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# Decentralization in Latin America After 40 Years: Work in Progress; A Commentary Essay

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## Introduction

In the mid-1990s I wrote the first English-language book on local government in Latin America (Nickson, 1995). At that time there were also very few works on the subject in Spanish or Portuguese. The tardy appearance of works on such a topic reflected the long history of centralization and the long-standing neglect of academic investigation of sub-national governance in the region. The information available was so limited that in the case of some countries (notably Argentina) it was even difficult to obtain an accurate figure on something as basic as the number of municipalities. The book covered the history of local government since the late colonial period, its legal status, its structure, local service provision, local finance, electoral system, administrative organization, citizen participation, and inter-municipal relations. It also provided descriptive profiles of municipal government in 18 countries in the region. Since then there has been an explosion of publications on local governance in the region, highlighting the transformation that has taken place in the wake of a major decentralization process than had begun a decade earlier. Several studies agree that a significant leap has been made in the level of decentralization in Latin America (Bossuyt, 2013; Carrera, 2013). This period of time is sufficient to assess the impact of this transformation.

The decentralization process in the region started in the early 1980s, a decade known in Latin America as the decade of democratization. The clearest expression of this was a demilitarization process: the rapid decline in the role of the armed forces in political decision-making throughout the sub-continent. From the southern nations of the Southern Cone to the Central American republics, authoritarian military regimes gradually ceded power to new freely elected civilian governments. However, as observed in many countries, the formal transfer of political power from military to

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civilian rule did not, in itself, ensure any “democratic change” in terms of income distribution in favor of the largely low-income population. Since the municipality is the tier of government closest to citizens, it was increasingly considered as a most appropriate mechanism to channel the demands for greater equity and inclusion. In short, demilitarization and municipalization were two parallel and interrelated trends that together represented a major political shift toward democratization in Latin America.

The decentralization process - the gradual expansion of the role of local government in the political system in its entirety – took place in the region characterized by the highest level of income inequality in the world and by what Véliz (1980) called a deep-rooted “tradition of centralism”.<sup>1</sup> It assumed such historical importance that it has been called “a silent revolution” (Campbell, 2003). Driven by a variety of influences that varied according to the national context, there is no doubt that it can be identified as a truly regional trend (Nickson, 1995:15). With the implementation of the process in recent years in ‘latecomer’ countries such as Costa Rica, Panama, Paraguay, Dominican Republic and Uruguay, today every Latin American country has been touched by the process.

This article presents an overview of the decentralization process over the last 40 years. First, the history of centralism in the region is briefly traced, highlighting the weakening of local government and its descent into a state of virtual neglect by the end of the 1960s. Subsequently, the complexity of ‘political economy’ factors that detonated the process in the 1980s is examined with an outline of the changes in the profile of local government in the region. Some positive features of the process are discussed followed by a range of outstanding challenges. Finally, the contribution of political economy analysis to an assessment of the process is presented with some positive conclusions about decentralization in the region.

## The Legacy of Centralism

The history of local government in Latin America has frequently been romanticized. Contemporary authors often attribute faculties and characteristics that they never had. Yet this highly exaggerated image has served a positive purpose in popularizing support for decentralization. A crucial element in this process has been the role of the *cabildo* during the colonial period. Although it is generally painted as representing a golden age of democracy, the reality was very different.

The *cabildo* appeared immediately after the conquest, when the Spanish Crown had not yet been able to impose its extraordinarily centralized system of imperial administration, the Council of the Indies. During this brief span, the new colonial possessions were effectively regulated through self-governing groups of conquerors. But this situation soon changed with the appointment of royal governors, and their representative at the local level, the *corregidor*. Henceforth, any law that the *cabildo*

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<sup>1</sup> Decentralization has three distinct forms: policies that shift decision-making to sub-national offices of central government ministries (deconcentration); policies that delegate decision-making to autonomous public entities and the private sector (delegation); and policies that transfer decision-making to local governments (devolution) (Rondinelli, 1981). In this chapter, decentralization is understood to mean the devolution of political autonomy to local governments.

wanted to be promulgated required the ratification of the Crown and this led to its decline throughout the remainder of the colonial period. The introduction in 1591 of the public auction of municipal offices facilitated corruption and the formation of oligarchic *cabildos*, whose members belonged exclusively to the elite of mainland Spaniards - two legacies that have remained in local government to some extent to the present day.

The *cabildo* failed miserably as a breeding ground for democratic values in Latin American society during the colonial era. However, at the end of the colonial period, it briefly regained its importance as a channel for the expression of a growing local demand for independence from Spain. The generally positive and democratic image of the *cabildo* today stems largely from an overemphasis on its role during this last phase of its existence. In Caracas, Santiago, Buenos Aires, Mexico City, and Bogotá, *cabildos* elected revolutionary juntas in 1810. The *cabildo abierto*, introduced to rally wider support for the independence movement, has acquired important symbolic relevance today. It is used by municipal authorities throughout the subcontinent as a mechanism to promote local governance – with citizen participation and accountability to the citizens by the mayor and councilors.

