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Innovations and Risk Taking

*The Engine of Reform in Local Government
in Latin America and the Caribbean*



Tim Campbell

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in Latin America and the Caribbean*

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FOREWORD

This is an interim report on the findings of sector work sponsored by the Technical Department of Latin America and the Caribbean (LAC) Regional Office of the World Bank. The work draws attention to cross-disciplinary issues which affect more than one country or set of countries in sub regions. The study represents an attempt to embody the principles of brevity, timeliness of findings and their utility to practitioners and Bank staff. Entitled **"Decentralization in LAC: Best Practices and Policy Lessons,"** the study takes stock of the most promising innovations now appearing in cities across this region, largely as a result of a new institutional environment put in place after decentralization and democratization.

The purpose of this work--in contrast to many reports which document best practice--is to deepen our understanding of the genesis and evolution of such best practices. One of the most striking features of change in the region is that local authorities are change makers often without help from outside donors. The author, Tim Campbell, calls these enterprising risk takers an "engine of change." Twenty specific cases of innovation have been documented in the study covering a range of areas. Five representative cases are described in the present paper. These aim to show in policy and practical terms ways to increase the velocity of the engine of change.

One of the central messages of this report is that by supporting creation and adoption of best practice, donors can enjoy a cost-effective impact in achieving the next stages of reform in the region. But to do so, the Bank and other donors must focus on the local level in terms of policy as well as engage in issues of urban management and systemic reform which occurs when political reform takes place. The Bank can continue to build on the foundation of participation in public choice and work more actively to help local actors learn from each other.

The publication of this report adds to a stream of activities already carried out, all designed to put the conclusions of this study into the hands of practitioners, professionals, borrowers, and Bank staff. Several seminars and policy work shops have discussed the findings contained in this report. We also intend to publish the individual cases and findings in a single volume in the near future.



Sri-Ram Aiyer
Director
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ABSTRACT

Decentralization and democratization in LAC are creating a new institutional environment for local authorities and have triggered spontaneous reforms in governance in many large cities. A new generation of reform mayors has produced a wave of innovations--upgrading professional staffs, raising taxes and user fees, delivering better services, and mobilizing participation in public choice-making. With little help from outside, these leaders may be laying the groundwork for long term change.

This paper summarizes a LACTD study designed to deepen our understanding of innovation in local government. The study documents 20 cases of best practice at the local level. For this review, five of these cases have been selected to broadly represent the complexity, sector, geography and age of innovations. The cases are:

1. **Cali**, Colombia--incorporation of the private sector in public management and services, dates to the 1920s;
2. **Curitiba**, Brazil--multiple innovations over 30 years has produced an integrated transport system that moves 75 percent of the city's passengers at a thousandth the cost of a metro;
3. **Manizales**, Colombia--a home-grown institute professionalizes municipal staff;
4. **Mendoza**, Argentina--a program of credit involves intense participation to identify and build infrastructure, secured by social censure, in poor neighborhoods;
5. **Tijuana**, Mexico--a US\$170 program to remake the city after a flood was subjected to a city-wide referendum to affirm willingness to pay benefit levies.

The cases produced a wide range of insights and suggestions.

- **Champions and visionaries innovate**--and though natural leaders cannot be cloned, outside agencies can help to stimulate leadership and encourage prospective risk-takers. Since leaders learn from each other, agencies can help to gather good ideas, finance basic informational and managerial tools, offset risks of innovating, incubate promising ventures, and disseminate success stories.
- **The counterparts of leaders are grassroots organizations.** Successful innovators engage local groups extensively to sound out needs and get feedback. Leaders also have broken new ground in communicating to the public and in mobilizing local groups to help implement small scale projects.
- **The study shows that innovators are restoring the severed ties between voter taxpayers and their governments.** Decades of centralized governance have broken this linkage. Restoring it is fundamental to mobilizing finance, recovering costs, instilling legitimacy and ensuring sustainability.

For the Bank and other donors, perhaps the most important finding of this study is about the many opportunities to foster and deepen reform, especially at the local level. Though many innovations trace their roots to national reforms and to a new environment for innovative leadership, actions at the local level are also needed. Innovators are driven by a desire to meet public needs, and leaders are ready for new ideas. They show a growing self-interest in controlling their own destinies--by taking advantage of trade pacts, competing for

investments, and generating local jobs. Donors can help in many ways--shape the institutional environment to encourage change, incubate promising ventures and evaluate and disseminate results. The strategic aim should be to turn spontaneous change into sustained reform.

