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Institutional Reform:Improving the Effectiveness of Policy Delivery

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Chapter 3

Institutional Reform: Improving the Effectiveness of Policy Delivery

Introduction

The characteristics, assets and economic performance of Chile's regions are particularly diverse, and their potential for growth will largely depend on how public policies are adapted to their diversity and integrate their different synergies, attributes and assets. Enhancing the productivity and competitiveness of specific regions and sectors requires agile, responsive institutional arrangements that can make targeted efforts to improve the quality of specific public investments and services. This chapter considers the multi-level governance system required to support a better match between public policies and territorial needs in the search for better regional performance. The first part of the chapter (Section 3.1) looks at how fiscal and administrative limitations on sub-national governments may undermine the feasibility of moving towards a territorial approach to economic development. This possibility has led to a debate in Chile regarding the use of decentralisation to improve regional performance and competitiveness. Section 3.2 discusses some issues that could make a difference to the effectiveness of Chile's governance reforms. Efficient decentralisation reform will require a clear definition of the roles of the different actors and instruments for achieving co-operation and co-ordination among them. In addition, national institutions will need to have confidence in the soundness of the reform and in the competence of regional institutions. Capacity building and the use of performance indicators could help in this respect. Strengthened multi-level co-ordination and co-operation arrangements and bottom-up participative mechanisms will be also needed to manage co-operation and co-ordination among the different actors. All these elements appear to be crucial for strengthening the legitimacy, coherence and effectiveness of the reform process. The section concludes that the creation of a governance structure capable of context-sensitive responses requires strengthening the reforms undertaken by the current government and developing a solid and enhanced governance structure at sub-national level.

3.1. A centralised system engaged in a reform debate

Chile is a unitary state with a fairly centralised structure: from the capital, Santiago, the central government exercises control over Chile's territories. Chile is currently divided into 15 regions, which are further divided into 52 provinces and 345 municipalities (*comunas*). Each level has its own

governance structure. The regional level has two categories of actors: deconcentrated and decentralised. The former are representatives of the national government and include: an intendant (the direct representative of the President of the Republic in each of the regions), ministerial regional secretaries (SEREMIS), and regional representatives of the national public agencies (*Corfo*, *Indap*, *Fosis*, among others) involved in delivering key public services. The decentralised regional government (GORE) consists of the intendant and the regional council. The intendant heads the regional council, acting both as the main representative of the central government and as co-ordinator of regional policies. Members of the regional council are elected indirectly by the municipal councilmen of the provinces, although there is a reform under way to elect them directly. The composition, organisation and functions of the different levels of governments are summarised in Table 1.1.

Two-thirds of OECD countries are considered unitary states. Yet, the administrative structure of OECD countries is far from homogeneous; there are different degrees of allocation of responsibilities to sub-national administrative tiers so that they range from unitary to regionalised to federal countries (Table 3.1). What defines both federal and regionalised countries is the existence of a regional, directly elected tier of government with constitutional status and wide-ranging autonomy and legislative powers relative to the administrative territory. What distinguishes federal states is the co-existence of sovereignties: the regional tier exists in its own right and cannot be abolished or restructured by the federal government (OECD, 2001).

Table 3.1. The administrative structure of OECD countries

State structure	Total	Country
Federal	8	Australia, Austria, Belgium, Canada, Germany, Mexico, Switzerland, United States.
Regionalised	2	Italy, Spain.
Unitary	20	Czech Republic, Denmark, Finland, France, Greece, Hungary, Iceland, Ireland, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Sweden, Turkey, United Kingdom.

Centralisation has traditionally been associated in Chile with economic efficiency and political stability. However, administrative and fiscal limitations on regional and municipal governments may be undermining their ability to carry out some of their responsibilities efficiently, thereby creating a failure to take advantage of specific regional and local opportunities. This has led to a debate in Chile regarding the changes that can be made in the governance structure to improve the performance of sub-national governments.

Administrative and financial challenges for sub-national governments

Administrative challenges

Within the current centralised system, the main regional public actors remain largely bound by national guidelines. The head of the regional government, the intendant, is named by the President. The intendant's main role as head of the regional government is to work to develop the region. Yet, as the president's representative, he is also responsible for implementing national policies and guidelines. Decisions regarding the official designation or removal of intendants are political in nature and this sometimes affects how they manage their region. The problem of divided loyalty (to the central state and to the region) also exists among deconcentrated public servants in the regions: even if they are called to assist the intendant in all matters of preparation, execution and co-ordination of policies within their purview, they mainly follow the guidelines of their respective national agency.

Co-ordination of the different actors and policies in the regional government is a main challenge for the system. The regional government still does not have enough institutional strength to manage and co-ordinate a common strategy for the region that draws the various agencies and actors together. For example, intendants sometimes learn about projects to be carried out by a national agency in their region only when these are about to be implemented. This situation affects the capacity to provide a coherent framework for formulating regional policies.

In recent years Chile has undertaken several reforms and has made progress towards a more territorial approach to economic development through a number of programmes and initiatives. However, these attempts are hampered by the lack of an institutional framework at the regional level for co-ordinating territorial policies, by insufficient participation by regional actors, and by the tight framework established by national guidelines. Most of the programmes designed to promote economic development in the regions are designed at the national level, with insufficient participation by the regional governments and institutions in their design and co-ordination. Furthermore, some initiatives with a regional orientation such as the regional development agencies (RDAs) still appear fairly constrained by the national productive agenda.

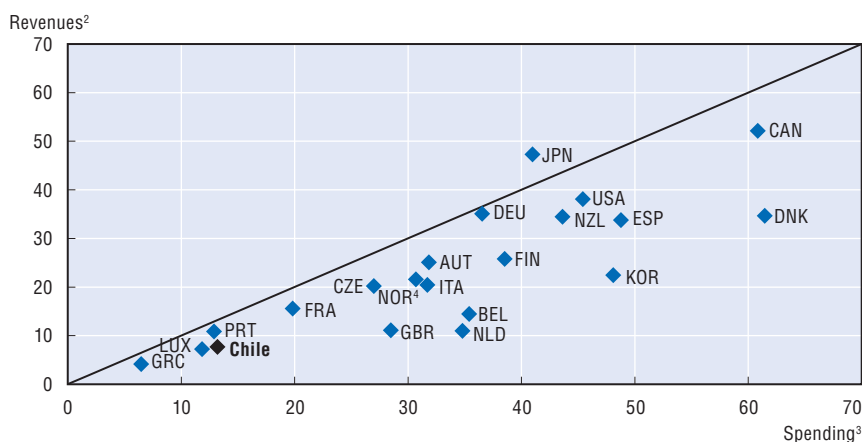
The role of the regional government should be further strengthened. On the one hand, regional management should be more clearly distinguished from national representation. There is also a need to strengthen the links between and co-ordination of the deconcentrated national agencies and the regional government in order to develop harmonised regional agendas. Multi-level governance arrangements would be crucial in these efforts (see the discussion in the following sections).

Financial challenges

Sub-national governments in Chile depend largely on central government transfers for their budgets as they have few autonomous sources of revenue. Municipalities are the only sub-national unit with the ability to collect revenues from taxes. Sub-national revenues in Chile account for only 8.1% of total government revenues and sub-national expenditures amount to 13.2%,¹ very low figures in comparison to OECD countries where, on average, one-third of public expenditures and one-quarter of public revenues occur at the sub-national level. Only Greece and Luxembourg have less sub-national fiscal autonomy than Chile (see Figure 3.1).

Figure 3.1. **Fiscal decentralisation OECD countries and Chile**

Share of sub-national government in general government revenues and expenditure, 2005¹



1. Or latest year available: 2003 for Canada and New Zealand, 2004 for Japan and Korea.

2. Excluding transfers received from other levels of government.

3. Excluding transfers paid to other levels of government. Figures for Chile are estimations based on IMF, *Government Finance Statistic Yearbook*.

4. The share of sub-national revenues is expressed as a percentage of total government mainland revenues.

Source: OECD National Accounts database; Statistics Norway; Statistics Canada; US Bureau of Economic Analysis; Chile: IMF, *Government Finance Statistic Yearbook*.

Municipal government budgets depend largely on resources from national transfers (especially for education and primary health care, their main devolved responsibilities) and on inter-municipal transfers from a municipal equalisation system, the Inter-municipal Common Fund (FCM) (see Box 3.1). Locally collected taxes represent on average only 36.9% of total municipal revenues (only 17.5% if national transfers for municipal education and basic health are included) (Table 3.2).²

Box 3.1. The Inter-municipal Common Fund (Fondo Común Municipal)

How the money is collected: Municipalities contribute a fixed share of the revenues collected from the main taxes: 60% of the property tax (65% in the four richer municipalities), 62.5% of the motor vehicle tax, 50% of the tax for vehicle transfers, and 100% of traffic fines. The four municipalities with the bigger income also contribute between 55 and 65% of the revenues from fees for commercial licences. The national government's contribution to the fund is fixed annually. In 2006 it only accounted for 1.5% of the FCM.

How the money is distributed: In 2008 a law defining new criteria was approved. The distribution is as follows: i) 25% is equally divided among the communes; ii) 10% is given in proportion to the poor population of the commune, weighted as a share of the country's population; iii) 30% goes in direct proportion to the land or properties exempted from territorial taxes; and iv) 35% goes to the municipalities with the smallest municipal permanent income per habitant (mostly municipal taxes).

Source: OECD based on information provided from Subdere and Asociación Chilena de Municipalidades.

Table 3.2. Main sources of municipal revenues (2006)

Percentage		
Source	Share	Share including national transfers to health and education
Autonomous revenues – municipal taxes	36.9	17.5
Business tax	(15.8)	(7.5)
Property tax	(15.9)	(7.5)
Municipal rights, traffic tickets, etc.	16.9	8
Inter-municipal transfers: FCM	38.6	18.3
External transfers	7.6	3.6
National transfers to education and health municipal system	–	52.6
Total	100	100

Source: National System of Municipal Indicators (SINIM) based on BEP.

Small and poor municipalities with few sources of local revenue are very dependent on the FCM. According to the National System of Municipal Indicators (SNIM), only 48 municipalities (out of a total of 345) receive more than 50% of their budget from their own permanent or long-term resources. By contrast 147 receive 20% or less from their own resources (i.e. 80% comes from national transfers and the FCM). Additionally, an important share of municipal revenues (15.9%) comes from the property tax, but the high

percentage of exempt (low-income) properties³ in the poorest *comunas* means low permanent revenues for these localities.

The FCM acts as a municipal redistribution fund to compensate for the wide disparities among Chilean municipalities. Its main objective is to ensure that all of the country's municipalities can fulfil their objectives and function adequately. This fund also compensates municipalities for the land or properties exempted from the property tax (as the exemption significantly lowers municipal revenues, especially those of poorest localities). Yet some observers suggest that the resulting transfers are still insufficient to cover their operating costs adequately (Zegras and Gakenheimer, 2000).

Sub-national governments in Chile (both municipalities and regional governments) have additional limitations on their access to resources. They cannot request private credits or negotiate loans from international organisations (even if loans from international organisations negotiated by the central government are used in regions/localities). Moreover, sub-national governments do not have the right to introduce additional taxes. This creates a high degree of sub-national dependence on external transfers and thus budgetary uncertainty because the amounts received vary from year to year.

These financial limitations undermine the ability of municipal governments to carry out their devolved responsibilities efficiently. Ideally, the assignment of responsibilities to municipalities should be accompanied by a concomitant allocation of the resources, competences and organisational flexibility needed to carry them out efficiently. One of the main goals of the proposed municipal reform (discussed below) addresses this important issue.

Poorer municipalities have neither the resources nor the incentives to invest in local economic development initiatives. Only the richer localities can afford to use their autonomous resources in this way. Most of the locally available resources of the poorest localities go to municipal education and health systems to complement transfers from the national level,⁴ leaving few resources available for additional investment measures. A system of incentives (linked to the FCM) or a special development fund might be considered to encourage investments in local economic development initiatives and promote endogenous growth in underperforming municipalities.