Once the euphoria of independence had dissipated, local governments were suffocated under the control of nascent nation-states, whose leaders invariably replicated the centralist and elitist tradition of their colonial forebears. In some cases – Argentina (1820–1853), Bolivia (1843–1861), Chile (1830–1861), Mexico (1837–1857) and Paraguay (1824–1882) – local government was completely suppressed. The centralist tendency was so strong that the capitals of most of the new Latin American nations were governed directly by the president of the republic, a situation that lasted until the 1990s in the case of Mexico City and Buenos Aires.

Since the end of the 19th century, the relative success of this process of national consolidation and the growing dominance of the United States led to the introduction of Anglo-Saxon liberal philosophy in the region. The classic work on the American political system, *Democracy in America*, written by Alexis de Tocqueville, appeared in a Spanish translation in Buenos Aires in 1864. His vindication of the importance of strong local government resonated in intellectual circles. This new influence was reflected in the promulgation in many countries of idealistic constitutions based on the North American model. Formal autonomy and extensive powers were granted to the local government, directly in the constitution itself or through municipal codes. The federal nation of Argentina was the clearest example of this influence. Here the constitutions of several provinces even granted their respective municipalities the power to dictate their own laws.

However, with some notable exceptions, the long tradition of centralism meant that local governments lacked the financial resources necessary to carry out the wide variety of functions formally assigned to them. The constant abrogation of municipal elections by central government restricted their political autonomy while nepotism and clientelism greatly reduced their administrative capacity. A huge chasm began to open up between the rhetoric of political autonomy and the weak financial reality of local government in Latin America. The cynical verbiage of speeches that exalted the importance of the municipality and its predecessor, the *cabildo*, concealed a munici-

pal reality of incompetence, immorality, and impotence, personified by the *caudillos*, local ‘bosses’ in league with powerful national politicians.

The introduction of state-led import-substituting industrialization strategies, as well as the related and rapid process of urbanization beginning in the 1940s, revealed the dysfunctional nature of a system of local government unable to respond to the needs of this rapid migratory flow. Almost all Latin American governments reacted in the same way, not by strengthening local governments, but by creating new parastatal bodies that stripped municipal governments of their legal role as providers of basic services at the local level.

This way of “solving” the problem reflected the ideological attraction, originating from the postwar period, of central planning which fitted well with the corporatist philosophy of the political regimes in power at the time. It also reflected the influence of the US foreign aid program, USAID, whose technocratic administrators invariably preferred to channel their funds through these new parastatals that could “get things done quickly,” avoiding the cumbersome bureaucracy of decrepit municipal structures. As a result, in the 1950 and 1960 s there was a broad process of “de-municipalization” in the subcontinent, as responsibility for the provision of important services such as water supply, public transportation, low-income housing, primary health care and basic education was transferred to parastatal entities and central government ministries.

By the 1960s, local government was in crisis in much of Latin America. The municipality had been reduced to a historical anachronism, a relic of a bygone era, often with purely “testimonial” functions. A vicious cycle of lack of funding and skilled human resources prevented even the limited range of powers to which it had been reduced in municipal legislation from being carried out. A negative image of the municipal administration had been formed throughout the subcontinent, an image characterized by nepotism, corruption, inefficiency, lack of accountability to citizens, as well as meager coverage and poor quality of basic services.<sup>2</sup>

The prospects for reform were not very promising either. A 1968 study of municipal problems in the region concluded that:

*...the economic dependence shown by local government vis-à-vis national governments seems to be an undeniable fact that makes any tendency to increase the political and administrative autonomy of municipal governments seems utopian.* (Organization of American States, 1968:11).

The study warned that, when proposing possible solutions, “...it is necessary to adopt a realistic position that considers the municipal government not as an autonomous entity but as an autarkic one, with decentralization in the administrative and not political sense” (ibid., 21).

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<sup>2</sup> In several countries, such as Peru and Bolivia, “municipal official” had even become a term of abuse.

## The 'Political Economy' of the Decentralization Process

Two interrelated and mutually reinforcing factors – democratization and a foreign debt crisis – were primarily responsible for generating the political will for recovery of local government in the region. The harsh experience with military governments had forced intellectuals to re-evaluate the traditional Latin American conceptualization of democracy. On both the left and right of the political spectrum, this approach had tended to define democracy on the basis of external rather than national considerations. For leftists, liberation from US imperialism was the conceptual basis for 'full' democracy, while for rightists defeating the danger of 'Soviet communism' was assumed to be of paramount importance. However, and despite their ideological differences, in their conceptualization both sides of the political spectrum tacitly belittled the role of civil society, at the same time that they exalted the importance of a highly centralized State to "defend" democracy. Due to this centralist approach to democracy, both the left and the right were seduced by the possible contribution of the armed forces to the "defense of democracy" – because of their initial identification with the independence movement and the subsequent role that they granted themselves as guardians of the "national interest". As a result, by the 1970s a swathe of military regimes dominated the Latin American political system. In fact, the armed forces soon came to embody this centralist tradition at the same time that they proceeded, in the name of democracy, to trample on the most basic democratic rights of their own citizens.