ACKNOWLEDGMENTS

This paper is based on case materials and conferences developed as part of sector work by Technical Department, Latin America and the Caribbean Region, entitled “Decentralization in LAC: Policy Lessons and Best Practices” managed by Harald Fuhr and Tim Campbell under Malcolm Rowat, Public Sector Modernization Unit, Technical Department. The present paper is a preliminary assessment of case findings from that project and is written in Harald’s absence (during his tenure with the WDR team). A full report on the project will be issued under joint authorship in 1997. I am very grateful to Harald Fuhr, Florence Eid, Fernando Rojas, Joseph Tulchin, Marcela Huertas and Pamela Lowden for many useful comments and suggestions. The paper expands on an earlier version with the same title published in the **Urban Age** in December, 1995

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I. Introduction

Decentralization in Latin America and the Caribbean has dramatically transformed the face of the local public sector, producing a quiet revolution of popular participation in local public choices. Decentralization has had its share of frustrations, dangers, and false starts in Latin America and the Caribbean Region. Fuzzy or overlapping divisions of labor, associated threats of fiscal instability, and new ways to finance urban infrastructure, still remain to be resolved in many countries (see Aiyer, 1996). But decentralization has also produced a new generation of leaders. Several opinion polls show that local, elected officials are more trusted by voters and more responsive than ever to their constituents. They are also energetic, proactive, and vocal. New leaders exhibit a drive to deliver, and this makes them eager consumers of new ideas and techniques. They have invented or adopted many ways to mobilize local participation, strengthen organizational capacities, and even raise local taxes, despite increasing flows of shared revenues from central governments.

Local elected leaders share a common understanding of the fiscal and political pressures from above and below--from national political figures and from their constituents--and this understanding also makes them keenly aware of the risks involved in launching innovations. The drive to innovate is an engine much more powerful than national fiat at achieving and sustaining the second stage of reform in LAC. Consequently, understanding the innovations process--origins, refinements, and dissemination--is not only important in policy terms, it may well point to shortcuts in operational assistance.

Our sector work, on which this report is based, aims to gain new insights into this risk taking process.¹ Launched in 1994, the *objectives* of the study are to (i) *identify breakthroughs* in decentralization achieved in specific countries and sectors; (ii) *analyze success stories*, to explore their origins and application elsewhere in the region; and (iii) to *disseminate best practice* by sharing findings with Bank staff and policy makers through a series of sub-regional seminars and conferences.

¹ The term *sub-national level* will be used throughout the text to describe *all* levels below the national level, i.e. local and municipal, regional and intermediate, and sometimes '*meso*' levels. The terms local and municipal as well as the terms intermediate, meso, regional, and provincial level are used interchangeably, unless otherwise noted.

II. Context and Problem: Sustaining Innovation After the Quiet Revolution

Coping with the Quiet Revolution

The decentralization of governance began in much of LAC well before the 1980s, but progress was intermittent and marked by dramatic financial rearrangements and stunning political reforms, only then to be suspended or slowed by centralist instincts of many national governments in the region. Nearly all governments took actions in three areas of reform: fiscal relations, democratization, and local governance.

1. Political and Fiscal Reform. In the rush to share power, many governments promulgated decentralization without fully thinking through how national objectives--for instance in health, education and welfare--could be reconciled with decentralized powers of decision-making and spending by subnational governments. Thus, for the first few years of decentralization, transferred moneys in large quantities were, to caricature the situation, "finances chasing functions," (although in some cases local governments were saddled with new responsibilities without transferred revenue). Most local governments were left with a good deal of discretion on how to spend, and this ambiguity, plus continued spending by national governments on local things, left excess funds at the local level, at least during the initial years of decentralization. Local governments from Guatemala to Argentina have been spending 10 to 40 percent of total public spending amounting to significant fractions of GDP. (See Table 1.)