The resources of regional governments largely come from transfers from the central government (see Box 3.2). One of the regional government's main roles is to oversee annually determined national transfers for regionally decided investments (mainly the FNDR), most of which finance local initiatives. As pointed out in Chapter 2, while the regional government is an actor in the assignment process, allocation of the resources is regulated by the national budget law. The budget of the regional governments is largely financed by sectorally driven national grants, and this tends to inhibit the

Box 3.2. Regional government resources

- **Transfers from the central government (FNDR).**
- **Taxes, special regional rights and fees collected and distributed by central government agencies** and directed to the regions, among them:
 - ❖ Mining patents: 50% of the income from mining patents is added to the share of the FNDR of the region to which the patent is assigned.
 - ❖ Tax on gambling casinos: 50% of the revenue from this tax goes to the region in which the casino is located (to finance development of public works). The other 50% goes to the *comuna*.
 - ❖ Revenue from the sale of public physical properties: 65% goes to the budget of the regional government in which the property is located.

presentation and financing of territorial investment initiatives. Additionally, the framework of the National Investment System makes it difficult to move towards a multi-annual budgeting/planning framework for implementing local/regional policy. A gradual shift towards more comprehensive regional investments would require adapting the investment process to a territorial logic and to a multi-annual budgeting planning framework. Moreover it would require evolving towards a solid regional governance structure able to create a coherent framework for economic development.

The fiscal and administrative limitations on regional and municipal governments described above may undermine the feasibility of a territorial approach to economic development. The question in Chile seems to be how to secure an efficient allocation of responsibilities and resources to the sub-national governments that allows place-based policies to improve the competitiveness potential of the different regions, without compromising the institutional and financial stability reached in recent years. It is in this context that the debate on decentralisation has emerged in Chile.

The decentralisation debate

Historically, the Chilean deconcentration and decentralisation process has been guided more by efforts to improve the central state's control over the regions than by an attempt to transfer responsibilities to the regions and municipalities. During the last 30 years the process mainly involved deconcentration of functions to territorial units, yet several responsibilities, particularly primary and secondary education and basic health, were devolved to municipal governments:

- **Between 1974 and 1976**, some steps towards deconcentration were taken: division of the country into regions, provinces and municipalities, all of

them headed by a person appointed by the *junta militar*; transfer of certain responsibilities to the municipal level, especially for public education and health. Yet the main objective of the territorial administration was to maintain tight control over the territories. The intendants came from the military and had few links to the regions to which they were appointed.

- **With the arrival of democracy** in 1992, municipal governments became democratic: mayors and councillors were elected democratically. In 1993, a constitutional law created the regional governments. The intendant was still appointed by the president, but a regional council with members elected by municipal councilmen of the provinces was created to supervise the intendant.

During recent years, however, efforts have been made to further decentralise in order to improve the efficiency of public management. This is part of a worldwide devolutionary trend. Most OECD countries have introduced significant decentralisation measures since the 1970s. As of the early 1980s, Spain moved towards strong regional autonomy; Italy gave new responsibilities to regions, including some legal powers; France launched two decentralisation “acts”, the second of which entailed a change in the constitution; the United Kingdom strongly modified its institutional organisation by devolving an important level of autonomy to the “nations” that are members of the Kingdom, especially to Scotland (see Box 3.3); Sweden

Box 3.3. Decentralisation in the United Kingdom

Government in the United Kingdom is centralised but the past decade has seen significant devolution of decision making. Directly elected assemblies have been set up in Scotland, Wales and Northern Ireland, and London now has its own assembly and mayor. Changes in the eight regions of England outside of London (each with populations of about five million) have been more complex and more pragmatic, but demonstrate strong recognition of the importance of regional development. Institutions differ from one region to the next, and the number of administrative levels is not the same in urban and rural areas. Thus, the “nations” under the responsibility of the government at Westminster have elected regional structures: Scotland, Wales (no legislative powers) and Northern Ireland. This level of government is not elected in the regions of England itself, however, where there seems to be little demand for greater regional democracy: in a recent referendum, a proposal to introduce an elected regional assembly for the North-East (Newcastle region) was overwhelmingly defeated.

A hybrid structure has evolved, based initially on three organisations in each region:

- A government regional office (GO), headed by a senior civil servant from the central government.

Box 3.3. Decentralisation in the United Kingdom (cont.)

- A Regional Development Agency (RDA), set up and funded by the central government and overseen by a board of directors from the region led by the private sector.
- A Regional Assembly, comprising about 100 nominees from local government, academic institutions, business and voluntary organisations. These have proven unwieldy, however, and current proposals include smaller regional boards representing major interest groups.

Meanwhile, the government developed the concept of regional strategies, setting out key aims and investment plans for the economy, spatial planning and public investment in housing. Leadership of these has been spread across the RDAs, GOs and regional assemblies, and their integration and compatibility have met with mixed success. A government objective to reduce disparities in regional rates of economic growth has also had mixed success, in part owing to the exceptional economic performance of London and the south-east region. In 2007 the government began a new “sub-national review”, building on this experience. It aimed to clarify roles and to support policy making at the most effective spatial scale to enable regions and localities to reach their full potential.

New reforms were initiated in 2007 under four main headings: empowering local authorities to promote economic development and neighbourhood renewal; supporting local authorities to work together at sub-regional scale; strengthening the regional level; and reforming central government’s relations with regions and localities.

These reforms are intended to simplify and clarify and to recognise the principle of subsidiarity in decision making. In practice, the key regional functions for economic, spatial and housing strategies will now be brought together under the RDAs, suitably reconfigured. One major success of the RDAs has been the introduction of “single pot” funding by the central government, by combining the financial contributions of several central departments and allowing RDAs wide discretion in how the total is used to meet regional priorities.

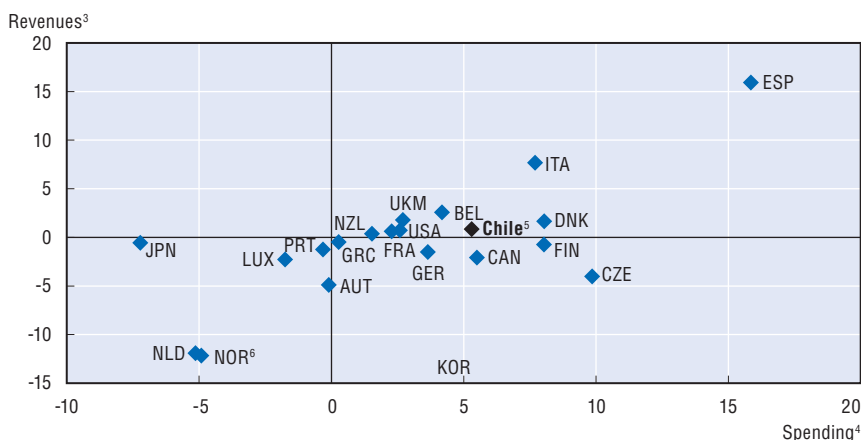
A further important innovation at regional and local levels has been the introduction of local area agreements. These are negotiated between regional government offices and local partnerships led by municipalities, and provide financial allocations to meet agreed objectives within locally initiated strategies. They combine output targets that reflect both national and local priorities.

Source: UK Commission for Rural Communities.

established in 1999 four pilot regions based on “old” county councils or on federations of municipalities. Fiscal decentralisation in OECD countries has risen over time: from 1995 to 2005, most OECD countries increased both sub-national revenues and expenditures or at least sub-national expenditures (see Figure 3.2). During the same period, Chile’s fiscal decentralisation

Figure 3.2. Changes in the share of sub-national government contributions in total public revenues and spending in OECD countries and Chile

In percentage points, between 1995¹ and 2005²



1. Or earliest year available: 1996 for Japan, 1999 for Portugal, 2000 for Greece and Hungary.
2. Or latest year available: 2003 for Canada and New Zealand, 2004 for Japan.
3. Excluding transfers received from other levels of government.
4. Excluding transfers paid to other levels of government.
5. Figures for Chile are estimations based on IMF, *Government Finance Statistic Yearbook*.
6. The share of sub-national revenues is expressed as a percentage of total government mainland revenues.

Source: OECD National Accounts database; Statistics Norway; Statistics Canada; US Bureau of Economic Analysis; Chile: IMF, *Government Finance Statistic Yearbook*.

increased by 1.1 percentage points on the revenues side, and 5.3 percentage points on the expenditure side, showing a slightly rise in expenditures, which was unaccompanied by a parallel raise in revenues.

Chile's current government has set high priority on decentralisation with the aim of providing sub-national governments with the tools, capacities and legitimacy to improve their autonomy and performance. Reforms under way to this end (see Box 3.4) include election of the regional council directly instead of indirectly by the municipal councilmen of the provinces, which will create a democratically elected body for managing regional development. Also, responsibility for regional planning has been transferred from the National Planning Ministry (Mideplan) to the regional governments, and a new regional planning division (the third division of the regional government) has been established to manage it (see Box 3.5). These changes are expected to increase institutional legitimacy and may help bring citizens and regional authorities closer together. However, in spite of the decentralisation efforts, progress is still modest and the territorial agenda remains still largely controlled from the centre.

Box 3.4. Recent developments and prospects of the Chilean decentralisation process

Recent decentralisation reforms are part of a general strategy to be implemented from 2007 to 2010, which has five main axes:

1. **Municipal reform.** It comprises the reform (under way) of the organic constitutional law of municipalities (LOCMUN) with three main objectives: i) to modernise municipal organisation, liberalising the administration of human resources at municipal level and improving the skills of municipal staff; ii) to make the organisation of municipalities more adaptable: among other measures, giving legal personality to associations of municipalities and offering them support; iii) to give more autonomy and further responsibilities to municipalities: modifications to improve municipal fiscal revenues, and a redesign of the FCM, among other measures.
2. **Democratisation of regional councils.** A reform that is under way will allow direct election of regional councillors and thus create a more democratic body with closer ties to citizens. This reform was approved by the chamber of deputies in January 2008 and is following the legal procedure for approval by the Senate.
3. **Devolution of responsibilities to regional and municipal governments.** As of January 2007, regional planning responsibilities were transferred from Mideplan to the regional government, establishing the third division of the regional government. Further responsibilities for training and tourism are to be devolved in the near future. Additionally, a reform under way will transfer certain functions to the regional governments: development of the regional zoning plan; design of regional productive development policies (innovation, business competitiveness and capacity building, among others); proposal of programmes for social risk sectors. Finally the implementation of some social programmes has been transferred to the municipal governments, e.g. *Programa Puente*, *Programa Vínculos*.
4. **Creation of two new regions.** In December 2006, the Chilean congress passed a law creating two new regions: Los Ríos (formed by the province of Valdivia, previously part of the region of Los Lagos, and now the XIV region) and Arica y Parinacota (on the northern border with Peru, formerly part of the region of Tarapacá and now the XV region). These regions were added to the previous 13 regions. The new regions became operative in October 2007. The main objective of the change in the political division of the country (which had not been modified since the creation of the regions in 1974) was to set up a new public framework for the new regional institutional model. The new regions begin with greater autonomy; regional planning has already been transferred to them and is executed through the new regional planning division of the regional government. Finally, the new regions emerged to satisfy local demands for more representation in the Senate and better administration of public funds.
5. **Improve the skills and institutional capabilities of sub-national governments.** This will be done through processes of accreditation, incentives and continuous learning. The objective is to strengthen the management capacity of sub-national governments.

Source: Subdere.

Box 3.5. The third division of the regional government

A process of transferring the responsibility of regional planning from the regional offices of Mideplan (Serplac) to regional governments started in 2007, and a specific division devoted to managing regional planning was created within regional governments. This process required the regional governments to satisfy three prerequisites. The first was a document specifying the responsibilities to be transferred, why this would be beneficial to the region, the human resources needed, and the different steps involved. This document required approval by the regional council. The second was to set up an institutional development plan in which the regional government established the vision, strategic plan, human resource policies and administrative procedures of the new division. This strategic plan has to be approved by each intendante following a participatory process involving various stakeholders. The third document was the work plan for the next two years. It had to be approved by the planning ministry (Mideplan). All regions (at different stages) carried out the procedure. Subdere led the process and allocated the financial resources. At the same time, in conjunction with Mideplan, Subdere carried out a training programme in regional development management for the staff of the new regional branches. The transfer process continues in 2008.

The main targets of Chile's decentralisation process

There are several reasons for the current reforms. Special emphasis was placed on improving democracy and participation through decentralisation, but there were also references to economic development and public management. Subdere's *"El Chile Descentralizado Que Queremos"* (Ministerio del Interior, 2001, pp. 25) described the general objective of decentralisation in Chile as "to contribute to the development of the country, by promoting institutional reforms to recognise the right of regional and local citizens and institutions to decide and plan their territorial affairs, especially those concerning economic, social and cultural development". More recently, regional competitiveness has emerged as one of the main purposes of the proposed decentralisation reforms. The overarching goal is better distribution of opportunities around the country and greater equality. In this regard, the government's decentralisation reforms have three principal objectives: stronger democracy and greater participation, more efficient public management and improved regional competitiveness.