In country after country, the democratic opposition to military rule went through a period of self-criticism. The result was the emergence of a political strategy that stressed that potential role of decentralization of the state as an effective way to break with the centralist tradition by destroying the political, social and economic mechanisms on which military power had been built. Since military rule had been facilitated by the weak power structures of civil society, inherited from the centralist tradition, building a strong and representative system of local government was seen as crucial to sustaining democracy in the future.

This reconceptualization of democracy was particularly noticeable on the moderate left of the ideological spectrum. The belief that "the state can do anything" through central planning and the use of directives over lower levels of government, despite being heavily influenced by the Soviet experience, had its own domestic roots in the region's centralist tradition. Although the gradual abandonment of this approach preceded the demise of Soviet communism, it was accelerated by events in Eastern Europe in the final years of the decade. Local governments were seen as laboratories of resistance to military rule and flourishing neighborhood organizations were lauded as contributors to the disappearance of the centralist tradition as much as contributors to local socio-economic development.

However, the growing demand for democratic local governance participation was not merely a protest against the military governments. It was also a manifestation of the underlying forces generated by urbanization and educational advancement that had been taking place since the 1960s. Between 1960 and 1987, 90% of the total population growth in Latin America took place in cities and over the same period levels of functional illiteracy fell dramatically in most countries. The political resur-

gence of previously marginalized or “excluded” social classes first manifested itself at the local level. Gradually, the municipality became a point of contrast and conflict between an increasingly strengthened civil society and a still exclusionary central state. Through the creation of non-governmental organizations, initially financed with funds from abroad, political activists from the moderate left tried to launch a strategy to “rebuild democracy from the bottom up”, offering support to the nascent community organizations.

The effect of the external debt crisis also contributed to the resurgence of local government. Ever since the Mexican debt default in August 1982, Latin American nations struggled to adjust to a lethal combination of rising real interest rates and sharp deterioration in their trade balances, producing notional debt service ratios that exceeded 100%. One after another, countries were forced to accept structural adjustment programs imposed by the International Monetary Fund (IMF) as the price paid in order for international banks to accept debt rescheduling and refinancing packages.

This “fiscal crisis of the state” had important consequences for the provision of basic services at the local level. The parastatal bodies that were created during the previous decades had invariably operated on the basis of international loans obtained through the intermediation, as guarantor, of a ministry or a state development bank. Notorious for defaulting on their payment obligations, these parastatals suffered a financial crisis in the 1980s, when central banks refused to guarantee larger foreign loans for fear of aggravating the debt burden.

Faced with the growing demand for basic services motivated, on the one hand, by the migratory flow to the cities and, on the other, by these macroeconomic factors, central governments responded by devolving responsibility for the provision of services from the parastatal entities to local governments. At the same time, the capacity of local governments to deliver these new responsibilities was strengthened through major reforms in their financing system. This took the form of an increase in the real level of fiscal transfers from central government and greater powers to generate own revenue. This latter reform reflected the recognition, by central governments, of the enormous untapped fiscal potential of Latin American local government. This had occurred because real income from the property tax (the most important municipal tax) had fallen to negligible levels during previous decades in most countries for three reasons: the inability to keep the municipal cadasters up to date due to rapid urban growth; the lack of adjustment of tax rates to the inflation rate; and extensive administrative corruption derived from the system of self-assessment.

These steps taken by central governments to strengthen the fiscal autonomy of local governments, in response to the debt crisis, were supported by the international financial institutions (IFIs). After two decades trying in which they bypassed local governments in their lending to the region, both the World Bank (WB) and the Inter-American Development Bank (IDB) suddenly rediscovered the virtues of decentralization. By the mid-1990s, both were financing municipal development projects in almost all the countries of the region. However, this dramatic turnaround by the IFIs was more a reflection of their support for the demands of IMF structural adjustment policies than a sudden Pauline conversion to the cause of decentralization.

As well as contributing to the resurgence of local government “from above” by influencing national policies, the debt crisis also contributed to its resurgence “from

below". The cut in public spending, in general, and in subsidies for basic food and public transportation, in particular, as a consequence of the structural adjustment programs, had its greatest impact in the poorest neighborhoods, located on the periphery of the large cities of Latin America. The dramatic growth in extreme poverty fostered the rise of neighborhood organizations. Many self-help groups were created to organize food banks. As the scope of these popular initiatives rapidly expanded, there was an urgent need for municipal organizations to coordinate and safeguard these new community programs.

