources available at the local government level. In the case of Central America, many local governments have had difficulty in providing even such basic municipal services as parks and garbage collection.

For the most part, little attention to administrative implementation capacity has characterized the process of policy and service decentralization to regional and local governments in Latin America. Synchronization between assigning responsibilities, providing tax collection powers (or making available adequate fund transfers from central governments), and developing regional and local policy and program implementation capacity has been lacking in most countries. As many commentators have noted, fiscal decentralization in Latin America has had a very mixed evolution with great asymmetry between devolution of services requiring local expenditure and devolution of taxing responsibilities and revenue raising capacity.

The very mixed progress in the development of local government in many of the countries of Latin America is reflected in comparative subnational expenditure data. In the world’s most economically developed countries, typically between 40% and 60% of all governmental expenditures take place at the subnational level. As Table 1 indicates, between 1980 and 2009, the percentage of subnational governments’ expenditures as part of the total government expenditures throughout Latin America increased from 11% to about 19% in 2009, and to almost 30% in 2013 (though the latest figure needs to be taken cautiously into account as data from many countries was not available). However, given Latin America’s very long history of great centralization, and the difficulties many Latin American economies faced during this period, this is not an inconsequential change.

By 2009, some countries, like Colombia (unitary) and Bolivia (also unitary), did show significant increases in proportion of expenditures carried out sub nationally, from 26% to 33%, and from 15% to 27% of all government expenditures, respectively. After years of increased centralization under former President Fujimori, Peru increased its subnational expenditures from 9% to 34% of total government expenditures. Among federal countries, Brazil, which under President Lula da Silva vastly expanded locally based education and social welfare programs, showed the largest increase, from 32% to 55%, and Argentina and Mexico also showed important increases in terms of subnational expenditures as a percent of all government expenditures over the past three decades. However, in all three countries, this development has been the subject of much political controversy. In Brazil and Argentina, critics have characterized this as fiscally irresponsible efforts by populist leaders to reward and bolster their political base; in

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10 For many Latin American countries, the 1980’s were a period of major economic stagnation often referred to as the lost decade and the 1990’s represented only a modest economic revival. These circumstances make the change that did occur even more significant.
Mexico, it is sometimes characterized as efforts to purchase the loyalty of state based political machines. Increasingly centralized Venezuela experienced the smallest increase of the region’s four federal countries, from 2.4% to just 8%. Central American countries, with the exception of El Salvador, generally show a decline in subnational expenditures as a part of total governmental expenditure. This has at least in part been influenced by the greatly reduced prevalence of international donor funded decentralization projects.

In the years between 2009 and 2013, when the latest report from the United Cities and Local Governments (UCLG) Global Observatory on Local Finance was made available, Latin American countries have mixed numbers with declines in Argentina, Brazil, Ecuador, Guatemala, Chile, and the Dominican Republic; and increases in most notably Mexico, and to a lesser extent in Colombia, Peru, El Salvador, Paraguay, and Costa Rica.

Table I
Percentage of Expenditure of Subnational Governments as a Part of All Governmental Expenditure – 1980 - 2005-09 - 2013