Stronger democracy and greater participation

One of the main goals of Chile's decentralisation policy is to bring the public decision-making process closer to citizens. With the arrival of

democracy in Chile, decentralisation was seen as a way to extend democracy to the different territories, giving citizens a more active role in civic affairs. Most empirical evidence and OECD countries' experience (OECD, 2008a) demonstrate that under certain circumstances (see Box 3.6) decentralisation may enable citizens to hold local public officials accountable through the use of elections, collective action and other democratic means. At the same time, social participation and the interaction of public, private and social groups will help the local government plan and implement public services more effectively by improving information transfer, trust building, negotiation and deliberation and by reducing intra-territorial tensions. All these link democratic decentralisation to more effective administration.

More efficient public management

Devolution will make it possible to adapt public policies more closely to regions' specific needs and to respond better to local demands. In this way, decentralisation can help the public administration become more efficient. Sub-national governments have an advantage over central governments in terms of making use of local knowledge in local decision making and problem solving. However, the relationship between decentralisation and administrative efficiency in Chile, as in most OECD countries, is complex. First, it is important to consider the nature of the specific collective goods and services. For some it may make sense for the municipal or the regional government to take increased responsibility for reasons of proximity or local knowledge, while for others it may be the central governments that for reasons of scale or capacity are in the best position to provide them efficiently. Second, the achievement of administrative efficiency through decentralisation reforms is likely to depend on the institutional capacity of the decentralised units to act autonomously. Third, as already observed, efficient public management in a decentralised context requires consistency between the devolved responsibility and the financial and administrative means to carry out that responsibility. Finally, most responsibilities and services require the intervention and co-ordination of the different levels of government, which in turn require multi-level governance arrangements. These key issues are examined below.

Economic efficiency: improved regional competitiveness

Decentralisation is usually seen as a means to improve regions' development, innovation and business creation. Devolved institutional management can be better matched with the opportunities offered by the different territories and make it easier to respond in a timely, flexible and differentiated manner to their requirements and economic opportunities. In Chile, this perception is combined with concern among some public actors

Box 3.6. Decentralisation, democracy and participation

In spite of the mixed evidence, most empirical studies that rely on observations over time find a positive correlation between decentralisation and government responsiveness (Faguet, 2004; Bossert et al., 2003; Fisman and Gatti, 2002; Shah, 1998). However, decentralisation does not always further democracy even when local leaders are democratically elected: in societies with severe political and economic inequalities, decentralisation may exacerbate these inequalities if the reforms result in less effective constraints on local oligarchies (Bardhan and Mookherjee, 2000; Platteau, 2004; Larson, 2003). Some specific factors and conditions may help make the relationship between decentralisation and democracy stronger: i) democratic local elections; ii) popular participation and forums for inclusive decision making; and iii) transparent decision making.

- i) **Democratic local elections:** Several authors have pointed to the importance of competitive and contestable local elections as an institutional mechanism to counter corruption and prevent the capture of local politics by elites (Ribot, 2002; Blair, 2000, Agrawal and Ribot, 1999; Crook and Manor, 1998; and Fisman and Gatti, 2002). Moreover, the rules of the democratic process and proximity to the local citizenry can produce strong incentives for local politicians to respond to local concerns, needs and preferences.
- ii) **Popular participation and access to forums for inclusive decision making:** Other researchers have focused on the demand side of democracy and argued that downward accountability is helped by a strong and well-organised civil society (Grindle, 2007; Cabrero, 2007; Putnam, 1993; Bowles and Gintis, 2002, Andersson and van Laerhoven, 2007). Organised citizen groups (NGOs, unions, associations of small and medium-sized entrepreneurs, among others) should be in a position to engage in partnerships with government and to monitor local officials and hold them accountable. This places agency in the citizens and their ability to organise and interact with the formal political structure, but it calls for legal dispositions that give a role to these associations (regional development agencies or municipal councils for instance) in the development of the territory. This perspective seems particularly important in Latin America, with its strong corporatist traditions, powerful executives, and historically stronger upward, rather than downward, accountability mechanisms. The existence of a participatory decision-making forum can make a big difference for strengthening democracy at the local level. The main purpose of such forums is to open up the decision-making process in the sub-national government administration by inviting a broader range of stakeholders to take part, including some social or economic groups that are normally not represented.
- iii) **Transparent decision making:** For downward accountability to be possible, the local decision-making process needs to be open and transparent. Ways of promoting transparency include publishing information about decisions, actions and results of publicly funded activities. Another is the organisation of open town hall meetings where citizens have a chance to ask their elected officials questions about what the local government has done or plans to do about issues of concern to citizens.

that further decentralisation may entail a risk for the country's current economic and fiscal stability (mainly because of the lack of capacities of sub-national units; the main arguments of the opponents of decentralisation in Chile are provided in next section).

The literature and case studies abound with arguments for and against decentralisation as a means of promoting economic growth, as shown in Box 3.7 and as illustrated in Annex 3.A1. In spite of the empirical ambiguity, existing research suggests that decentralisation outcomes are driven by a number of interacting contextual factors: supportive local networks, national and sub-national institutional frameworks, governance arrangements, and types of decentralisation, among others (see Annex 3.A2). The importance of each will vary according to the particular context. Yet, governance systems with institutions of high quality and legitimate sub-national governments will

Box 3.7. **Decentralisation and economic growth**

Opposing theoretical views have provoked a great deal of interest in the links between decentralisation and economic performance. However, the many empirical studies conducted over the past two decades have not significantly reduced the uncertainties associated with decentralisation and its economic impacts. Economists who favour decentralisation often assume that it leads to better resource allocation and a more productive, and possibly smaller, public sector (Oates, 1972, 1999; Shah, 1998). Their logic is that locally determined policies are better able to take account of local conditions for the provision of public goods, such as infrastructure, health and education. Others assume that decentralisation will produce healthy competition among different levels of government, which in turn will promote lower tax rates and the efficient delivery of public goods and services (Brennan and Buchanan, 1980). Yet others have argued that decentralisation may also give local governments incentives to innovate in the production and supply of public goods and services (Vasquez and McNab, 2003, cited in Thornton, 2007).

Some theories point out that the arguments that link decentralisation and economic growth are often based on the assumption that the decentralised units have sufficient institutional skills to carry out the delegated responsibilities, but that this is not always the case. These theories do not reject the potential benefits of decentralisation, but focus on the capacities of sub-national governments to execute the devolved responsibilities. In this regard, some research reveals the potential reinforcement of territorial disparities as a result of decentralisation owing to pre-existing inequalities, especially when decentralisation is not accompanied by allocation of funds and institutional and technical support to match the new responsibilities (Rodriguez-Pose and Gill, 2004).

Box 3.7. Decentralisation and economic growth (cont.)

Economists who are more sceptical about the economic benefits of decentralisation argue that it creates many difficulties for managing macroeconomic policy, especially in terms of ensuring fiscal co-ordination and implementing stabilisation policies (e.g. Prud'homme, 1995; Tanzi, 1996). More specifically, several studies question the desirability of transferring responsibility for revenue and expenditure functions to local levels because a tax assigned to local governments might be more efficiently managed centrally. A second worry is that sub-national governments would have an incentive to spend excessively on public consumption rather than on public investment, which would lead to suboptimal levels of expenditure.

be in a good position to improve administrative and economic efficiency through decentralisation.

The challenge for central governments seeking to improve decentralisation outcomes is to work towards achieving a governance structure capable of context-sensitive interventions that respond to local particularities in terms of strengths, weaknesses, opportunities and problems. As mentioned, some measures taken by the Chilean government go in this direction, such as the devolution of responsibilities for regional planning to the regional governments and the democratic election of the regional council. However, there is a need to go further in developing an adequate governance framework capable of overcoming the current fiscal and administrative limitations on sub-national governments underlined above. The next section reviews areas that could make a difference in the effectiveness of the decentralisation reforms in Chile, within the context of a shift towards a territorial approach to development.

3.2. Making decentralisation reforms work

While there is no ideal degree of decentralisation, ways to make it work in establishing a territorial approach to development can be recommended. Experience shows that decentralisation has to be tailored to a country's institutional history, structure and culture. With a focus on Chile's specific governance characteristics and political context, several issues might be addressed to ensure the efficiency of the current decentralisation reforms in improving public support to regional development:

- **The scope for reform and implementation.** Identification of the constraints, the feasibility and scope of decentralisation is a key to success.
- **A judicious reallocation of responsibilities.** Targets in terms of the reallocation of responsibilities must be well defined as must the means for reaching them.

- **Arrangements for co-ordination.** Regionally based policies require a certain degree of decentralisation, which also requires developing a solid institutional framework for co-ordination and specific arrangements among the various sectoral actors and the different levels of government.
- **Capacity building at sub-national level.** Sub-national skills and institutional strengths are crucial to guarantee that decentralised units will have the capacity to act autonomously and efficiently.
- **Citizen participation:** There is strong evidence that the extent to which decentralisation will improve public service outcomes depends on the creation of institutions for participation and accountability.

The scope for reform and implementation

The political economy of reform is essential to the viability of the reform. It is important to identify and react to the challenges policy makers encounter when designing and implementing reforms. One common reason for the lack of success is insufficient attention to the groups that resist change, the reasons for their resistance, and the mechanisms for managing and reducing or removing this resistance. As a first condition of any political reform, it is necessary to see clearly both the resistance to and the support for the reform. Once this is established, the path of the reform can be set, the role of the different actors can be defined, and the arrangements among them and their responsibilities under the new governance framework can be established.

Resistance to change in Chile

Chile's proposed decentralisation reforms have received mixed reactions from actors within the society. Even within the central government there is a broad spectrum of opinions regarding the decentralisation process. Decentralisation sceptics rely on four main arguments:

- **Sub-national actors' lack of capacity to handle the new governance responsibilities.** Because of Chile's long history of centralisation, sub-national officials tend to have less formal education and training than their national counterparts. At the same time, regional and municipal governments might lack the institutional capacities to deal with public policies as efficiently as their national counterparts. For this reason, some critics argue that sub-national units would lack the capabilities to assume further responsibilities.
- **Threats to fiscal discipline.** Opponents to the reform argue that decentralisation may destabilise Chile's public finance system by effectively relaxing the principles of fiscal discipline. These principles, the argument goes, can only be preserved if the central government, and the Ministry of Finance in particular, retains full control over the country's public finances.

This position is based on the view that if sub-national governments are allowed to define some of their tax rates in order to finance locally provided public services, they may impose inefficient tax rates that result in underfinancing public investments. Along the same lines, if they are allowed to take out loans to finance public investments, they might default on their loan payments, with implications for a balanced national budget at the aggregate level. These fears, have taken proposals for fiscal decentralisation off the current policy agenda of the central government.

- **Jeopardy of economic growth.** Related to the two former assumptions there is some concern among some central government officials that any change to the current system, which has brought about considerable economic growth and political stability, would put these achievements at risk. Advocates of this position often refer to the inferior economic and political performance of neighbouring countries that have pursued more aggressive decentralisation reforms and use this as evidence in support of their argument that Chile ought to stick to its centralised model of public policy. Such an argument fails, however, to consider the possibility that the current system underperforms in terms of efficient and effective responses to local needs, concerns and opportunities.
- **Insufficient local democracy.** Some opponents of decentralisation fear that further devolution to sub-national governments could leave local public affairs in the hands of local and regional oligarchies. If political and economic elites control the decision making, decentralisation might exacerbate existing asymmetries in both politics and economics. Such an outcome would be bad for democracy and equality, two of the central government's priority policy objectives. While there is some evidence that local elites continue to exert some influence over local political affairs in some Chilean localities, there is no proof that this has had an effect on equality and even less on democracy at the local level. On the contrary, a 2004 survey (Mas Voces, 2005) found that municipal governments represent one of the three main organisations (after the family and neighbourhood organisations) to which Chileans turn for help in solving the problems that they are most concerned about. This high level of perceived legitimacy of the local government bodes well for downward accountability in Chile.

Some local government representatives have also expressed concerns about the likely effects of decentralisation. In particular, they may fear that the reforms are likely to lead to more responsibilities at local levels without the necessary funds and decision-making power to handle these new governance responsibilities. An unfunded mandate, they argue, may further complicate local government affairs.