In short, the push for political decentralization was the product of a powerful but fortuitous coalition of various actors in the 'political economy' scenario: neo-liberals who sought to end the fiscal deficit by transferring functions to sub-national levels of government; technocrats who sought to overcome the great inefficiency in the provision of basic services due to the high transaction costs that were the product of the need to obtain the approval of the ministerial headquarters before making the smallest decisions at the local level; and leftists who sought to close the yawning gap between the state and citizens through new participatory mechanisms that promoted local democracy. It is worth mentioning that, with the sole exception of the Bolivian case, the pressure from these groups was manifested 'from above'.

In the 1990s, two new factors would come to drive this ongoing decentralization process. First, the disastrous consequences of neglecting local governments during decades of rapid urbanization in the region's thriving metropolises were looming. Urban planning carried out by central government had become almost exclusively sectorial in nature, with little coordination among the many state agencies still charged with providing basic services. This was a major reason for the rapid deterioration in the quality of urban life, in the form of air pollution, traffic chaos, lack of green spaces and a severe housing shortage. In response a new concern arose to strengthen the only institution - local government - capable of providing urban planning that was comprehensive, accountable and democratic.

Second, the growing phenomenon of globalization in the 1990s highlighted the need for cities to improve their internal structures in order to strengthen their participation in the international economy. There was a growing awareness that poor physical infrastructure - roads, public transport, communications - and inadequate social infrastructure - health and education services, water and sewerage, and solid waste disposal - were jeopardizing the prospects for Latin American cities to become "growth centers" through greater economic interaction with the rest of the world. Again, this led to a renewed concern for local government as the ideally placed institution to stimulate and coordinate the efforts of countless public and private sector institutions in achieving sustainable local economic development.



## The Changing Profile of Local Government

The decentralization process has a major impact on local government in Latin America. In 1994 there were 13,951 municipal governments in the region, rising to 14,895 in 2003 and 16,261 in 2023.<sup>3</sup> Most of these municipalities have experienced a significant increase in the scale of their operations and in the nature of their relationship with both central government and their own citizens. In most countries this was the product of legislative reform. The most noticeable example occurred in Peru, where the Organic Municipal Law of 1984 was replaced by a set of municipal laws in force since 1892. New municipal codes were promulgated in Venezuela (1978), Bolivia (1985), Colombia (1986), Paraguay (1987) and Nicaragua (1988), while in Mexico (1983) and Guatemala (1986) profound reforms were introduced through amendments to articles in the national constitution. The resurgence of local government as a result of these legal reforms can be analyzed according to two fundamental aspects: political autonomy and fiscal autonomy.

### Political Autonomy

Starting in the 1980s, there has been a considerable increase in the political autonomy of local government. The long-standing centralist tradition under which the central government appointed mayors was replaced by the direct election of mayors. The most striking cases were Colombia (1988) when mayors were directly elected for the first time in a century, and Paraguay (1991) when they were elected for the first time in its history. Meanwhile, in Peru (1980), Bolivia (1985) and Chile (1992) municipal elections were held for the first time since 1968, 1950 and 1973 respectively. At the beginning of the 1980s, there was direct election of the municipal executive in only two Latin American countries (Ecuador and Venezuela). Today there is no Latin American country where citizens do not elect their highest municipal authority. The term of municipal government has been extended and today the mandate of the municipal executive and councilors varies between four and five years in all the countries of the region with the sole exception of Mexico where it remains at three years.

### Fiscal Autonomy

Starting in the 1980s, there has been a significant strengthening of local government finances. In the same way that gross domestic product (GDP) per capita is the most common indicator used to compare the level of income among citizens of different countries, so the share of local government expenditure (LGE) in total government expenditure (TGE) is most common indicator to compare the level of decentralization among different countries. The considerable rise in this LGE/TGE ratio in most countries is the most compelling evidence of the depth and breadth of decentral-

<sup>3</sup> Costa Rica (81) and El Salvador (262) are the only countries that have not experienced an increase in the number of municipalities. It is noteworthy that no Latin American country has reduced the number of municipalities.

ization in Latin America. With the notable exceptions of Costa Rica and Paraguay (where the share stagnated), participation typically rose from 6 to 10% in the early 1980s to around 15–20% at the end of the 20th century. The most striking cases were Colombia, where this share exceeded 25% and Brazil, where it jumped from 11% to around 20%. The unweighted average of intermediate and local government spending in total government spending in Latin American countries increased from 11.6% in the early 1980s to 17.8% towards the end of the 2000s, of which municipal spending alone was around 9.2% (Nickson, 2016). Today that average figure is almost certainly at least 12–13%.

In most countries, central governments placed greater emphasis in strengthening local government finances by increasing the flow of fiscal transfers than by granting greater powers to generate new sources of own revenue. As a result, the share of transfers in total municipal revenue grew. This phenomenon was especially noticeable in small municipalities. However, with the notable exception of Chile, these increased general transfers were often not earmarked to finance any specific expansion of local government sectorial responsibilities. Consequently, municipal discretion in the allocation of these financial resources increased significantly (Nickson, 1998).