But though some state governments sank into debt--Sao Paulo and Cordoba are two outstanding examples--by and large, municipal governments avoided precipitous spending and did not create destabilizing pressures as many observers feared. A good share of future work in intergovernmental fiscal affairs is to restore the balance between finance and spending. Some of the most progressive local governments--Manizales, Valledupar, and Mendoza Province are covered in this study--show how this can be done.

Table 1: Local Spending as Percentage of Total Public (Selected Countries)

Country	1980	1992
Argentina	36.4	48.1
Colombia	27.2	33.0
Chile (1970)	4.7	12.7

Source: Lopez Murphy, 1994.

2. Democratization. Another trend sweeping the region and bolstering the fiscal nature of reform in LAC is the democratic transition. Since the mid 1980s, countries are not only selecting national leaders democratically, but are also choosing virtually every executive and legislative officer in the more than 13,000 units of state (i.e., intermediate) and local governments. All but a few islands have completed this transition. Moreover, electoral reforms--for instance, switching to uninominal elections and requiring candidates to publish programs during campaigns--has been promulgated in a dozen countries and is under active consideration in many others. Electoral choice making, together with widespread popular

participation in decision making, planning, spending, and implementation of projects amounts to a quiet revolution of local governance.²

3. A New Model of Governance. Ironically, spending power and transferred revenues fueled democratization at the local level and created new energies. Many in the new generation of leaders, fresh with mandates and ideas of reform, began to rejuvenate municipal institutions and to create a new model of governance. The new governance model is characterized by i) a new leadership style; ii) by more professional staffing in executive branches; iii) by tax and revenue increases; and iv) by much stronger participation in public choice making.

- Perhaps the most startling change is that more qualified persons are seeking local public office. Surveys of office holders elected over the past five years in Central America, Paraguay and Colombia reveal that the ratio of professionals has jumped from around 11 percent in the early eighties to more than 46 percent in the nineties.
- More qualified office holders are bringing in more professional staff. A sample of 16 municipalities in Colombia for which detailed data were gathered show that over the past ten years, the ratio of total staff to professionals dropped from 12:1 to 4:1. Mayors reported that these changes were aimed at tooling up to deliver better services.
- Contrary to many predictions, many local governments are able to increase levies on their populations, because, to paraphrase many local executives, "when taxpayers see they are getting new services, they are willing to pay." (See Table 2.) The rate of property tax increases doubled over the past decade across the entire spectrum of Colombia's more than 1000 municipalities. The average increase in the late eighties was 7.5 percent; the average increase in the early nineties: 15 percent. The Colombian increases are partly due to requirements for revenue sharing, and partly, in specific cities, because mayors sought to tie levies, like gasoline surcharges and betterment taxes, to specific improvements in service. Some mayors have simplified cadastres (La Paz), or introduced self-assessments (Bogota) or both (Quito). Still others (Puerto Alegre, Tijuana) have simply raised property tax collections.
- Mayors have also stepped up participatory consultations, using a large variety of communications and consultative techniques to sound out preferences of their constituents. In many cities, we observed that once this participatory process is unleashed, a new

Table 2: Recent Own Source Revenue Increases (Selected Cities)

City	Year	Increase
Puerto Alegre	1991-95	22%
Tijuana	1989-94	58%
Manizales	1988-94	165%
La Paz	1990-95	218%
Valledupar	1988-94	246%
Villanueva (HO)	1991-93	373%

Source: Personal communication.

² From *The Quiet Revolution: The Rise of Political Participation and Local Government in Latin America and the Caribbean*, by Tim Campbell, Technical Department, Latin America and the Caribbean Region, World Bank. Forthcoming.

frontier of expectations is created, making it difficult to ignore the voice and preferences of voter taxpayers in succeeding rounds of programs and elections.

Sustaining Innovation and Reform

These and many other changes--for instance the incorporation of civil society and the private sector into local public life--have transformed the nature and style of local government. More important, a wave of reforms creates new opportunities for self-sustained growth. However, the Bank's policy dialogue with governments has lagged somewhat behind the dynamic of change at the subnational levels. Country Departments are focused, appropriately so, on sustaining fiscal balance and redressing the mismatch between local functions and financial resources. But the translation of this focus into operations--in public sector modernization and state reform loans--often fails to address municipal levels and ignores the growing cultural and business matrix building up in cities and regions. Several countries exhibit robust *horizontal* linkages being forged by business interests and actors in civic affairs. These alliances underpin local and regional economic activity in industrialized countries. Still another feature of the new era of governance is that local governments are claiming a more prominent place in national and local growth (e.g., see Campbell, 1996).