The expression of these opinions about decentralisation is not a sign of the weakness of the Chilean policy reform process. On the contrary, the ongoing debate is healthy because the resistance forces reformers to make a clear and convincing case for reform. It also challenges the reformers to take on the arguments against decentralisation reforms and demonstrate how the government proposes to avoid the potential risks associated with it.

Initiating the reform

Resistance to change makes it crucial to identify tools for removing barriers. Every reform or transition process has inherent obstacles. Resistance comes particularly from fears about unexpected outcomes. Other possible obstacles are linked to resistance to the engagement of new stakeholders in decision making and in defining strategies. Reform is also resisted by social groups or administrative officials that fear the loss of acquired rights. The evidence from some OECD countries reveals several means of facilitating reforms. These were outlined at the Global Forum on Governance held in Rio de Janeiro in October 2007 (OECD, 2008b) and may provide a useful reference for Chile (see Box 3.8).

In Chile, the main resistance to giving more relevance to sub-national actors seems to be a fear of jeopardising the macroeconomic stability achieved during the last decades. This requires an effort to better communicate the expected outcomes of the move towards place-based policies, with special emphasis on the potential medium- and long-term efficiency gains to be obtained from this reform in terms of the productivity and competitiveness potential of the different regions and of the country as a whole. In particular, there is a need to show that the benefits of reform outweigh its costs and that the results, in terms of growth and welfare, are greater than under the previous policy. This requires assessing the impact of the “new” regional policy.

A judicious reallocation of responsibilities

Establishing the roles

The responsibilities of the different levels of government must be clearly presented. In Chile, the laws that define the responsibilities of regional and local governments are the organic constitutional law of municipalities (LOCMUN) and the organic constitutional law of regional government and administration (LOGGAR), respectively. They establish the main functions of regional and local governments (see Table 1.1 in Chapter 1). Yet, as of now, as in many OECD countries, concurrent responsibilities across Chile's different levels of government create ambiguity. This is the case, among others, of the responsibility for productive development. Even if this is an area for which both municipalities and regions have delegated responsibilities, national

Box 3.8. Measures used in OECD countries to enable reforms

Building positive expectations for the outcomes of decentralisation reforms among different national and sub-national stakeholders is both a challenge and an opportunity. It is essential to communicate the objectives and expected outcomes of the reform process in a clear manner, with special emphasis on the search for efficiency, and to allow the different stakeholders to participate. For example, the speed of the Danish reform of local government depended on the ability to convince different stakeholders that changes would improve service quality.

Building trust and co-operation among levels of government is important for effective multi-level governance, as is identifying with whom or where final decision-making power lies. Building trust is fundamental when wishing to move past the status quo during transitional periods. One means to accomplish this is to discuss and work out among the different actors a set of rules and agreements regarding the path of change. This national political consensus was crucial during the transition to democracy in Spain: an extended dialogue was promoted among the different political parties and between the central government and the regions (all of them with different positions on decentralisation) about the objectives and scope of the process. Additionally, a line of responsibility among the different levels of government was included in the 1978 constitution which identifies where final decision-making power rests. The constitution was elaborated by representatives of the main political parties. It received popular legitimacy through a referendum in which citizens gave it their strong support. Co-operation can also be important for balancing outcomes for reform “winners” and “losers”. When shifting from the old to the new fiscal equalisation system, Switzerland established a temporary cohesion fund so that no poor canton would be a net loser in the first years of the change. Additionally, wealthy cantons, which bore the costs of the new equalisation system, were compensated by increased spending power (a shift from earmarked to general-purpose non-earmarked grants).

Capacity building. Investing in capacity building can assuage the fears of national officials about sub-national governments’ lack of skills and experience to execute the devolved responsibilities or to participate in multi-level government agreements. As capacity building requires a certain amount of “learning by doing” it may be that sub-national governments need to have responsibilities transferred to them in order to undergo this learning process.

Performance measurement can also play an important role in a decentralisation environment. Indicator systems can reduce information asymmetries between central and sub-central actors, help the central government transfer knowledge across sub-central authorities, contribute to monitoring a decentralisation process, reveal sub-national capacities, and encourage performance improvements at sub-central level. In addition, they can provide information for assessing the progress and impact of decentralisation and other reforms.

Source: OECD (2008b).

ministries and national public agencies also play a key role. This makes it especially important to define clearly the role and responsibilities of each level of government: vaguely defined coexisting mandates may compromise the implementation of key services.

To reach a national agreement regarding the scope of decentralisation will be crucial. Targets in terms of the reallocation of responsibilities must be clear as must the path and means to reach them. This requires a clear presentation of the responsibilities of the different levels of government. At the same time, to ensure service delivery, decentralisation should be implemented along with administrative and financial arrangements that enable the execution of the devolved competences.

Establishing a governance structure adapted to place-based policies

As noted, the reforms and moves towards a territorial approach in Chile suffer from the administrative and financial limitations on sub-national governments. A main challenge is to develop a governance structure capable of context-sensitive interventions that respond to local particularities in terms of strengths, opportunities and challenges. OECD countries have made a wide variety of decentralisation choices and have adopted different institutional arrangements to govern the relationships between levels of government. The administrative structure in different countries is the result of their specific history and the institutional arrangements adopted with a view to efficient public management, yet the degree of autonomy transferred to sub-national entities normally requires a balance between at least two forces:

- Proximity helps to understand and adapt the response to specific local demands/opportunities. This pleads for giving powers of decision to lower levels of government, which are closer to citizens.
- Retaining control at the central level helps to reach national goals and ensure territorial coherence.

The balance struck between these opposing forces depends on the nature of each service and the specific characteristics of each country. It is not always easy to find a good balance. This is very evident in Chile, where recent decisions to delegate regional responsibilities to regional bodies have been affected by the control that national units still exercise with a view to national efficiency and coherence. In spite of notable differences in their governance structures, most OECD countries try to combine the aims of achieving national policy goals and of ensuring national coherence with sufficient autonomy for sub-national units so that regions can improve their competitiveness. In this regard, a common element is the re-emergence of a territorial policy approach. Countries have recognised both the need for comprehensive regional approaches in order to generate growth and competitiveness in their

regions and the crucial interdependencies between regional development and national growth and cohesion (OECD, 2007a).

Regional competitiveness requires context-sensitive responses which in turn require a certain degree of decentralisation. Regionalisation of national policies is not enough; some decentralisation is also necessary. Specific place-based strategies can exploit local opportunities in a way that is consistent with the strengths and weaknesses of regions. In some countries, the centralisation of regional policy or hierarchical control over its implementation is considered a good way to ensure consistency but it risks losing sight of regional and local strengths and opportunities. As underlined in Chapter 2, this is the case in Chile, where, despite recent progress, the agenda for territorial development, largely designed at the national level, undermines the capacity to further exploit regional opportunities. The search for regional competitiveness must be supported by the identification of regional opportunities to be exploited. For this, the role of the regional government in Chile should be further strengthened.

Strengthening the regional institutional framework

Moving towards an integrated territorial approach in Chile will require evolving towards a solid and enhanced governance structure at the regional level that is able to generate a coherent framework for economic development. This presents several challenges. On the one hand, the role of the regional development strategies of the regional government, as a guiding framework for investments in the regions, should be reinforced. Regional governments are responsible for designing regional development strategies and establishing the main socio-economic guidelines for regional development for a period of six to ten years. Yet in terms of investments, neither the intendant nor the different public actors that present initiatives, or that intervene in the investment process, are required to follow the guidelines set in the regional development strategies or in the regional agendas of the RDAs. This creates a disincentive for regional planning. Additionally, as observed in Chapter 2, the agenda for regional economic development remains largely determined by the national agenda. The articulation of regional strategies with national guidelines and priorities is obviously important. But the mapping of key areas for regional development would be improved by seeking specifically regional vocations and regional synergies. Institutionally reinforced regional development strategies, linked to the national investment process, would be necessary to give the regional government and the new planning division the opportunity to play a greater role in guiding regional development in a comprehensive way. This would require adapting the investment process to a territorial logic that makes it possible to finance integrated, multi-sectoral initiatives and to a multi-annual budgeting/planning framework for

implementing local/regional policy. A multi-annual budget would allow for better management of investment projects. It would also help policy makers to see more clearly the longer-term consequences of their spending decisions.

There is a need to increase the institutional support to regional governments and to give them greater powers so that they can become active players in the discussion, planning and co-ordination of regional development policies. In recent years a special effort has been made to devolve responsibilities to regional governments (including for regional planning). However, in any decentralisation process, the assignment of new responsibilities requires new governance arrangements and an appropriate allocation of responsibilities and the legal mandate to carry them out. In this regard, national institutions and agencies, especially the regional representatives of national public services and line ministries, should reinforce their links and co-ordination with regional governments. Institutionalised channels of communication should be strengthened. This will be crucial for giving regional governments the elements and capacity to carry out their enlarged mandate (especially their responsibilities for regional planning) efficiently. At the same time, there is a need for greater co-ordination between the regional bodies dealing with territorial issues, mainly the regional government and the regional development agencies. Attention should be paid to clarifying the responsibilities and strengthening the interaction mechanisms of these two institutions. These developments call for greater trust on the part of the national institutions in the competences of regional institutions. It also calls for greater co-operation between levels of government. Contracts, co-ordination agreements and other mechanisms, such as capacity building and performance indicators, could help in this process by raising regional governments' capacities and strengthening the legitimacy, coherence and effectiveness of the reform.

Within this context the central government has a key role to play: greater decentralisation does not mean that the central government should leave sub-national governments alone. Central governments need to set the general legal framework to enable virtuous relations, vertically among the different levels of governments and horizontally among the different national sectoral policies and among the different regions or municipalities. This legal framework should target inter-regional disparities and should regulate fair and effective fiscal relations among the different levels of government. Central governments may help local governments carry out their new mandates by offering technical support, co-ordinating the creation of economies of scale in the production of some local public goods and services, and perhaps most importantly in monitoring and evaluating the performance of sub-national governments. A functional combination of the strengths of both national and sub-national structures calls for multi-level governance arrangements.

Co-ordination arrangements

Moving towards a comprehensive approach to regional development in Chile will require developing a regulatory framework able to co-ordinate, on a continuing basis, the efforts of the different actors and instruments involved in economic development. As noted, a certain degree of decentralisation is necessary, but decentralisation in itself does not ensure co-ordination and policy coherence: several decentralised countries have severe co-ordination problems at the regional level, with different regional secretaries and programmes working with central agencies in an uncoordinated fashion without a common integrated strategy.

There is a need for effective multi-level governance arrangements. A crucial and not always easy task when implementing integrated policies is to arrange good co-ordination and achieve coherence among the different levels of government and among the different actors operating in the territory. As mentioned, even in centralised countries many services require the intervention of different levels of government (national, regional and local). Interdependencies between levels of government also exist because individual public actions at one level of government affect other levels of government. Finally, the assignment of responsibilities to different levels of government also requires multi-level governance arrangements for co-operation. However, efforts to co-ordinate vertical ministerial organisations can sometimes face resistance because they threaten sectoral interests and sectoral budget lines. This could lead vertically organised ministries and secretaries to resist inter-sectoral place-based approaches. Different measures and mechanisms can be applied to promote co-ordination.

Co-ordination from the centre

More efforts are needed in Chile to strengthen the territorial orientation of central government programmes. In addition to better co-ordination among levels of government and to greater involvement of sub-national governments in regional planning, it will be important for central policies on regional development to have a territorial dimension. As noted in Chapter 2, there have been a number of agreements to finance comprehensive economic development initiatives with resources and support from several public agencies (e.g. *Chile Emprende*), but these have been mostly *ad hoc* efforts. At least three key conditions for promoting integrated territorial approaches to regional policy at the central government level should be considered:

- A territorial development approach that promotes place-based rather than one-size-fits-all policies at the central level should have high visibility/priority on the political agenda.

- Efficient administrative and fiscal mechanisms for inter-ministerial co-ordination require procedures for financing multi-sectoral investments as well as further encouragement of collaborative mechanisms among different ministries and public agencies.
- The involvement of local actors (including local and regional governments or regional development agencies) in the design and co-ordination of national initiatives to be carried out in the regions would improve information on regional requirements and regional synergies and help to see how the initiative fits with other projects being carried out in the territory.