## Positive Features of the Decentralization Process

Latin America is often considered a region of the world that is at the forefront of new forms of local governance. Multilateral agencies and international NGOs have disseminated information about various innovative mechanisms that first appeared in the region. This has given the impression, perhaps unwarranted, of a vibrant culture of local democracy throughout the region. Among them are the collective forms of municipal election and management that respect the indigenous cultures of the region, such as the five indigenous regions of the Caribbean coast of Panama and three approved indigenous municipalities in Bolivia. We now examine three aspects of the decentralization process that have attracted worldwide attention – participatory budgeting, local economic development and inter-municipal associativism.

### Participatory Budgeting

Mechanisms to encourage citizen participation in local governance have been a major feature of the decentralization process in Latin America. The strategy known as Local Democratic Governance, promoted in the region by the United Nations Development Program (UNDP) seeks to support representative democracy with new mechanisms for citizen participation in the formulation, implementation, monitoring and control of local public policies. New municipal laws in several countries include a wide range of mechanisms to promote this, including *cabildos abiertos* (Argentina), Vigilance Committees (Bolivia) and citizen participation councils (Mexico).

The mechanism that has aroused the most interest, both regionally and globally, is participatory budgeting (PB), which allows for citizen participation in the formulation, monitoring and control of a part of the municipal budget itself, through public consultation meetings to determine the felt needs and priorities of citizens.

PB originated in 1989 in the Municipality of Porto Alegre, capital city of the State of Rio Grande do Sul in Brazil, where there were serious deficiencies in the supply of drinking water, primary health care and basic education. Thanks to the participation of citizens in the prioritization of investment spending in their respective neighborhoods, instead of waiting for decisions to be made from above, there was a rapid and appreciable improvement in human development indices. In addition, PB opened up opportunities for participants to learn about how local governance works in their city by working alongside administrative professionals in the development of investment proposals, thereby strengthening the role of citizens in deciding legislative objectives of the municipality.

However, there is little evidence to suggest that the level of citizen participation in local governance is higher in Latin America than in other regions of the world. In this sense, it is instructive to review the actual experience of the first PB initiative in Porto Alegre. This had evident benefits in terms of the efficiency, equity, and effectiveness of municipal expenditure as well as challenging clientelism and the lack of transparency. Such was its impact that it was ‘copied’ in other Brazilian municipalities, in other Latin American countries, as well as in Europe, Africa and Asia. However, it would be wise not to exaggerate its impact. It never involved more than 20,000 citizens per year in neighborhood meetings in the 16 areas of the municipality and the reform was limited to influencing approximately half of the municipal investment plan. It consequently reached a maximum of around 7% of the total municipal budget (capital investment plus current spending). By 2015 only 482 Brazilian municipalities, 8.6% of the total, had introduced PB at some point. Even more striking is the lack of continuity in its place of origin, Porto Alegre, where the experiment fell into disuse following a change of government in 2004. In his study of this experience, Melgar (2014) highlighted the ‘two sides’ of the Brazilian local government system, characterized by a ‘strong mayor - weak council’, especially the strong discretionary control exercised by the mayor over the municipal budget. On the one hand, this allowed the rapid introduction of the PB mechanisms by the leftist Workers’ Party (PT) since 1989, but on the other hand, it facilitated its rapid dismantling starting after PT lost political control of the municipality in 2004.

### Local Economic Development

Globalization processes offer more and more possibilities to Latin American municipalities to move beyond their traditional role of providing basic local services in order to promote the so-called Local Economic Development (LED). The main mechanisms to put LED into practice include the creation of industrial parks to attract private investment, the creation of ‘incubator companies’ with local capital, and the promotion of various productive clusters in the municipal territory.<sup>4</sup> Another mechanism used to promote LED is the creation of Local Development Agencies, which seeks to bring together major social actors within the municipality (private sector,

<sup>4</sup> An early and emblematic example in the region that attracted much international attention was the Villa El Salvador Industrial Park (Pives) in Metropolitan Lima, today converted into a large industrial center and linked to the city center by the first urban electric train in the country.

universities, professional associations and civil society organizations), such as the Network of Local Development Agencies (RADEL) of Uruguay and the Local Economic Development Agencies of Colombia (ADELCO).

However, the vast majority of small municipalities in Latin America do not have the necessary financial resources required to construct an industrial park. Nor do they have a sufficiently strong private sector to make a Local Development Agency feasible. Even so, there is a wide range of smaller-scale activities that a municipality can carry out in the field of LED. Among them are incentives that give preference to local Small and Medium Enterprises (SMEs) in tendering for municipal contracts, such as the supply of school meals, the construction of school classrooms and neighborhood roads. There is also a growing involvement by Latin American municipalities in promoting “local tourism” in their jurisdiction.