<table>
<thead>
<tr>
<th>Country (Year)</th>
<th>1980</th>
<th>2005-09</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil (1980)</td>
<td>32.4</td>
<td>55.0</td>
<td>53.3</td>
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<tr>
<td>Brazil (2008)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Brazil (2013)</td>
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<td></td>
<td></td>
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<tr>
<td>Argentina (1980)</td>
<td>22.2</td>
<td>50.8</td>
<td>44.7</td>
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<tr>
<td>Argentina (2006)</td>
<td></td>
<td></td>
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<tr>
<td>Argentina (2013)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mexico (1980)</td>
<td>22.0</td>
<td>31.8</td>
<td>50.6</td>
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<tr>
<td>Mexico (2007)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Mexico (2013)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Venezuela (1979)</td>
<td>2.4</td>
<td>8.0</td>
<td>--</td>
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<tr>
<td>Venezuela (2007)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Colombia (1982)</td>
<td>26.3</td>
<td>33.0</td>
<td>35.0</td>
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<tr>
<td>Colombia (2006)</td>
<td></td>
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<td></td>
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<tr>
<td>Colombia (2013)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Ecuador (1980)</td>
<td>18.3</td>
<td>22.1</td>
<td>11.9</td>
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<td>Ecuador (2004)</td>
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<tr>
<td>Bolivia (1986)</td>
<td>14.8</td>
<td>27.0</td>
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<tr>
<td>Bolivia (2008)</td>
<td></td>
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<tr>
<td>Peru (1990)</td>
<td>9.1</td>
<td>34.0</td>
<td>41.9</td>
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<td>Peru (2007)</td>
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<td>Peru (2013)</td>
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<tr>
<td>Uruguay (1980)</td>
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<tr>
<td>Uruguay (2005)</td>
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<td></td>
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<tr>
<td>Uruguay (2013)</td>
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<tr>
<td>El Salvador (1978)</td>
<td>5.8</td>
<td>7.0</td>
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<td>El Salvador (2007)</td>
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<tr>
<td>Paraguay (1980)</td>
<td>5.5</td>
<td>6.5</td>
<td>8.6</td>
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<td>Paraguay (2007)</td>
<td></td>
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<td></td>
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<tr>
<td>Guatemala (1980)</td>
<td>4.5</td>
<td>4.4</td>
<td>3.7</td>
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<td>Guatemala (2009)</td>
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<tr>
<td>Guatemala (2013)</td>
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<tr>
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<td>3.7</td>
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<td>Costa Rica (2007)</td>
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<tr>
<td>Costa Rica (2013)</td>
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<td></td>
</tr>
<tr>
<td>Chile (1980)</td>
<td>3.7</td>
<td>14.0</td>
<td>13.1</td>
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<tr>
<td>Chile (2007)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dominican Rep. (1980)</td>
<td>3.5</td>
<td>5.3</td>
<td>3.4</td>
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<tr>
<td>Dominican Rep. (2013)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Panama (1980)</td>
<td>2.0</td>
<td>1.7</td>
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<tr>
<td>Panama (2005)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Latin America</td>
<td>11.6</td>
<td>18.9</td>
<td>29.8</td>
</tr>
</tbody>
</table>

A critically important element of fiscal decentralization is the degree of autonomy that subnational governments have in generating their own revenue. For the most part, Latin American countries still have very little. Only six countries (Argentina, Brazil, Ecuador, El Salvador, Uruguay and Venezuela) allow local governments to create new taxes. The most common tax that almost all countries in Latin America assign to local governments is the property tax, which is by far the largest source of locally raised revenue. However, the administrative capacity of local governments to assess property value, set tax rates and collect taxes is generally quite limited, varying very greatly by country, and, often for political reasons, by regions within a country. In most cases, local discretion in the area of taxation is tightly controlled by national finance ministries and, even if it were not, local capacity to manage revenue collection often is exceedingly rudimentary even in the more highly developed local governments. Other taxes and fees, again over which local government authorities generally have very little discretion in setting rates, include, among others, those for car registrations, drivers’ licenses, construction permits and public market stalls.

In almost all countries of the region, local governments are heavily dependent for an important part of their revenue upon various national transfer funds, especially for economic development, social, health and education related programs. Some Latin American countries do have a number of legally mandated transfers from national government to local governments, but the actual transfer of the funds can be very inconsistent, especially in countries such as Brazil, Argentina and Colombia. Indeed, in some of the region’s countries, for example, Paraguay, it is not unknown for finance ministries to simply ignore national legislation and not make any of the legally required fund transfers. In a few Latin American countries, there still are almost no legally mandated transfers and minimal tax authority. Thus, their impoverished local governments rely on mineral extraction royalties and whatever occasional grants and gifts they can obtain for needed funds.