Collaboration between ministries and public agencies should be strengthened, as should the role of the Sub-secretariat for Regional and Administrative Development (Subdere) as “arbiter” to facilitate and foster integrated place-based approaches. In Chile, Subdere is the national unit in charge of promoting regional development. It is under the Ministry of the Interior and has a great degree of autonomy to deal directly with different ministries on issues under its responsibility. Subdere focuses its activities on four main areas: i) administration of public investment programmes (especially regional allocation and oversight of resources linked to the FNDR and the Municipal Common Fund (FCM); ii) design of decentralisation policies; iii) analysis, monitoring and evaluation of the decentralisation process and regional performance; and iv) support for institutional strengthening at the sub-national level. Subdere also supports initiatives to incorporate a regional vision in the activities of other central government institutions. However, it is currently very difficult for Subdere, in practice, to act as the national co-ordination unit. On the one hand, as pointed out in Chapter 2, public investment going to the regions is regulated by the National Investment System and is delivered on a sectoral basis. On the other, different initiatives proposed by national ministries and public agencies normally follow a top-down approach, sometimes without enough consultation and co-ordination with Subdere.

Co-ordination and arbitration on regional development policy at the central level is a challenge throughout OECD countries, but some options have emerged. The spectrum of instruments ranges from bodies charged with co-ordinating the activities of sectoral ministries, to ministries with broad responsibilities and powers that encompass traditionally separate sectors (see Box 3.9).

The contractual approach

OECD countries use contracts as a useful way to improve the efficiency of relations between levels of government, in contexts where public policies are

Box 3.9. Co-ordination of regional policy in OECD countries: various models

In OECD countries there are several different models for improving the co-ordination of territorial policies at the national level. The simplest and most common instrument is co-ordination through inter-ministerial committees and commissions. Some co-ordinating structures are relatively informal, others are more structured. Austria, for example, has developed an informal approach that emphasises consensus building among ministries, while Switzerland uses a more formal approach in which ministries dealing with territorial development issues have to convene regularly in an inter-ministerial body.

Several countries augment cross-sectoral co-ordination mechanisms through special units or agencies that provide planning and advisory support to help ensure policy coherence across sectors. In Norway, the Regional Development Unit of the Ministry of Local Government and Regional Development has responsibility for co-ordinating the regional dimension of policies of other government departments, principally through inter-ministerial groups. In the United Kingdom, the Regional Co-ordination Unit – currently in the Office of the Deputy Prime Minister – was set up to implement cross-cutting initiatives and to advise departments. In Japan, the National and Regional Planning Bureau in the Ministry of Land Infrastructure and Transport has developed a new view of territorial/regional policy and provided a network for local authorities as well as other local actors. In France, the DIACT (Délégation interministérielle à l'aménagement et la compétitivité des territoires) is an inter-ministerial body directly linked to the Office of the Prime Minister (it co-ordinates national territorial policy and handles planning contracts and the European structural funds) and receives information from the different ministries regarding their regional priorities and the strategic objectives identified by the regional prefects.

These co-ordination bodies also function as the interface with regional governments in the area of economic development – allocating funding, setting the guidelines for drawing up regional strategies, advising on and authorising the strategies, and ensuring value for money.

Source: OECD (2005), Building Competitive Regions.

co-produced by different levels of government. A contract is any arrangement that reorganises the rights and duties of the different levels of government other than by way of the Constitution. The contract establishes the set of norms and “rules of the game” by which the parties commit themselves to follow a mutually agreed mechanism (OECD, 2007a). These arrangements offer several

advantages for regional development policies: they allow for customised management of interdependencies; they are useful tools for dialogue that can be used for clarifying responsibilities and making mutual commitments explicit; they open possibilities for judicial enforcement; and they can be used as learning mechanisms. Contracts are used both in unitary and federal states. In some unitary states, contracts are often used in the framework of decentralisation as a way to complement (or implement) the constitutional delegation of authority. Yet, to enter into a contract the parties need to have certain level of autonomy.

Contracts are tools that can be used to explore new governance mechanisms, to transmit skills and to clarify responsibilities among the different levels of government. In some cases, successful contracting arrangements can lead to constitutional reforms if both parties have clarified or discovered a good assignment of responsibilities and good co-ordination rules between them. Alternatively, a successful contract between levels of government can lead to its replication in similar relationships between other parties or between the same parties but on another topic. Because of their capacity to be adapted to specific contexts and promote shared objectives and references (especially when accompanied by indicator systems) contracts might be considered a possible tool for reforming traditional practices in the governance of public policies in Chile, in particular for regional development. They would solve various kinds of issues: a framework for multi-level co-ordination, a tool for learning and capacity building, identification of relevant projects for competitiveness at the regional level, territorial customisation of competitiveness policy.

In Chile, programming agreements (*acuerdos de programación*) are a main tool for co-ordinating regional and sectoral priorities through multi-level agreements (see Box 3.10). A main advantage is that these investment initiatives allow multi-year budgeting. At the same time, they allow the regional government to take an important role in the design of these projects (integrating them in the framework of the regional development strategy). However, to date, the use of programming agreements has been mainly restricted to large infrastructure initiatives. Moreover, a common complaint is that the initiative and leading role in these agreements come largely from the line ministries, which use the system to carry out projects that would have been implemented anyway, with the added advantage that under this scheme the expenses are shared. As a result, the projects mostly reflect the priorities of the line ministries (*Ministerio del Interior*, 2001). An enforced and clarified role for regional governments and more institutionalised co-ordination between them, the line ministries and public agencies would be necessary to move the programming agreement format beyond large infrastructure initiatives to other areas, projects or parties. Within this expanded contract

Box 3.10. **Programming agreements in Chile**

A programming agreement is a formal agreement between one or more regional governments and one or more ministries, detailing measures and procedures to be undertaken in projects of common interest over a specified period of time. These agreements can also integrate other public or private national, regional or local institutions. It allows for carrying out multi-annual projects of one to five years. For the resources to be made available the agreements have to respect the following stages: i) formulation of the Idea: to identify projects that address regional problems effectively in the context of the region's development strategy; ii) the signing of a protocol of purpose which initiates negotiations with the ministries; iii) deciding on projects and programmes: project decision making, pre-investment studies if they do not exist, technical units for the investigation's monitoring and results; iv) drafting the programming agreement: defining rights and responsibilities of the parties involved; and v) presentation of the agreement to the Regional Council, its approval and signing. Projects are carried out using the resources of both line ministries and regional governments (FNDR resources). On average, regional governments contribute 33% of the resources and line ministries make up the remaining 66%. The bulk of the projects are carried out with three line ministries: public works, housing and health. They are mostly designed to implement large Infrastructure projects.

Source: Subdere.

setting a shared assessment could be established in order to disseminate the “lessons learned”.

Local government co-ordination in metropolitan areas

Co-ordination is essential to efficient service provision in any metropolitan area. This is a common challenge in most OECD countries, both because several public institutions are involved in the regulation, provision and oversight of public services, and because functional metropolitan areas normally integrate several municipalities. In Chile, as noted in Chapter 2, urban planning is a significant challenge, particularly in Valparaíso, Concepción and in metropolitan Santiago, where the fragmentation of the functional city into different municipalities affects the overall co-ordination and management of urban public services, such as public transport. Greater Santiago is composed of 35 autonomous municipalities. There is no single municipal authority with jurisdiction over the entire city. The provision of local public services is normally a task for national institutions: national

ministries (for instance, the Ministry of Transport deals with Santiago's urban transport system), regional directorships of national ministries (e.g. the Housing and Urban Development Department – SERVIU), or public agencies (e.g. the National Commission for Environment – CONAMA). Additionally, each municipality has exclusive responsibility for enforcing all measures regarding transport, for implementing provisions regarding construction and city planning, and for the planning and urban regulation of the municipality. Municipalities also share responsibilities for social housing. Within this disaggregated context, the areas of responsibility of the different authorities are not clearly defined (Dockemdorff, Rodríguez and Winchester, 2000). It is thus essential to establish the role and line of responsibilities of each institution.

A co-ordinated local governance structure is required in big cities like Santiago. This is especially necessary for ensuring that different sectoral policies implemented in the metropolitan area are correctly integrated; different municipal areas (e.g. housing, land use planning and economic development) are connected to the urban economy and require cross-sectoral coherence. In parallel, co-ordination of the delivery of public services across several municipalities within a metropolitan area (for instance, public transport) also calls for establishing a metropolitan governance system.

It would be good to start discussions on the establishment of a local planning institution able to deal with the challenges affecting big urban conurbations formed by several municipalities. Such an authority would have better information and the capacity to deal with the complex challenges of delivering public services in the greater Santiago area. OECD countries use different institutional designs to improve co-ordination in the delivery of public services in urban areas in which the functional area is larger than the administrative boundaries (see Box 3.11).

In Chile, as a result of the establishment of the integrated public transport system for the city of Santiago, Transantiago (see Chapter 2), attempts were made to establish a metropolitan co-ordination unit: the “*co-ordinación general del transporte de Santiago*” and the “*directorío de transporte de Santiago*”. However these institutions were formed almost exclusively with central government institutions (different ministries and under-ministries), without any representation of local government on the institution's board. At the same time these units had only a consultative role. Several cities in OECD countries opt for a single metropolitan institution or authority to co-ordinate the main urban issues, such as urban transport. Representatives of the main local parties give this authority better information, planning and negotiation capacity. The regional transport authorities of Chicago and Frankfurt offer useful examples (see Box 3.12).

Box 3.11. Types of metropolitan governance in OECD countries

Many cities have placed greater emphasis on voluntary instruments for co-ordination and co-operation. The discussion of how to manage metropolitan areas better revolves principally around a spectrum of models that range from relatively “heavy” to relatively “light” in terms of the scope of the reform they imply.

- i) At the relatively heavy end are functional models whereby governance structures are reshaped to fit or to approximate the functional economic area of the metropolitan area. Examples include the creation of a metropolitan government and the amalgamation of municipalities.
- ii) At mid-position are a wide range of co-operative arrangements through inter-municipal joint authorities, most often on a voluntary basis, such as sectoral or multi-sectoral agencies whose main functions generally include transport, urban planning or economic development (sometimes on *ad hoc* basis).
- iii) At the light end are informal co-ordination bodies such as platforms, associations or strategic planning partnerships, often relying on existing networks of relevant actors, without necessarily following the logic of territorial boundaries.

Source: OECD (2006).

Finally, the specific structure and the mandate of a urban planning institution for Santiago (either a global urban planning unit or a specific transport authority) would be key factors in its success. An efficient urban co-ordination unit would need to have the necessary authority (established either through a specific contract or by law) that would clearly define its tasks, responsibilities, mandate and mode of interaction with the different sectoral institutions, the regional government and individual municipalities. In addition, such a unit should represent the main public parties but it should also be able to carry out its tasks efficiently. The large number of municipalities that comprise greater Santiago and the variety of public actors involved in the delivery of urban public services in Chile makes this a challenge. To tackle this challenge, some transport planning institutions established in OECD countries have decided to reduce the direct representation of municipal public officials on the institution’s board and appoint professionals with expertise in areas relevant to the institution’s role. The Vancouver transport authority offers an example (see Box 3.13).

Box 3.12. Transport authorities in Chicago and Frankfurt

The Regional Transportation Authority (RTA) operates as the second-largest public transportation system in North America, providing financial oversight and regional planning for the three public transit operators in north-eastern Illinois: the Chicago Transit Authority (CTA), Metra commuter rail and Pace suburban bus. Created in 1974 as a special-purpose unit of local government and a municipal corporation of the state of Illinois, it provides more than 2 million rides daily and oversees assets valued at more than USD 27 billion. The origins of RTA can be traced to 1974, when residents of six counties in north-eastern Illinois – Cook, DuPage, Kane, Lake, McHenry and Will – approved its creation in a referendum.

In terms of governance, the RTA's Board of Directors provides oversight responsibility and approves an annual budget and two-year financial plan. The 16-member RTA Board consists of 15 directors who are appointed from within the six-county region: five directors by the Mayor of the City of Chicago; four directors by the suburban members of the Cook County Board; one director by the President of the Cook County Board (from Suburban Cook County); and one director each from DuPage, Kane, Lake, McHenry and Will counties, who are appointed by the chair of their respective county board. The chair, its 16th member, is elected by at least 12 of the 16 appointed members. The RTA Board is required annually to review and approve a five-year capital plan, which is a blueprint for the capital activities to be funded by the RTA and executed by the CTA, Metra and Pace. The levels of service, fares and operational policies are left to the discretion of the respective boards of the CTA, Metra and Pace. Currently the RTA conducts regional mobility analysis, enforces paratransit guidelines, researches intelligent transportation systems (ITS), and administers a regional discounted fare programme for senior citizens and the disabled.