The wide variety of innovative experiences and good practices presented at the Local Economic Development Forums held in Cochabamba, Bolivia (2017), Barranquilla, Colombia (2019) and Córdoba, Argentina (2021) reflect the rise of LED in the region. These events have emphasized LED’s focus on transforming territorial inequalities in Latin America and as a paradigm to locate the Sustainable Development Goals (SDGs) in a comprehensive and multidimensional framework. The case studies presented at these forums have highlighted issues such as the synergy between universities and their environment, the promotion of ‘decent work’, urban agriculture and financial education. It is worth noting the ‘virtuous circle’ of LED, which by creating more employment (especially for young people and women), also generates more municipal revenue.

### **Inter-municipal Associativism**

A third important initiative in the decentralization process in Latin America is inter-municipal associativism. A recent study (Cravacuore & Chacón, 2016) highlighted its growing scope in the region. The creation of inter-municipal associations is driven by several factors, among which are the generation of economies of scale and managerial innovation. In this sense, it represents an attempt to solve the structural problems created by the ‘fixed’ nature of the territorial jurisdiction of the municipality in Latin America, itself the product of the way in which municipal autonomy is conceived in the region, and the consequent impossibility of fusion/amalgamation of neighboring municipalities. Also noteworthy is the emergence of cross-border municipal associations. Undoubtedly, municipal associativism has played a key role in the empowerment of municipalities, helping to protect them from impositions by central government, product of the enduring centralist tradition. However, often promoted by NGOs and external actors, their long-term survival is at the mercy of the political will of mayors, thus reducing the probability of their sustainability over the medium and long term. In fact, the authors cited above warn us that “one of the dangers encountered in the development of this activity is that the municipalities replicate certain models and practices of political clientelism in the logic of associativism” (ibid: 13–14). Even though the authors highlight the diffusion of inter-municipal associativism throughout almost the entire region, they also acknowledge that “We did not obtain data on the impact of the associative experiences on the general popu-

lation, nor on the evaluation by citizens of such experiences” (ibid:393). This conclusion is shared by a very recent review of almost fifty articles on experiences of municipal associations in the region, which highlighted the lack of studies on the impact of these initiatives on local development.

## Outstanding Challenges of the Decentralization Process

Five challenges face the municipal authorities of Latin America in order to improve efficiency in service provision and contribute to the well-being of their citizens. First, there is the absence of a genuine municipal career system, which distinguishes it from many other countries with similar levels of per capita income. Municipal statutes contain the basic ingredients of a transparent career system, such as provision for competitive recruitment and a salary structure based on job classification. But these are often not put into practice due to the lasting legacy of *caudillismo*, producing a lack of job stability in managerial posts and the rotation of an excessive bureaucracy. The transfer of new competencies and financial resources to local government will not guarantee an increase in the efficiency and effectiveness of local service provision if these administrative practices are not improved.

Second, the highly personalized management style of the municipal mayor, known as *caudillismo*, is still a common feature of the organizational culture of local government. The over-concentration of decision-making at the highest level and limited delegation to departmental line management produces confusion in operational responsibilities. Decisions are based on “orders” from the mayor, generating a lack of initiative within line departments, which stymies their long-term planning. It also creates a serious problem of discontinuity in the formulation of policy-making between successive administrations, even when they belong to the same party. The potential benefits of a ‘team management’ leadership style on the effectiveness of local public service delivery are immense.

Third, although electoral reforms, such as the direct election of mayors, the lengthening of the term of office and the possibility of re-election, have strengthened representative democracy at the municipal level, several negative structural characteristics remain. The number of citizens per councilor in large cities is still extremely high by international standards and all are elected by a single electoral constituency in accordance with the d’Hondt system of proportional representation. This ‘democratic deficit’ of local political representation, together with the predominance of closed and blocked party lists, significantly decreases the accountability of local councilors to citizens. Many of these structural characteristics reflect the greater power of the mayor and the implicit acceptance of the limited role of the councilor in municipal affairs, which often derives primarily from his or her role as a ‘broker’ between the mayor and local lobby groups. Strengthening the ‘traditional’ mechanisms of representative democracy through profound reforms to the municipal electoral system remains a major challenge.

Fourth, a greater municipal tax effort could increase municipal capacity to invest in local physical and social infrastructure. Own revenue comprises only 30% of total municipal expenditure in the region, compared to 60% in OECD countries and 75%

in emerging Asian countries (Cibils & Ter-Minassian (2016) and its main source, property (real estate) tax represents an average only 0.37% of GDP, compared with 2.12% in OECD countries (Sepúlveda & Martínez - Vázquez, 2012).

The reasons are multiple: weak political will of central government, local government and parliament; transfer and distribution mechanisms that discourage local collection; and the weak capacity and staffing of property tax administrations. This translates into generous exemptions and low tax rates, outdated and infrequent property value assessments, incomplete registries and cadasters, and a lack of effort and means to drive better collection.

