Preface

Beyond the high institutional heterogeneity that characterizes Latin America, during the past decades the countries in the region have increasingly reallocated responsibilities from central levels of government to intermediate and local levels. Similarly to the rest of the world, most countries of the region have experienced a clear trend towards increasing decentralization of spending responsibilities. These decentralization processes have occurred in both federal countries as well as in unitary and/or centralized countries, however, through different institutional and legal instruments. Therefore, sub-national governments participate more and more actively in the management of a substantial part of the public budget.

Despite the potential advantages frequently referred to in order to justify these reallocations, it is important to note that these decentralization processes and their results have not been uniform. The systems of inter-governmental relations and their impact in terms of efficiency and equity in the provision of decentralized goods and services (health, education and infrastructure) continue to be very heterogeneous.

Evidently the expected benefits of decentralization must be evaluated with a view of the conditions in which the reform processes are orchestrated. Thereby it is essential to recognize a series of specific characteristics of Latin America: high inequality in income distribution, high level of urbanization, territorial inequality within countries, and limits to public policy imposed by low levels of taxation both at the central and the sub-national government level. Moreover the development of decentralization processes together with the recovery and strengthening of democratic institutions must be stressed. In addition, in several countries of the region the strategic importance of natural resources has made the allocation and distribution of revenues and royalties from these sectors to become one of the most active part of the decentralization process and reallocation of functions. Hence it becomes very important to check whether and how local institutions have worked in these contexts and to see how their actions can be improved.

The rapid devolution of spending responsibilities was not mirrored on the revenue side. As is well documented in this volume, this asymmetry between revenues and expenditure in decentralization is quite common
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around the world, but it is especially relevant in Latin America, reflecting a number of economic, political and institutional factors that affect the process and its outcomes.

In order to address the impact of the decentralization process in the region, the Economic Commission for Latin America and the Caribbean (ECLAC), with the financial support of Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and the Federal Ministry for Economic Cooperation and Development (BMZ), has carried out two projects on decentralization and governance. As part of these projects a series of seminars and workshops were held with fiscal authorities and experts to evaluate the state of intergovernmental relations in Latin America and the impact of the reassignment process in terms of equity and macro fiscal sustainability.

As a result of these multiple activities ECLAC and GIZ present this volume with the purpose to contribute to the knowledge about the decentralization process in the region, emphasizing the intergovernmental relations systems and the public policies implemented to reduce multiple forms of inequality in the region. We consider that the topics analyzed in this book have a strong importance for the debate about public policies in Latin America.

The objective of this book requires the consideration of various subjects, ranging from those linked to the relationship between economic development and decentralization to those related to the macroeconomic impact of the reassignment of functions and the resulting system of intergovernmental relationships. Furthermore, the book addresses social and infrastructure spending, social cohesion, and financing of sub-national expenditure.

Decentralization remains one of the biggest challenges in the region, presenting as many opportunities as risks. As described in this volume, the process involves many multidimensional factors that require a constant effort to learn and rethink the kind of interventions needed to take advantage of the opportunities and overcome the challenges.

We are sure that Decentralization and Reform in Latin America: Improving Intergovernmental Relations will be of interest to the many scholars and practitioners working in this field and will serve to stimulate debate on the governance of intergovernmental relations in Latin America.

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