Adding to the lack of revenue raising autonomy, many countries still have insufficient expenditure autonomy for their local governments. In seven countries, the regional or central governments continue have veto power over local government budgets.11 In many countries, In addition to a lack of local administrative capacity there is much fragmentation (very small local governments), as well as a lack of clear legal frameworks assigning expenditure responsibilities, much confusion over revenue sharing (unclear formulas leading to extended controversy over the conditionality of shared revenue) and an overreliance on central government transfers. In a few instances, local governments do have the authority to borrow funds. However, for the most part, their limited capacity to raise their own revenue makes this competency either meaningless or very risky to exercise.

Nevertheless, because Latin American subnational governments have come to rely heavily on intergovernmental transfers from the central government, even in those few instances where allowed, revenue increases from their own tax resources have tended to remain stagnant.12 This overreliance on fund transfers is at the heart of many difficulties

11 Bolivia, Costa Rica, México, Nicaragua, Panamá, Paraguay, and Uruguay
faced by the region’s subnational governments. It makes them vulnerable to severe budget cuts due to national macroeconomic fiscal and economic imbalances (the 2008 economic crisis, for example, saw significant cuts in central government transfers in many countries of the region); an endless array of national, regional and local political machinations; and conditionality imposed by both central governments and/or international donors. As noted by Rezende and Veloso the intergovernmental transfer system in most of Latin America is characterized by a lack of clear principles and objectives, a multiplicity of transfer sources, multiple conditionalities and criteria applied with neither clear nor stable rules and the absence of a system of periodic revision of the transfer regime. This overreliance on transfers also creates a disincentive for subnational governments to improve their own revenue collection capacity, thus even further reducing their institutional autonomy vis-à-vis the central government and, in some cases, giving rise to a culture of dependence, as well political irresponsibility.13

The Case for Decentralization and Local Government in Latin America

After 30 to 40 years of implementing political, fiscal, and administrative decentralization in Latin America, it is evident that while there are some relative significant achievements, many difficulties and challenges remain. Indeed, in some Latin American countries, there is a growing sense that decentralization was a mistake or, at best, that it no longer needs to be a priority. Some observers have suggested that Latin America’s historic traditions of presidentialism and centralization are too strong to overcome.14 Indeed, Daniel Cravacuore, a highly respected Argentinian analyst of decentralization throughout Latin America, has argued recently that without a stronger defense by local and regional governments of the autonomy and prerogatives which they have gained, and a more comprehensive agenda for further decentralization, the relationship between central and subnational government will revert to the pre-1990s situation with even stronger dominance by central governments.15

Nevertheless, for many, the effort to encourage decentralization, and strengthen local government, in Latin America remains an important one for several reasons – some oft cited and others sometimes overlooked. Certainly, there continues to be the desire and need for the increased opportunities for greater citizen participation and civil society engagement which decentralization offers. However, other factors are important as well. In recent years, improving public service delivery has been an important driving force for

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the decentralization movement. Recent attention has been directed at the possible role of decentralization in reducing the persistent poverty, as well as the very significant inequality, that exists in most Latin American countries. Underlying this is the belief that strong local governments are critical to the promotion of local economic development. Finally, while less discussed recently, the reality which initially drove many to encourage decentralization and greater local governance capacity – the need to break up and disperse the highly concentrated political power that has historically characterized most Latin American countries – is, for numerous countries in the region, almost as relevant today as it was three decades ago.

In terms of the promotion of greater citizen participation, as well as greater accountability, there have been successes as various new institutional arrangements have been initiated in many Latin American countries. Perhaps the most well-known involves the development of participatory budgeting begun in Porto Alegre, Brazil, and widely copied throughout both Latin America and the world. Other initiatives have focused upon greater public involvement in strategic planning activities, the establishment of local open records laws and the increasing of general public access to local government budgets. Throughout Latin America, local governments have experimented with many other reforms focusing on encouraging greater inclusiveness, especially in the area of gender and indigenous populations.16

A frequently cited rationale driving the decentralization movement in recent years has been the improving of public service delivery. How much has decentralization, and the emergence of local government, actually improved public service delivery? Here the results do appear to be more mixed. Drawing upon research that goes beyond Latin America, an argument can be made for a very positive impact. Other research suggests the contrary. However, the Latin American reality is one of much political decentralization (elections of mayors and local council people and some notable successes in establishing and mobilizing civil society); but without the development of adequate local financial resource capacity to enable effective service delivery. In contrast, in those instances where local governments have improved service delivery, they almost always have had considerable autonomy to levy and raise taxes, issue bonds for capital construction, impose fees for services and the like.17