Finally, national municipal associations are still weak. In some countries, there are separate associations of mayors and councilors while in others, there are several associations, divided by party affiliation. This limits their ability to act as spokespersons for the concerns of local government as a whole vis-a-vis central government, as well to provide legal services, technical assistance and training to their own members, via workshops, seminars, and the exchange of 'good practice' experiences in municipal management. Furthermore, central governments still try to co-opt municipal associations with a view to neutralizing the decentralization process.

## Understanding the Decentralization Process Through the Lens of Political Economy Analysis

To what extent has the decentralization process been beneficial for Latin America? Or put in another way, what would the 'face' of Latin America have been like now if this historical process had not taken place? On the right of the political spectrum, many question its financial viability because fiscal transfers from central government have often exceeded the transfer of new responsibilities to local government, violating the good practice rule that 'finance should follow functions' under which the flow of new fiscal transfers must be commensurate with the growth of new responsibilities in the area of local service provision. When combined with the greater political autonomy now granted to local government, by strengthening *caudillismo*, this could lead to 'political capture' by local elites. In this way, decentralization could reduce rather than increase the level of efficiency in local service delivery and even threaten macroeconomic stability through fiscal imbalance. This disenchantment is encapsulated by the media lament that "we have decentralized corruption". On the left of the political spectrum, many express their disenchantment that decentralization has not yet changed the face of the political structure of Latin America, sometimes even mistakenly branding it as an integral part of the neoliberal movement in the region (Boisier, 1998).

Undoubtedly, valid criticisms can be made about the situation of local government in the region: the corruption and clientelism that still prevails in the management of many municipalities; the over-reliance on intergovernmental fiscal transfers and the reluctance to increase the collection of own revenue; the continuous interference of the central government in thwarting municipal autonomy; and the politicization of citizen participation mechanisms. Both groups err in mistakenly assuming that decentralization must somehow be an "easy" change. On the contrary, it is a long-

term process that involves seismic and complicated changes in both intergovernmental (vertical) and intra-institutional (horizontal) relationships.

It is necessary here to mention a major negative trend in the municipal arena that has arisen since the beginning of the decentralization process. This is the gradual extension of the scourge of narcotics trafficking and its infiltration into municipal structures, namely narcopolitics. Today there is no country in Latin America where this phenomenon does not exist. The relationship between decentralization and the growing phenomenon of narcopolitics is a controversial issue. A study by Perdomo and Uribe Burcher (2016) suggests that the decentralization process in Colombia was to blame for the rise of organized crime, by facilitating the emergence of “regional authoritarianism”, a nexus between elite local politicians and paramilitary groups who took control of the drug trade. As evidence, they note that, after the 2015 municipal elections, one in seven mayors was under investigation for alleged links to organized crime. Another supposed consequence of decentralization was the emergence of “armed clientelism”, through which illegal groups obtained public contracts and diverted mining royalties to their benefit through violent threats. The study highlights the “symbiotic” relationship between the judicial system, municipal councils and paramilitary groups. This dangerous mix of private and criminal interests, plus the lack of local accountability, has undermined the performance of public service delivery. However, the problem of narcopolitics in Colombia was not “caused” by decentralization itself, but by the private interests that had long dominated sub-national politics and which were strengthened thanks to the devolution of political power, from the first election of mayors in 1988.

This is an emblematic example of the contribution that political economy analysis (PEA) can make to disentangling criticisms of the decentralization process in Latin America. This approach criticizes the naivety of a simplistic analysis, still very present in consultancy reports of international agencies, which assumes that decentralization is a purely technical-legal process, and therefore, that implementation problems are primarily the consequence of mismanagement. On the contrary, PEA emphasizes something very obvious, but often forgotten. Both the decision to kick start a decentralization process and the manner of its implementation are actions explained primarily by political interests. It should be remembered that in Latin America, all the decisions to initiate decentralization - with the possible exception of Bolivia – were “top down” - that is, they came from the upper echelons of central government and sometimes strongly influenced by ‘external’ actors and this has been the norm throughout the world.<sup>5</sup>

Several pioneering studies have applied PEA to the decentralization process in the region. In their regional study, Willis et al. (1999) argue that the dynamics and the “results” that emerged from the decentralization process are only understandable if we analyze the nature of the negotiation between the various actors involved in its design and implementation. Here the structure of party control is crucial. In systems with centralized political parties, central government exercises greater control over fiscal transfers and their use than in countries characterized by party structures in which sub-national politicians exercise greater influence over members of congress.

<sup>5</sup> Indonesia is a major exception in recent decades.

The authors conclude that the nature of the party system has strongly influenced the pace and extent of decentralization. Central government will retain greater control over resources in countries such as Mexico with centralized political parties than in those with a highly fragmented party system like Brazil. A volume edited by Montero & Samuels (2003) argued that what they called a ‘political-institutional’ approach was more important than the efficiency gains from improved service delivery in explaining the motivations for decentralization. They highlighted a range of ‘political economy’ factors such as the nature and changes in party structures, political career paths, and the perceived relative strength of party support at the national and local level, in creating such incentives for power sharing.