Taken together--newly emerging regional interests, innovators, and proactive local governments--these changes constitute an opportunity for the Bank and donors to leverage assistance capacity by taking advantage of and building on the new dynamic already underway in LAC. A key step in moving toward self-sustaining change is to understand the process of innovation.

III. An Inquiry into Dynamics of Change

Purpose and Scope of Study

Although the Bank has paid much attention to the financial and fiscal issues in decentralization, with few exceptions (such as the Venezuela Public Sector Review), Bank analysts pay insufficient attention to political and institutional preconditions needed to trigger reform. A number of organizations have developed large body of data and information about innovations in the U.S. and the developing world.³ Of those concentrating in emerging nations, only the Urban Management Program (UMP), run jointly by the World Bank and UNDP (Hopkins, 1995), gives attention to the origins and dissemination of innovations. The present study is designed to redress this shortcoming.

Though innovations may be found in other areas of municipal and regional governance, five areas were identified as central to governance at the local level, and important for the Bank mission. These are:

1. **Administrative performance**--the increase in professional capacity, administrative reorganization and strengthening, expansion of training programs, and the like;
2. **Fiscal management**--efficient and transparent intergovernmental transfer systems and creative mechanisms to mobilize and manage local financial resources;
3. **Public service provision**--improved efficiency in delivery, more effective coordination among levels of governmental and new options for service delivery, such as contracting out, privatization, and the like;
4. **Enhancing private sector development**--arrangements which foster local private investment, activate private sector participation in policy and services at the local level and improve public responsiveness to private sector needs;
5. **Participation in local and regional decision making**--expansion of options for local voice, participatory planning, and consultative mechanisms, among others.

The singular feature setting this study apart from others about best practice is the focus on contextual conditions and origins of innovation. Each of the cases aims to take account of historical, political, economic and cultural factors which might help explain not only the genesis of innovation, but also to gain insight into conditions for replication.

³ The best known are i) the Ford Foundation's Innovations in American Government Program administered by the John F. Kennedy School of Government at Harvard University (see Altshuler and Zegans, 1990); ii) the Fiscal Innovation and Austerity program at the University of Chicago (see Clark, 1991); and iii) the Urban Management Program, managed jointly by the UNDP and the World Bank.

Methods: Selecting Cases of the New Generation of Change Makers

Criteria and Selection. Cases reflecting change in the five areas were selected mostly on the basis of reputation. A first cut list of over 30 cases was compiled from various sources inside and outside the Bank. Nominations were based on anecdotal evidence gathered in the course of professional work, on published studies and unpublished reports, and on interaction among professionals in conferences and seminars. An effort was made also to include cases which are relatively new, as well as older innovations which have spawned secondary changes at the local level and beyond. In this respect, the study seeks to take account of conditions before decentralization. Also, not all of the innovations were completely successful, but all moved toward an improved standard of practice, and all but one have survived more than one political administration. In addition, geographical and sectoral criteria were applied to achieve a broad cross section of experiences in LAC.

Table 3: Cases by Area of Impact

Case	Admin	Fiscal	Service	Private	Partpn
Cali Waste	†		†††	††	
Cali Private			††	†††	†
Conchali	†		††		†††
Curitiba Planning	†††		††		
Curitiba Transport	†		†††	††	
El Salvador			†††	†	††
Manizales Admin.	†††		†		
Manizales Fiscal		†††			
Manizales Waste			††	†††	
Mendoza Budget	††	†††			
Mendoza Infra.	†	††	†††	†	†††
P. Alegre Budget	†	††			†††
Tijuana Manos	†	†	††		†††
Tijuana PAU	†	†††	††	†	††
Valledupar Fiscal	†	†††			
Valledupar Paving	†	†	†††	†	†
Valledupar Police	†		††		†††

Key to impacts

††† = primary	†† = secondary	† = tertiary
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Source: Campbell, Fuhr, and Eid, 1995.