During the past decade, ending poverty and reducing inequality has become a growing concern of many decentralization efforts, especially those supported by the international development banks. The results appear in part to have been successful. Certainly, some countries like Bolivia, Brazil and Colombia (and most notably China and Poland outside of the region), successfully connected their governmental decentralization initiatives with complementary efforts to reduce poverty and improve the basic wellbeing

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of their citizens. Other countries, like Chile, have linked decentralization with efforts aimed at improving the quality of education and healthcare with somewhat mixed results. However, while such initiatives, as in the cases of Brazil and Chile, have contributed to significant reductions in poverty, they have not reduced income or wealth inequality. In fact, often, as in the cases of Brazil and Chile, locally run programs have produced significant reductions in poverty but inequality has risen.18

Research on the relationship between decentralization and local economic development also has produced mixed results. Some analysts, using large data sets, conclude that decentralization has a very positive impact upon both local and national economic development.19 Other researchers, using similar data, conclude the opposite. Nevertheless, it does appear that, over the long run, local economic development will likely be one of the most important benefits of decentralization. The previously noted close relationship between degree of subnational spending and a region’s economic development is highly suggestive in this regard.

For the world’s wealthiest regions, the U.S., Canada, Western Europe and Japan, the percentage of all public expenditures and all public employment occurring at the subnational level ranges from forty to sixty percent. In the East Asian countries, with generally the world’s next highest levels of economic development (China, South Korea, Malaysia, etc.), thirty to forty percent of all government employees and expenditures are found at the subnational level. In contrast, in the world’s economically poorest region, Africa only ten percent of all government expenditure and personnel are found at the subnational level. The average for Latin American countries, as noted earlier, is about twenty percent of all government expenditures and public employees occurring at the sub-national level.

Ultimately, the reason for this relationship is not hard to understand. National economic growth inevitably requires, and is built upon, local economic development. Local economic development, in turn, requires local capacity to support and sustain it. Consequently, an important prerequisite to an effective private sector is an effective public sector. Most often, the local public sector is best able to provide the infrastructure, and the resources needed to support local, and thus national, economic development. These infrastructure requirements include adequate transportation facilities, dependable water and electricity, a competently trained workforce and a supportive locally defined legal framework (including everything from effective building and zoning requirements to reasonable local business regulatory policy). In almost all cases, these are most effectively

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18 The same has been true in China where the emergence of decentralized government (if not political power and control) over the past three or four decades has helped produce quite extraordinary economic development for the country which, in turn, has helped to lift hundreds of millions of people out of poverty. However, it has also produced an increasing degree of inequality as large city urban populations have become wealthy and the income and wealth gap between them and rural and smaller city populations has increased.

shaped and managed at the local level and require significant local capacity in terms of policymaking authority, trained personnel, and adequate fiscal resources.

In fact, a strong case can be made that the most important reason for continued decentralization efforts in Latin America still remains the original motivating factor – the need to disperse political power and, in so doing, create a more fertile environment for democratic development. Despite the focus by international agencies on encouraging decentralization in Latin America to improve public service delivery, the need to build and sustain democratic institutions there is just as relevant today as it was fifty years ago, or two and three centuries ago when political philosophers first wrote about the democratic virtues of decentralized government. As is true in other regions of the world, political decentralization efforts in Latin America have had both a horizontal and a vertical focus. The horizontal dimension has been reflected in highly successful efforts to strengthen the capacity and enhance the independence of judicial and legislative bodies.