The influential study of the Bolivian decentralization process by Faguet (2012) used PEA to refute the arguments against decentralization. His detailed quantitative and qualitative analysis of the 1994 Popular Participation Law (LPP) was supported by extensive fieldwork over more than two decades. It demonstrated how the combination of formal institutional reforms and mechanisms in the LPP to promote civil society produced a virtuous circle of radical improvement in the horizontal equity of fiscal transfers and, at the same time, in the efficiency of municipal expenditure thanks to the strengthening of accountability mechanisms over its authorities. The amount invested in the construction of schools and water and sanitation systems increased more in those municipalities with the greatest levels of deprivation – that is, in the small rural municipalities with the highest rates of illiteracy and the lowest rates of drinking water connection. The study highlights the influence of the felt needs of citizens over municipal decision-making through the creation of Oversight Committees, citizen organizations for monitoring the management of the municipal authorities, made up of representatives of civil society organizations. To summarize, Faguet’s analysis shows that democratic local governance improved substantially in Bolivia in the 20 years following the enactment of the LPP, mainly because municipal governments became more receptive to the priority needs of its citizens.

There is a rather sterile debate about the extent to which ‘agency’ (i.e. political leadership) or ‘structure’ (i.e. pre-existing levels of social trust and/or economic development) is the main explanatory factor for the degree of success in decentralization processes. In this sense, PEA offers a more complex but realistic argument: that the motivations and the impact is, above all, the result of this dynamic of the interaction between the local and national ‘political economy’ (Angell, Lowden, and Thorp, 2001; 2013; Eaton, 2004; Goldfrank, 2007; Nickson, 2014). This is not to underestimate the importance of the dramatic top-down structural changes that are profoundly altering intra-governmental relations through fiscal, political and functional devolution. Nor should the importance of advances engineered by the charisma of individual mayors be underestimated. Rather it is an acknowledgment of the obvious fact that decentralization ‘empowers’ local actors (politicians, business leaders and civil society) whose collective impact on local governance had remained stifled under the previous centralized system of governance. Therefore, as these local actors begin to exercise a greater ‘voice’ through strengthened local government structures, the results necessarily depend, more than anything else, on their respective interests and objectives, as well as the “correlation of forces” between them. Given that the differences in the character of this ‘local political economy’ are so vast between



municipalities in the same country, it is not surprising that we find so much variety in the results of decentralization in terms of the quality of local governance, even when all have been subject to the same deep structural reforms (legal, financial and functional).

## Conclusion

There is sufficient evidence to demonstrate that the balance of the decentralization process under way for more than 40 years in Latin America is positive. Despite setbacks and obstacles, progress has outweighed setbacks. These achievements have helped to counteract the deep structural inequalities in the direction of greater territorial and social inclusion. Political democratization at the municipal level has been the axis of the process. This is helping to introduce programmatic politics in parties that were hitherto mainly clientelist in nature. The newly transferred powers have led to a progressive, albeit uneven, institutional development in which some municipalities stand out for their capacity for innovation, while others still cling to their traditional practices.

It is interesting to note that, despite the criticism of the process, there is currently - neither in intellectual circles nor in the political sphere - a strong current of opinion that advocates a systematic regional strategy of recentralization in Latin America. It is not surprising that recentralization has occurred in two countries – Nicaragua and Venezuela – with leaderships rooted in the centralist tradition of the 1960s. Even so, after the euphoria of the 1990s when it became a kind of development “fashion” in the region, it is important to recognize the warning from several authors about the stalling of the decentralization process in the 2010s (Bossuyt, 2013; Carrera, 2013; Cravacuore, 2017; Rosales, 2017; Tulchin, 2012).

However, the current slowdown should not give reason for pessimism. The granting of greater autonomy with new functions, attributions and finances has represented a huge change in relations between central and sub-national government. As pointed out above, this has countless consequences and reactions when it collides with the enormous variation in the “political economy” of each municipality. On the contrary, there are reasons to be optimistic about the future direction of the process. The crucial underlying force driving the parallel processes of democratization and decentralization continues to be pressure from civil society. These social forces are deeply embedded, slow in gestation but powerful in the long run.

Finally, it should not be forgotten that decentralization – this profound process of reconfiguration and restructuring of relations between central government and sub-national governments – is not an end in itself. It is a means to contribute to achieving a higher objective desired by all – societies characterized by inclusive and sustainable development that provide a decent well-being to their citizens. Even though there has been evident progress in its contribution, there is still much more that can be achieved and we have identified some of the outstanding challenges. For this reason, there is a need for constant evaluation of the impact of the decentralization process in Latin America in contributing to achieve that goal.

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