Preparation of Cases. From the first cut list, the study team selected 20 cases and, together with consultants, and country collaborators in Brazil and Colombia, produced 17 case studies following terms of reference which place emphasis on the context and origins of the innovation.⁴ Table 3 maps out each of the cases studied and indicates the primary (and secondary and tertiary) areas affected by the innovation.

The five cases shaded in Table 3 are reviewed in detail below (Table 4). They are representative of flavor and scope of the 20 cases prepared to date⁵ Many of the cases “spillover” across our categorical boundaries. “Participation,” for instance is found everywhere. Sometimes cases impact several major areas. Tijuana for instance is about participation, fiscal reform, and infrastructure services. And it would be undesirable and counterproductive to maintain a clean separation of these aspects.

Table 4: Selected Cases: Age, Context, and Scope

City/ Country	Innovation	Scope	Complexity	Generation year launched
Cali	private role in public life	planning, finance, and management of public business by private sector	simple	multiple 1920s
Curitiba	transportation	integrated urban transport system building on sequence of innovations	complex	multiple 1960s
Manizales	municipal training institute	integrates training program with city job categories and career advancement	simple	first 1990
Mendoza	social censure to guarantee credit	infrastructure finance in low-income households	complex	first 1991
Tijuana	public choice on infrastructure program and costs	investment program and costs to taxpayers were subjected to public referendum	complex	first 1991

Source: Author.

⁴ Three additional cases are under preparation as of this writing. Additional information is available from the author about team members, case authors, terms of reference, as well as about the agendas of the two regional meetings and two in-house seminars organized as part of the dissemination effort in this work.

⁵ It should be noted that a deliberate decision was made to not study failures, on the following methodological grounds: i) Bank staff and professionals are familiar with many of the common impediments and pitfalls that defeat innovations; ii) success stories of a representative cross section often will have overcome the problems that typically lead to failures.

Sample Cases: Old and New, Simple and Complex

Before delving into the cases, it is helpful to see them in four broad (and somewhat overlapping) categories--‘simple’ and ‘complex’ and ‘first’ and ‘mature’ generations. The term ‘simple’ refers to an innovation of a tool, technique or process familiar and central to the everyday flow of municipal business, like training of municipal officials, budgeting, city planning, management and finance, and the like. In reality, simple projects are not simple in any sense of the word. The distinguishing feature of simple cases is that they do not involve extensive contact with large segments of the public. More than half the cases selected in this study fall into this ‘simple’ category. The balance, of ‘complex’ cases, involve extensive participation of the public, neighborhood groups, volunteer organizations, the voters at large. For instance, some experiences have convened thousands of meetings to determine city spending priorities or to work out neighborhood indebtedness arrangements. These cases are more elaborate and more complicated, and in our scheme, ‘complex.’ Simple and complex cases can be either a first innovation in the city or fall into a series of several or more. Manizales for instance set up a training institute, reformed its finances, started new health care, and launched innovate waste service, all within mostly one political administration. Curitiba on the other hand launched a long series of innovations branching out from land use to transport to solid waste and management of commercial vendors, all over a period of 30 years.

Complex and mature cases build sequentially on past innovations, and this broadens the scope of inquiry somewhat to include the conditions for sustained change, often under the assumption that a propitious environment has been enriched, and management of the innovation process becomes a new level of endeavor. In all cases, we focus on the “breakthrough” of the initial innovation. These aspects of complexity and age, together with more detail about the scope of innovations, are also presented in Table 4.

1. Cali: Private Sector Roles in Public Administration and Management⁶

The Cali case is a style of administration and management based on tight-knit interaction between public and private sectors at the local (municipal) and intermediate levels of government (*departamentos* in Colombia) and with multinational corporations. Cali and the Valley of Cauca were chosen for the study precisely because for more than 50 years, large family enterprises and multinational corporations have worked closely with local administrations in a variety of joint ventures. Both public and private sectors have been characterized by openness to innovations, have engaged in administrative initiatives, and have maintained strong links with each other and with the church, the regional university, and local and international NGOs and corporations. More than half of the corporations that founded the *Fundacion para el Desarrollo Integral del Valle* (FDI), the main development organization for consensus building in the region, were multinationals.

⁶ The full case of Cali was prepared by Fernando Rojas. Thanks to Marcela Huertas and Fernando Rojas for assistance with this summary.