The vertical dimension, the principal foci of most of the decentralization efforts of the past two decades, has involved strengthening regional and local governments. These efforts have brought about some significant political achievements. In several countries, citizen driven local election victories have served as the vehicles through which emerging opposition political parties have organized themselves and begun to seriously compete for national leadership. This has helped to strengthen democracy in countries where it has often been very fragile and/or badly broken such as Argentina, Brazil, Colombia, Guatemala, Mexico and Paraguay, among others. Similarly, the decentralization movement has provided opportunities for new locally based civil society organizations to strengthen democratic development within various countries. The end of the brutal Pinochet dictatorship in Chile was very significantly hastened by both US National Endowment for Democracy and the US Agency for International Development local governance initiatives which helped Chilean civil society organizations like Participa to develop a strong and viable opposition forces to the Country’s authoritarian military regime.

Nowhere has the impact of decentralization efforts been greater than in Bolivia where political decentralization was also accompanied by significant revenue and administrative decentralization. Together these developments dramatically transformed the country. For hundreds of years, Bolivia, with an overwhelming majority indigenous population, had been dominated politically and governmentally by a small European descendant elite. Through their wealth, hereditary influence and exclusionary policies, this elite monopolized both the nation’s political and economic power, often denying indigenous communities fundamental human and political rights.

In 1994, Bolivia, led by a relatively conservative national government, which, however, was strongly influenced by young, progressive technocrats, enacted its Popular Participation Law. The law did three important things: first, it established local

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governments in areas where none had existed. Second, and especially important, it provided substantial financial resources to them. Under the new law, twenty percent of the national budget was to be turned over to local governments for their use. Third, and perhaps most significant, it created strong institutional mechanisms which ensured the participation of the Country’s indigenous population in the newly established local governments and gave them what amounted to veto authority over local budgets. Thus, this legislation played a major role in both strengthening local government and integrating indigenous people into local political processes and, in so doing, provided the institutional foundation for the significant democratic political and economic transformation which, despite some occasional irresponsible political rhetoric, has, nevertheless, taken place in Bolivia.

Five Recommendations for Building Effective Local Government

The several decades of efforts to strengthen decentralization and build democratic local governance in Latin America, has produced a growing body of experience, as well as evidence based insight, regarding how this is best done. Five of its most important lessons would include:

1. The Capacity to Raise Local Revenue is Critical
Not just in Latin America, but in most transitional and developing countries, regional and local governments possess very limited revenue raising capacity – frequently making them highly dependent upon unpredictable and inadequate central government subventions. This is further complicated by the recent tendency for national governments to off load to their regional and/or local governments unfunded, but critical, public services. Fiscal dependence inevitably limits the capacity of local governments to provide the services citizens require, as well as to play their full role in the process of democratic institution building. Experience in several Latin American countries has shown that the capacity to raise revenue, whether through imposing taxes and fees, or responsibly incurring reasonable debt, is essential to building strong local governments. Moreover, the realities and demands involved in raising revenue forces local public officials to act with greater responsibility.

2. National Government Support for Decentralizations must be Reinvigorated
This past decade has witnessed a very clear decline in national government commitment to strengthening local government in many parts of Latin America. This is of great consequence since national governments - through their enabling legislation and fiscal policies – profoundly shape the capacity of local governments. There are numerous reasons why national government officials, either voluntarily or rather less than voluntarily, devolve power to local officials including responding to local political mobilization and/or international donor pressure, efforts to obtain short or long-term political gain and even, upon occasion, commitment to progressive reform. The progress that has occurred over the past three or four decades provides, in some cases, a solid political foundation from which local leaders can mobilize efforts to influence national political leaders. In many Latin American countries, increasingly powerful local mayors, and potentially ever-stronger national municipal associations, now occupy political space that simply did not exist three
decades ago. In addition, newly mobilized grass roots activists and international organizations can also contribute to such efforts.

3. Effective Local Government Requires Widespread Citizen Empowerment
As many have argued, one obvious virtue of local government is its proximity to those being governed. However, too often, only part, sometimes a relatively small minority, of the people within a community are effectively involved in their emerging local governments. More often than not, those left out are Latin America’s poorest citizens. This undermines the effectiveness of local government -- both as a democratic institution and as a generator of needed economic development. Consequently, efforts to build and strengthen local government must focus upon the empowerment of all citizens – especially the poor and the marginalized. Once again, the situation is different than it was three decades ago. The combination of, in some cases, committed leadership, and, in others, the efforts of international donor agencies, as well as local self-interest, has begun to create both active civil society and stronger local government institutions that are helping to slowly, and occasionally dramatically, broaden involvement in local political processes.