The Frankfurt Rhein Main transport authority (RMV) organises public transport in the area of Rhein Main, which comprises two-thirds of the state of Hessen. RMV also co-ordinates the regional public transport system in close co-operation with the local transport organisations. Decisions about transport facilities and tariffs are made at the political level, and the RMV and the local transport organisations implement these decisions. Transport enterprises such as the national railways or bus enterprises are answerable to the RMV through performance contracts. The 130 enterprises within the territory of the RMV are allowed independence in carrying out their contracts and achieving the required performance levels. Although the RMV does not have its own rail network or materials, it can plan for the construction of new rail networks, stations and material. One of the priorities when the RMV was first created in 1995 was to harmonise about 100 tariff systems that existed in the area it covered. It created one universal tariff and a single ticket that can be used on all the means of public transport, no matter how many transfers are made. The price is set depending on the number of tariff areas crossed. Every December, the schedules of regional transport in the RMV area are adjusted. The RMV informs the public about any changes in the 14 local transport systems and the one regional transport system.

Source: OECD Territorial Reviews, Cape Town, South Africa (2008).

Box 3.13. Transport authorities: Vancouver's TransLink

TransLink is the organisation responsible for the regional transport network of Metro Vancouver in British Columbia, Canada, including public transport and major roads and bridges. TransLink was created in 1998 (then called the Greater Vancouver Transportation Authority, or GVTA) and fully implemented in April 1999 by the Government of British Columbia to replace BC Transit in the Greater Vancouver Regional District (now Metro Vancouver) and assume many transport responsibilities previously held by the provincial government. TransLink is responsible for various modes of transport such as bus, rail and ferry services in the Metro Vancouver region, covering 21 municipalities (2 077 square kilometres) and serving more than 2 million people. Some of its operations extend into the Fraser Valley Regional District (FVRD). On 29 November 2007, the province of British Columbia approved legislation changing the governance structure and name of the organisation. With the new governance model, TransLink will be looking to expand its services beyond Metro Vancouver, potentially reaching as far north as Pemberton and as far east as Hope, based on municipal agreements. This is to meet the transport needs of the rapidly growing population of Metro Vancouver and its surrounding region.

In place of elected officials, the TransLink Board is now comprised of 11 appointed professionals, with expertise in areas relevant to the management of TransLink, such as finance, transport and labour relations. The Board is appointed by the Council of Mayors and is responsible for hiring and monitoring the performance of the CEO, and providing oversight of TransLink's strategic planning. The Council of Mayors is composed of the mayors of the 21 municipalities within Metro Vancouver. Under the previous structure, fewer than half of the municipalities of the GVRD were represented on the TransLink. In addition, an independent Regional Transportation Board has been nominated to deal with fare increases above inflation, TransLink's plans for annual satisfaction surveys, its customer complaint process and any proposed sale of major assets. Most importantly, the Commissioner reports to the Council of Mayors on TransLink's performance. Under the previous revenue scheme, TransLink relied heavily on property taxes for funding. The new legislation leaves TransLink with its previous major funding sources (transit fares, property taxes and a share of the provincial tax on gasoline sold in the Metro Vancouver area), which fund the billion-dollar operation and the CAD 4 billion capital plan. In addition, TransLink will also continue to benefit from Federal Gas Tax Fund. The parking stall tax, worth approximately CAD 18 million annually, has been replaced with an equal amount of property tax.

The new legislation gives TransLink access to an additional three cents of gas revenues in Metro Vancouver (worth approximately CAD 66 million) if, by the end of the new ten-year strategic plan, TransLink can demonstrate that it can raise CAD 130 million from regional sources such as increases in property tax, transit fares and advertising revenues. A new source of funding is revenues from property development near rapid-transit stations, illustrating TransLink's new role as a real estate development body.

Source: Vancouver's Translink website.

Capacity building and reform at sub-national level

In Chile, there is a widespread perception that the current levels of governance capacity in local governments – both municipal and regional governments – are insufficient for performing their mandated tasks in a satisfactory manner. Sub-national government staff generally tend to have less formal training than civil servants at the central level. Lack of capacity in Chile's sub-national governments is linked to the relatively limited financial resources of most regional and municipal governments for hiring qualified staff. Central government agencies offer much higher wages and are thus able to attract the most highly trained personnel (Valenzuela, 2006).

Sub-national governments have advantages in terms of making use of local knowledge, but the lack of human and institutional capacities can affect their performance. Local knowledge, strong political incentives to respond to local needs, and citizens' ease of access to local officials all give sub-national governments advantages for developing the institutional capacities needed for local governance. Nevertheless, to reap the benefits of decentralisation it is necessary to enforce the capacity of sub-national actors.

Investing in capacity building can facilitate the implementation of decentralisation reforms in Chile and help to dispel one of the main fears of opponents to these reforms. Some programmes have sought to improve the skills of local and regional public officials in order to prepare them to carry out their devolved responsibilities efficiently. This is the case of Subdere's Governance Improvement Programme (*Programa de Mejoramiento de la Gestión de Subdere*), which seeks to strengthen territorial development processes by providing technical and administrative support to local actors who are receiving an expanded public policy mandate as a result of decentralisation. Regional governments are the main target group. Subdere staff interacts with the regional government staff to document and assess practices and procedures in each of the 15 regional governments. The participatory monitoring and evaluation system identifies limitations and potential opportunities for augmenting capacities and addressing shortcomings through a process of progressive administrative adjustments and training. An attractive feature of the programme is that it has shifted the focus from the central government's pure control function to a focus more in line with its facilitative role in an increasingly decentralised context.

This is in line with reforms implemented in the OECD area, where capacity building is a responsibility that normally involves sub-national governments and other actors: sub-national governments are called upon to help recognise needs and design the necessary programmes. Involvement of regional academic institutions and NGOs in these programmes is frequent and could be an interesting option for capacity-building programmes in Chile.

Another specific measure to improve public officials' capacities in OECD countries is promotion of staff mobility both nationally, between central and local governments, and between the public and private sectors. This allows sharing expertise and best practices and focusing employee development on strategic needs (see the example of Interchange Canada in Box 3.14).

In Chile, the lack of flexibility to adapt the organisational structure of municipalities to local characteristics and demands has also hindered capacity building at the local level. As of now, several measures related to human resource management at the municipal level, such as the composition of the technical and professional staff or the maximum share of municipal resources devoted to hiring municipal staff, remain fixed and tied by national organic laws. The municipal reform under way is intended to give municipalities more responsibility and flexibility in the administration of human resources. It also aims to make performance incentives part of the remuneration of local officials. At the same time the reform is intended to offer municipalities further support and to improve municipal fiscal revenues, among other measures. This would be a necessary step in giving localities greater autonomy to adapt their organisational characteristics to their particular needs and create an institutional framework more favourable to improving the capacities of local governments.

Learning by doing

In centralised countries like Chile, constraining the political mandate of sub-national units can stifle local possibilities and motivation to acquire new skills. Reformers seeking to improve public-sector performance by decentralising governance responsibilities face a dilemma. While the devolution of political autonomy to local governments seems necessary to start a process of progressive capacity building, such devolution may seem risky if the local governance actors do not appear capable of performing the tasks asked of them. The solution is often a very limited transfer of political autonomy and resources combined with a more "generous" transfer of responsibilities. The problem is that, as noted above, a process that limits the resources and tools to carry out devolved responsibilities will restrict the capacity to execute these responsibilities efficiently.

Capacity building requires learning by doing. Moreover, observations from OECD countries reveal that apart from mechanisms to strengthen performance and improve local officials' skills, building capacity clearly benefits from the progressive involvement of sub-national governments in public affairs (see the example of Sweden in Box 3.15). Most countries have implemented this learning by doing framework gradually, by offering technical assistance and capacity building parallel to a progressive transfer of responsibilities. The use of performance indicators is a useful way to be aware

Box 3.14. Interchange Canada

Interchange Canada is a national programme that involves the temporary assignment of employees from one sector to another, including the federal public service, other levels of government, private-sector organisations, academic institutions and non-profit organisations. These assignments serve to strengthen policies, programmes and services, share expertise and best practices, and encourage employee development in line with strategic organisational needs.

Interchange Canada encourages employee assignments between the federal public service and organisations in other sectors both within Canada and internationally. By taking assignments in a new sector, employees develop personally and professionally and their organisations benefit from new skills, knowledge and approaches. Interchange Canada has the following characteristics:

- Employees are sponsored by their organisation. During the assignment, they work on site with the host organisation but remain employees of the sponsoring organisation. At the end of the assignment, they are expected to return to their sponsor. An assignment can be for a period of up to three years.
- Employees maintain their current pay and benefits, and the sponsoring organisation continues to pay the participant's salary and benefits. Normally, the host organisation reimburses the sponsor for these costs.
- The host pays for initial interview expenses as well as job-related travel and training during the assignment.

Possible conflict of interest situations are examined. Participating organisations are responsible for ensuring that there is no possible conflict of interest or that the risk is not significant.

Interchange Canada is open to employees in all groups and at all levels of the federal public service and to employees in business, other levels of government, Crown corporations, unions, academic institutions and non-profit organisations both within Canada and internationally.

Executives participating in the programme promote linkages between the federal government and organisations in the private sector or other levels of government, both within Canada and internationally. Because these leaders influence an organisation at its highest levels, the knowledge, innovation and cultural changes that result from their assignments are long-term and can help enhance stakeholder relationships.

Source: ACOA; the Canada Public Service Agency; the Public Service Commission Advisory Council of Canada.

of institutional capacities and requirements and to monitor the process (OECD, 2008b). The central government can adopt different general strategies for transferring responsibilities in areas for which sub-national units have limited management capacity. Either it can transfer policy domains immediately to the sub-national authority and co-operate (on the basis of a contract) to train and co-manage the delegated policy. Or, before delegating wide policy areas to a weak sub-national government, it can narrow the scope of delegation on the basis of a relatively detailed contract, the performance of which can be the basis of further delegation (OECD, 2007a).

Matching devolved responsibilities and capabilities

A specific point to keep in mind is that capacities may be unequally distributed across the country's different territories. Some regions or localities may find it more difficult than others, in human and institutional terms, to cope with devolved responsibilities. In general terms, most developed localities will be better able to adapt and benefit from further devolution, while the least developed localities with weaker institutions and fewer financial and human resources for carrying out the enlarged mandate, may find implementation more difficult (Rodríguez Pose and Gill, 2004). This is an important challenge in countries with marked territorial inequalities such as Chile. Actions to provide less developed areas with appropriate means, capacities and resources to execute an enlarged mandate will be crucial.

The perception of unequal capacities to carry out an extended mandate has led some OECD countries to implement asymmetrical decentralisation, with some localities in a transition period while they acquire the human, social and institutional capacities to cope with the new responsibilities. Decentralised functions and responsibilities should be commensurate with the capacities of each sub-national unit and may be increased as capacities become stronger. Asymmetric decentralisation in OECD countries has led to some interesting experiences (see Sweden's experience, described in Box 3.15). This strategy could benefit countries with important territorial disparities (like Chile), with responsibilities devolved gradually to municipalities/regions with a minimum level of capacity. It could be piloted in one region and gradually introduced elsewhere if the experience proves successful. In Chile, the reform of the organic constitutional law of regional government and administration (LOGGAR) which is under way proposes to differentiate among "exclusive functions" and "transferable functions" of regional governments. This reform will allow a transfer of responsibilities to a single region or to a group of regions, as the result of specific requests by either the regional government or a national ministry.

Box 3.15. **Asymmetrical decentralisation in Sweden**

While homogeneous decentralisation processes facilitate management of the whole system thanks to the application of the same set of rules and may reinforce national cohesion, they may also be unable to adapt to different territorial contexts. Therefore, in view of their political and cultural characteristics or important differences in their ability to deliver and finance services, local or regional governments may usefully be given different responsibilities for transitory periods. **Sweden** has used asymmetrical decentralisation to promote pilot experiences in particular regions. The results of experimental regionalisation policies in the regions of Västra Götaland (three counties including the City of Göteborg) and Skåne (two counties) since 1997 have been positive and led to the creation of regional councils. These councils are in charge not only of traditional county council tasks such as health care but also of the regional and economic development programmes normally dealt with by the County Administrative Board. Later, a new regional division of responsibilities was introduced: two regions with directly elected political bodies (Skåne and Västra Götaland), one region with an indirectly elected regional council (Kalmar) and one region in which a municipality assumes regional functions (Gotland). The regions have taken over certain tasks from the state, including responsibility for regional development, support of businesses and decisions on investment in regional infrastructure. The preliminary assessment of this decentralisation experience by the Council of Europe in its local and regional report on Sweden, adopted in June 2005, stresses the fact that “the region has experienced an economic growth and capacity to administer a variety of development programmes, from transport to health care, that would not have happened if the trial had not taken place”.