4. Accountability is Central to Effective Local Government
Especially at the local level, confidence in government is related to its responsiveness to the needs of its citizens and its openness to participation and involvement by them. For citizens to participate effectively in government, they must be able both to understand it and have confidence in it. This requires both easy access to government and the ready availability of adequate information about it. Traditionally, governments at all levels in Latin America have been less than responsive in this regard. In recent years, however, as part of decentralization reform efforts, access to information about fiscal and policy matters has become much more available. This increased openness and information availability is also, at least in some countries of the region, helping to address the corruption issues that have historically plagued many of Latin America’s governments.

5. Reform Processes Require Much Time and Are Complex and Fragile
Government centralization has a very long history in Latin America and processes of change will inevitably continue to be complex and difficult. Frequently, change will require extensive negotiating not just with national government officials, but with many other well established interests -- including important private sector and non-governmental organizations – that have strong needs and/or desires to maintain existing conditions. Such groups often vigorously resist efforts to bring about reform. In many Latin America counties, the problem of institutionalizing reform is made more complex because institutions of government at all levels may not be strong enough to implement significant reforms even when there is the desire to do so. In some instances, when reforms are implemented, the pressure to revert back to past arrangements is very strong. Institutional reform is further complicated by the fact that many of the organizations -- internal and external -- which support and encourage such efforts approach these matters with a very short-term perspective. Key advocates for, and supporters of reform, especially international organizations and donors, frequently leave the scene of such efforts much too soon – thus, giving those who wish to limit or block reform the opportunity to do so with very little resistance.
Conclusion

Political theorists, as well as analysts of public policy, have long suggested that there is an important relationship between strong local governments, effective citizen participation and democratic societies. More recently, economists, and others concerned with both the effective delivery of public services and local economic development, have pointed to the critical role that can be played by local governments. Driven by such beliefs, efforts to bring about greater decentralization, and strengthen local government, have been underway in Latin America for nearly four decades. No doubt, these efforts will need to continue for additional decades.

While very real concerns regarding the immediate future of the decentralization movement in Latin America are heard with increasing frequency of late, there also have been very notable achievements. These include the establishment in many countries of regional and local governments whose leaders are chosen by popular vote. The increasing importance of local governments can further be seen in the growing number of subnational political leaders who have become national leaders who are effectively challenging previously closed political systems in the region. Also, the developing legal framework for decentralization has facilitated important political reforms which has led to very significant and sometimes dramatic, increases in citizen participation and engagement in many countries of the region.

Slowly, often very slowly, Latin America’s subnational governments have increased their share of their countries’ total governmental expenditures and revenues and have begun to acquire increasing decision-making authority as to how those funds can be spent. At the same time, the transfer to subnational governments, in numerous countries, of greater policymaking authority has begun to contribute to increased institutional capacity at the local level. Growing local citizen participation has contributed to innovations in public policy, as well as, in some cases the inclusion of previously excluded social groups in political and policymaking processes. Of particular importance, subnational levels of government have begun to take a more proactive role in local economic development activity. While there will undoubtedly continue to be both successes and disappointments, the lessons of recent history do suggest that, with sustained effort and commitment, decentralization will likely continue and lead slowly to greater local governance capacity which will benefit the people of Latin America.
References


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* The article that follows obviously draws upon a review of relevant research in the field. However, it draws at least as much upon the co-authors personal experience in building local democracy throughout Latin America. Over the course of the past 24 years, the co-authors have directed, co-directed, evaluated or provided technical assistance to democratic institution building projects sponsored by international organizations, local and regional governments and their associations and/or national government agencies in almost all countries of Latin America. Between them, they have traveled to Latin America on well over 200 occasions during this period to meet and/or work with many of the region’s national and local leaders who are responsible for the reforms reviewed and assessed in this article.

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