The use of incentives

Incentives that are tied to performance are an instrument for improving capacities at sub-national level. In order to raise the performance of sub-national units, countries can attach explicit rewards and sanctions to indicators tied to specific performance objectives. Such incentives are usually of two kinds: financial and administrative. Financial incentives refer to the availability of funds based on performance. Administrative incentives are changes to rules and regulations that affect regional or local actors, such as a relaxation (or tightening) of budgetary rules, decreased (or increased) oversight, etc. In Chile, the Management Improvement Programme (PMG) offers public institutions a performance bonus (a financial incentive) based on the fulfilment of several performance indicators. Another example may be the

preferential scholar subsidy implemented by the Ministry of Education from 2008. This reform involves the gradual transfer of resources and management responsibilities to municipalities (as school operators) conditional on results and the acquisition of capacity (see the section on education in Chapter 2 for more details).

Performance indicators

In combination with incentive mechanisms, performance indicators can contribute to capacity building. Indicators can be used both to measure and to monitor the performance of the regional economy or to monitor and manage the performance of regional policy actors. Multi-level governance can benefit from the use of indicators. Indicators can reduce information asymmetries between levels of government and are a way to share good practices, help the central government transfer knowledge across sub-national authorities, and encourage better performance. The use of performance indicators may improve policy performance in several fields (OECD, 2008c):

- **Select policy strategies:** Information can reveal the strengths and weaknesses of a regional economy and thus increase the likelihood that policy objectives will be met.
- **Monitor policy implementation:** Once specific policies are implemented, information from indicators can monitor input utilisation and the achievement of milestones.
- **Increase accountability:** Information systems can enhance accountability by offering information about the characteristics and results of what has been done.
- **Create knowledge and improve policy choices:** Comparative performance data may generate an implicit incentive by encouraging stakeholders to improve their performance and efficiency and to search for better strategies.
- **Create a common framework for dialogue,** by sharing common references and objectives and contributing to a common learning process.

The effective implementation of performance indicators poses some challenges. Information does not automatically improve policy performance. It is important to select appropriate indicators and to validate and distribute the information. At the same time, the capacity to use the information in an effective and timely way has to be developed. Finally, weak local capacities can limit the benefits of performance measurement and reduce the usefulness of the system. This makes stakeholder training and the acquisition of the necessary technologies at the local level especially important.

Box 3.16. Main performance indicator initiatives in Chile

The Management Improvement Programme (PMG) is a system for ensuring the efficient allocation and use of public resources in the public administration. The government adopted the concept of results-based budgeting and gives a performance bonus to public institutions based on the fulfilment of several performance indicators. A horizontal area under the PMG is the Electronic Government System which is aimed at contributing to the use of information and communication technologies through the following actions: improve and simplify the information and services offered by the state to the public; improve and simplify institutional support processes; and promote the creation of technological channels that enable enhanced transparency and community participation.

Subdere developed **the Municipal Services Accreditation System** together with the Chilean Association of Municipalities and Chile Calidad (the National Centre for Productivity and Quality). The system consists of a set of processes and methods to support, guide and encourage municipalities to initiate and remain on a continuous course of performance improvement. The certification process is a multi-step process that starts when a municipality enrolls voluntarily in the programme. While the main goal of this voluntary monitoring and evaluation programme is to certify governance processes that meet high standards of quality control, it also provides essential decision support to municipal actors in charge of public service provision.

The SINIM, the National System of Municipal Indicators, provides over 150 standardised indicators for each of the municipalities of the country. This initiative of Subdere provides information that is easily accessible to the general public through its website (www.sinim.cl/). The data make it possible to compare the characteristics and performance of all Chilean municipalities, and allow the different stakeholder to take informed decisions. The system offers information from 2001 onward.

Source: Subdere.

Chile has implemented several performance management programmes based on indicators, such as the Management Improvement Programme and the Municipal Services Accreditation System. Subdere has also developed an Internet platform with a complete system of municipal indicators, the SINIM (see Box 3.16). Most performance indicator initiatives are designed top-down. However Subdere developed the Municipal Services Accreditation System together with the Chilean Association of Municipalities, in an effort to take advantage of local knowledge to build the performance indicators. Such intergovernmental participatory assessment could be extended to other initiatives. The central authorities are well positioned to gather information

from many sources and facilitate its sharing among central and sub-central authorities. However, an exclusively top-down approach to indicator selection may fail to reflect regional and local needs and challenges. Moreover, a strategy imposed by the centre in the absence of consultation may undermine sub-national actors' engagement and participation in the process. All of this suggests that intergovernmental collaboration can be a good way to increase the usefulness of indicator systems (OECD, 2008c). Participatory vertical and horizontal arrangements can help make the system more effective.

Enhancing participation

In Chile, as in many countries, decentralisation is largely seen as a way to enable participation: it can enable the citizenry to be in a position to engage in partnerships with government and to monitor and hold local officials accountable. In fact, the empirical evidence reviewed above indicates that participation can also be a tool for making decentralisation reforms work. Governance systems with high quality institutions for downward accountability and legitimate sub-national governments would be well placed to improve administrative and economic efficiency through decentralisation. Research has shown that effective public service delivery by local governments depends on the degree to which they involve a variety of local groups and individual citizens in political decision making, establish transparent administrative processes, and are downwardly accountable and responsive to broad local concerns of service users (Blair, 2000; Crook and Manor, 1998; de Oliveira, 2002; Ribot, 2002; Singleton, 1998). In this regard, OECD country experience shows that greater openness and participation in policy making and service delivery can have several economic and political advantages (OECD, 2008a):

- Better economic outcomes: Making policy in a more inclusive way can contribute to better use of public funds by planning and implementing policy options on the basis of more comprehensive knowledge from various stakeholders (public, private, civil society). The co-operation, co-ordination and involvement of the different actors in diverse instances (RDAs, coalitions, participative councils) are an important aspect of the policy process. Additionally, as noted in Chapter 2, active participation by regional actors (local/regional governments, SMEs, universities, among others) may help to reveal untapped regional resources that would not be identified by traditional top-down approaches. This, in turn, would be important to identify further possibilities for diversification.
- Innovative solutions: Engagement of the private sector and civil society (including universities, community-based organisations and citizens in general) is well known to be a driver of innovation in the public and private sectors.

- Increased legitimacy, trust in the reforms: Open and participative policy making can reinforce credibility and legitimacy. Including different sectors of society in the policy process can help them to understand the reforms, increase social ownership of the process, and remove the barriers to reform.

Therefore, open and inclusive policy making (including the public and private sectors, universities, community-based organisations and citizens in general) contributes to better economic and political outcomes. Efforts to strengthen democracy and the effectiveness of public services are mutually reinforcing. By bringing policy decisions closer to citizens, decentralisation can facilitate this process. However, there are various barriers to participation in local government decision making.

Main barriers to participation and inclusiveness

Participation and accountability are not likely to result automatically from decentralisation, and even when they do they may face a number of obstacles. The notion that decentralisation somehow leads to increased participation is often taken at face value: if governments are brought closer to the people, they will seek citizens' input when making decisions. Yet, in societies with significant inequalities, inclusive local institutions for civic participation are unlikely to emerge as a natural consequence of decentralisation.

In Chile, there are some initiatives under way to strengthen citizen participation but even when participative forums exist, they may still not reach most of the citizenry. The administrative organisation of municipalities includes an economic and social council to represent the different social groups and community-based organisations. The municipal government law requires the preparation of the community development plans (PLADECO) that include public participation. The programme for municipal strengthening also encompasses several participation mechanisms, including personal interviews with stakeholders and community focus groups. Additionally, some public programmes and initiatives, such as the Rural Infrastructure for Territorial Development (Box 1.2), take participation and empowerment of local stakeholders as a basic characteristic. Yet, these initiatives have still not reached most of the citizenry. A recent survey of a sample of 7 200 local residents in Chilean municipalities (Más Voces, 2005) indicates that only 8% of respondents had been invited to express their opinions on municipal decision making. In addition, only 16% were aware of the existence of the Municipal Council for Social and Economic Affairs. This survey showed that citizen participation at the regional level is even more limited. Finally, 57% of those surveyed said that the same group of (privileged) people is always invited to participate by the government.

This trend corresponds to OECD country experience that even when participative forums exist, some sectors of society may be left out for socioeconomic, ethnic, cultural or gender reasons. Even when inclusive forums for participation (local councils for instance) are established, large social inequalities or the marginalisation of certain groups mean that the opinions of such groups will not be heard. Lack of interest in public policies among those who can but do not wish to participate in public matters is another barrier to participation in OECD countries. Local citizens may not wish to participate if they believe that their voice will have little influence on the final decision or if they have the perception that public authorities are distant from citizens' concerns. In societies where time is a limited resource, people will not engage in participative activities if they feel that this will not change their life. Lack of confidence in public authorities normally accentuates this attitude. In Chile, 72% of respondents in the Mas Voces survey (2005) considered that the best way to solve local problems is to have a "good contact" in public institutions. Only 32% believed that a simple citizen can influence the decisions taken by the government.

Measures to improve participation

Inclusive participation in decision making may require additional measures to reach out to different social groups. Inclusive participation requires something more than more tools for the organisations or citizens that already have access to decision makers. Experience in OECD countries demonstrates that obtaining a broader range of social views requires efforts to ensure socio-economic and cultural inclusion. The use of trusted intermediaries or local organisations that have strong support among the non-engaged can help involve target groups that may distrust external actors. This would be especially useful for working with immigrants or native populations. In such cases, use of multilingual documents/information would also be helpful.

Incentives from the central government and from the local electorate are important to motivate local governments to favour participation initiatives. The choice to adopt an inclusive decision-making strategy depends to a significant degree on the institutional incentives of local politicians, which often depend on the demands made on local politicians by local actors and community-based organisations (their electorate) and by the representatives of the central government. In Chile, initiatives such as the Innovation and Citizenry Award programme offer an incentive to participatory problem-solving initiatives in the public realm, and an interesting way to exchange information and good practices in local public affairs (see Box 3.17).

The presence of a wide range of community-based groups appears to be an important element for citizen participation. In Chile, according to the Mas Voces survey (2005), 18% of respondents said they had joined forces with other

Box 3.17. **The Innovation and Citizenry Award programme**

The Innovation and Citizenry Award programme organises an annual competition for prizes in innovative approaches to participatory provision of public goods and services in Chile (www.premioinnovacion.cl). The programme is the product of a partnership between several civil society organisations, including Universidad de Los Lagos, la Corporación Innovación y Ciudadanía and the Ford Foundation. The goal of the award programme is to give public recognition to self-organised and participatory problem-solving initiatives in the public realm, and to document and learn from these experiences so that they can benefit other actors struggling with similar problems in different locations. Since its inception in 2000, the programme has been known to serve as an important forum for exchange, learning and debate about new ideas in local public affairs in Chile. In 2006, the programme received more than 1 500 applications from local initiatives throughout the country. Out of these, the ten most innovative approaches were awarded a grant of USD 5 000 and another ten were given an honorary mention. Two municipal governments and one regional government were awarded the prize. Apart from stimulating local organisations and governments to develop new, innovative approaches to effective problem solving in public affairs, the programme serves a very important function of social learning that benefits all actors involved in public affairs, not just those who win the prizes. Other actors interested in public policy are able to learn about the winning initiatives by reading about them in a variety of forums, including a publication that documents the experience of all annual awardees, the programme website, as well as an appealing magazine.

local residents to try to influence governmental decision making, and 45% of this group reported that their efforts had received a positive response. These findings, which are consistent with social capital research, support the notion that membership in formal and informal groups and networks has a positive effect on democratic development. It also suggests that there are still some barriers to citizen engagement in such groups in Chile. Experience in OECD countries has shown that strengthening transparency and openness in public processes can help rebuild local actors' confidence in overall government and in the participative process. This, in turn, enables citizens to become more engaged in participative processes. However, participation does not mean including everyone every time. Broad public participation may not always be productive. Excessive participation generates fatigue and a sense of time wasted, particularly if there are opportunity costs, such as participating at the expense of working time. Participation has to have a concrete goal and the chance to influence the lives of those who participate.

E-Government

E-government and ICT have become major tools to help OECD public administrations improve their relations with stakeholders and their effectiveness. E-government provides online access to information and gives citizens access to government services. It allows the sharing of information and creates new channels for citizen engagement in the policy process (OECD, 2007c). Since the 1990s, a number of initiatives to develop e-government have been undertaken in Chile (see Box 3.18). However, as noted in Chapter 1, interregional disparities in access to the Internet are still high and represent a challenge that must be faced to spread the use of this tool to the inhabitants of the less developed regions and rural localities.

Box 3.18. E-government in Chile

In 2000 a Public Sector Reform and Modernisation Project (*Proyecto de Reforma y Modernización del Estado – PRYME*) was established by the General Presidential Secretariat Ministry with the aim of enhancing the co-ordination of all aspects of e-government within the government. This project suggested reforming the entire contracting and public procurement system, using the Internet to introduce a fully online system. Within this framework, Chilecompra was established with the goal to provide an innovative tool to connect public buyers with providers through the Internet. Its objective is to guarantee high levels of transparency, efficiency and use of technologies in the public procurement market to the benefit of businessmen, public agencies and citizens. It helps government agencies be more accessible, efficient and transparent in their relationships with the citizenry, thanks to the creation of the www.chilecompra.cl platform.

Participation of the private sector and universities

The specific knowledge and the involvement of private-sector and civil institutions (such as universities and research centres) can be essential for regional development policy. Private-sector participation and public-private co-operation can play an important role: the co-operation, co-ordination and involvement of the different actors in diverse bodies (RDAs, coalitions, participative councils) can help make better use of public funds by planning and implementing policy options on the basis of the more comprehensive knowledge of a variety of stakeholders. In Chile, the participation of micro, small and medium-sized enterprises (MSMES) is crucial as they account for more than 75% of jobs and face particular difficulties for coping with the challenges of global competitiveness. The RDAs can serve as a mechanism for involving MSMES in regional productive planning. When MSMES are

represented in the governing structures they can orient the action of these agencies towards their specific requirements. Chile Emprende (see Chapter 2) also represents an initiative for integrating the private sector and research institutions in the management of an economic development programme. In each region a regional branch, headed by the intendant, is composed of regional public, private and academic institutions.

Finally, universities and research institutions in Chile have started to play an active role in regional development initiatives, a process that should go further. Currently universities participate in initiatives to promote innovation (for instance as project partners in the regional scientific and technological centres) and in business development programmes (collaborating with Chile Emprende regional programmes or participating in strategic councils of regional development agencies). However these efforts are still limited in scope. To play a regional role and contribute to regional competitiveness, these institutions must extend their activities beyond education and research.

Conclusion

Regional competitiveness requires context-sensitive responses which in turn require a certain degree of decentralisation. Chapters 1 and 2 argue that enhancing regional productivity and competitiveness in Chile will require a shift towards regional policies capable of adapting to the different assets, strengths and potentialities of specific locations. Chapter 3 has focused on showing the governance challenges for implementing a territorial approach to development in the Chilean context.

Chile has a long tradition of centralism, and its administrative system has long been associated with economic efficiency and political stability. Today, however, the role of decentralisation is being debated, with a focus on improving regional performance and competitiveness. The current government has set high priority on decentralisation with the aim of providing sub-national governments with the tools, capacities and legitimacy to improve their autonomy and performance. Among the main reforms carried out in the latest period is the direct election of the regional council, creating a democratically elected body for managing regional development. Additionally, responsibility for regional planning has been transferred to the recently created regional planning division of the regional government. A municipal reform is also to be undertaken to modernise municipal organisation and to give more autonomy and further responsibilities to municipalities.

However, in spite of these efforts, progress remains modest. The strict administrative framework of the central state places financial and administrative limitations on Chile's regional and municipal governments

which may undermine their ability to carry out some of their responsibilities efficiently and thus fail to take advantage of specific regional and local opportunities. At the same time the benefits of initiatives such as the regional development agencies, or the delegation of the regional planning responsibility, are limited by an economic agenda largely designed at the national level and by the lack of an institutional framework at the regional level capable of co-ordinating the different policies, instruments and actors involved in economic development.

Chile still requires at the sub-national level a stronger institutional framework able to bring together and co-ordinate the different local players and the various programmes and instruments designed to promote territorial development. At the local level, most municipalities currently have neither the resources nor the incentive to invest in local economic development initiatives. Incentives are needed to strengthen both the capacities and resources of municipalities (especially those of the least developed) to engage in local economic development. Additionally, a co-ordinated local governance structure will be needed, especially in big cities like Santiago, in order to improve the harmonisation of different sectoral policies in the metropolitan area (*e.g.* housing, land use planning and economic development) and to improve co-ordination in the delivery of key public services (especially public transport) across several municipalities within a functional city. On the other hand, the strengthening of regional governance will also involve several challenges. Territorial development strategies should be strengthened to create a closer link between regional planning and investment portfolios. This will give the regional government and the new planning division the opportunity to play a stronger role in guiding an integrated approach to regional development. However, it will also be necessary to give greater powers to the regional government to allow it to be active in the discussion, planning and co-ordination of regional development policies. National institutions and agencies should strengthen their links and co-ordination with the regional government in order to ensure that they have the capacity to carry out efficiently the delegated responsibility of regional planning.

Matching the newly delegated responsibilities with technical and administrative support and with institutional legitimacy for the actors receiving an expanded public policy mandate will be crucial. In any decentralisation process, the assignment of new responsibilities should be accompanied by a concomitant allocation of the competences and resources necessary to carry them out. This will require greater trust on the part of national institutions in the competences of sub-national institutions. It will also require greater co-operation between levels of government. Multi-level governance and co-ordination arrangements, mechanisms to promote capacity building and institutions for participation and accountability could

help by raising regional governments' capacities and strengthening the legitimacy, coherence and effectiveness of the reform.

In addition to better co-ordination among levels of government and greater involvement of sub-national governments in regional planning, it is important for central policies for regional development to have a territorial dimension. Central government agencies have a key role to play in promoting place-based rather than one-size-fits-all policies, strengthening collaboration among ministries and public agencies, and including local and regional institutions in the design and co-ordination of national initiatives.

This review suggests that moving towards a territorial approach to development in Chile will require further progress towards decentralisation. However, decentralisation on its own will not necessarily lead to efficient and integrated place-based policies. The key issue is likely to be the development of a governance structure that fosters collaborative context-sensitive interventions which respond to local particularities in terms of strengths, opportunities and challenges. It will require greater co-operation between levels of government and also greater involvement of sub-national governments in co-ordinating, designing and managing their development. However, decentralisation does not mean that the central government should leave sub-national governments alone. The central government has a key role to play in setting the general legal framework to enable virtuous relations, both vertically among the different levels of governments and horizontally among the different national sectoral policies and among the different regions or municipalities.

Notes

1. Figure based on IMF's *Government Finance Statistic Yearbook*, excluding grants from other levels of government.
2. The provision of primary and secondary education and primary health are competences transferred to the local level and are financed on a per pupil/per patient subsidy by the central government. This grant is complemented by the municipality's own resources, and with funds from the FNDP. Yet, national transfers to education subsidise both public education and private subsidised schools. As regards the former, the per student transfer is delivered to municipalities. In the case of the latter, the subsidy is run by the private sector. Therefore, this transfer is only partially managed by municipalities.
3. A national law determines a minimum property value threshold. Under this limit properties are exempted of the municipal property tax.
4. As mentioned, current expenditure on municipal education is financed with national subsidies, combined with the municipality's own resources (national grants are not sufficient to finance municipal education). In addition, in small municipalities student enrolment is low and so is the (per pupil) national subsidy.

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ANNEX 3.A1

Empirical results on correlations between decentralisation and economic growth

Effect*	Explanations	Author (year)	Data	Sample
– (nonsign)	Low capacity of local government, local expenditures are not growth-oriented, many counteracting forces.	Davoodi and Zou (1998)	1970-1989	World (n = 46)
+	Household mobility and spillover effects mediate decentralisation effect.	Crucq and Hemming (2007)	1978-2002	EU (n = 14)
+	When local governments compete citizens win. A better match between local needs and policy responses makes citizens and businesses more productive.	Stansel (2005)	1960-1990	United States (n = 314)
– (nonsign)	Economic impact in cross-national studies loses significance when decentralisation is measured as the sub-national mandate to raise revenue.	Thornton (2007)	1980-2000	OECD (n = 19)
+	Fiscal decentralisation decreases the public sector's share in the economy and this stimulates economic growth (significance in effect depends on whether country is unitary or federal and how decentralisation is measured).	Yilmaz (1999)	1971-1990	World (n = 46)
+	The effect of fiscal decentralisation is significant when controlling for historical, cultural and institutional variation. Only sub-national studies can control for such factors.	Akai and Sakata (2002)	1992-1996	United States
+	Decentralisation produces more accountability of public sector. Correlation is significant but no regression statistics are available.	Hunter and Shah (1998)	1980-1993?	World (n = 80)
+	Fiscal decentralisation in China increased efficiency of resource allocation by strengthening local incentives for local problem solving.	Lin and Liu (2000)	1970-1993	China (n = 28)
–	Provincial spending failed to deliver fast economic growth because projects financed by the central government are more crucial to growth.	Zhang and Zou (1998)	1980-1992	China (n = 30)
– (nonsign)	The effects of decentralisation are more likely to be detected at the local level rather than in national growth rates.	Woller and Phillips (1998)	1974-1991	World (n = 23)
– (nonsign)	No discernible and consistent effect of fiscal decentralisation on economic growth when controlling for energy, investments, labour, income inequality and inflation.	Xie <i>et al.</i> (1999)	1949-1991	United States
Curvilinear	Positive effect when decentralisation is increasing from low to medium levels, but negative when increasing from medium to high.	Thiessen (2003)	1973-1998	OECD countries

Effect*	Explanations	Author (year)	Data	Sample
+	The positive effect of decentralisation depends on political freedom (interaction effect).	limi (2005)	1997-2001	World (n = 51)
-/+	Lower levels of economic growth in countries where devolution has been driven by the central government; greater growth in cases where regions have been the main drivers (Spain).	Rodríguez-Pose, Tijmstra and Bwire (2007)	1985-2002	Germany, India, Mexico, Spain and the United States
-/+ Regional Disparities	Decentralisation in a context of liberalisation may lead to an increase in interregional disparities, with concentration of economic growth in dynamic regions.	Rodríguez-Pose and Gill (2004)	1980-1998	Mexico, Brazil, India, United States, Spain, China

* Positive or negative correlation between decentralisation and economic growth. "Nonsign" means that the analysis did not find a statistically significant effect of decentralisation

ANNEX 3.A2

Contextual factors explaining variation in decentralisation outcomes

Intervening factor	Examples	Studies
Characteristics of national regime that decentralises	Degree of economic development, democracy, government structure. At what stage of development is the country, and how decentralised is the pre-reform structure?	Litvack <i>et al.</i> , 1998; Parker <i>et al.</i> , 2000
Policy mix: Type of decentralisation considered	What is the extent of the decentralisation? Which authority, resources and responsibilities have been transferred, and to whom?	Agrawal and Ostrom, 2001
Central government monitoring and support	Training events, technical support, unannounced visits, accounting.	Gibson and Lehoucq, 2003
Supportive local networks	Are there local organisations that support problem solving?	Chhatre and Saberwal, 2006; Shah, 2004
Institutional, technical and administrative capacities	Extent to which local government has well-trained personnel, is able to organise and unite local actors.	Fiszbein, 1997; Pacheco, 2000 ; Angell <i>et al.</i> , 2001
Institutions for participation and accountability	The existence of participatory decision making forums, ombudsman, public record keeping.	Ribot, 2002; Crook and Manor, 1998; Blair, 2000
Local organisational culture and leadership	Local individuals gather and unite local people around a common cause.	Hildebrand and Grindle, 1995; Grindle, 2007
Financial resources	Sufficient resources to fund most critical activities.	Cohen and Peterson, 1996
Other public policies: External conditions	Macroeconomic and monetary policies may overpower the effects of the decentralisation reform.	Andersson and Gibson, 2007
Governance outcome measures	The governance outcomes may be evaluated with different criteria and must be defined in light of specific policy objectives. The empirical relationships will differ depending on the outcome measures used (<i>i.e.</i> tax revenue raising, social spending, administrative efficiency, GDP/capita, etc.).	Sharma, 2006; Akai and Sakata, 2002
Nature of the goods and services	Some goods and services may be more amenable to decentralisation than others. Technical support services for agricultural extension are quite different from primary education, health care, and tax collection.	World Bank, 2005