Master thesis

“Decentralization within the national governments of Costa Rica and Panama”

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Abstract

This paper focuses on decentralization within Costa Rica and Panama. The types of decentralization that are encountered in these two countries are delegation for the case of Costa Rica and deconcentration for Panama. Where Costa Rica had an earlier start in the decentralization process it is still lacking, delegation policies are vague, with new policies that have to be implemented, extra resources are not rewarded to the lower governments, and in most of the time when implementation has not taken place, punishment is lower funding. In Panama the municipalities are a lot weaker, they are purely there to serve the national government. The municipalities are allowed to advice on new policies, but that doesn’t mean that their advice will be put in the policies. Finally I take a look at the role of the EU and the IDB in these two countries, their goals are to enhance the decentralization process by funding or giving loans to decentralization projects.
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1. Introduction

1.1 Personal interest

The choice on doing research on the theme of decentralization did not come to mind until I began writing my thesis. The area that I wanted to focus on for my paper had been about development aid to Latin America and specifically around decentralization projects. The change in focus occurred during the field research in Costa Rica and Panama. It was there that I discovered what the reality of the problems was in these countries. And that the information on development aid projects to support decentralization projects was limited.

There is a personal attraction between me and Latin America that started when I had done my placement in Guatemala in 2001. At that time I was doing a placement on promoting agrotourism and was confronted with the bureaucracy in the organization for which I worked for. It was also about the same time that I came into contact with development projects that were active in the region that I was promoting. The interest in aid was even more intensified when I had spoken to a person who was a leader of such a project and who showed me the diversity of the programs and the many sectors in which aid had been given.

The geographical choice for the research is Latin America; the reason for this is the fascination I have for these countries and their many cultures. It is a place where I truly feel at home. This region has captured my interest ever since my first visit and will continue to do so.

1.2 Problem analysis

Latin America is a region that still has a long way to go concerning the area of democracy. Having a past that is filled with civil wars and dictators, it is finally finding her way to democracy and where citizens are encouraged to stand up for themselves. The countries that I have chosen to focus on are Costa Rica and Panama. Geographically these two countries are adjacent to each other, but there are a lot of differences between them. Costa Rica is a country that has proved it to be one of the most stable countries throughout the region, having established a democracy in the
second half of the last century. Panama on the other hand is a country who was in power of a dictator, and started the process to democracy about 15 years ago. In many ways this country still has a long way to go. For this paper I decided to focus on the decentralization process in these two countries and on between the relationship between the central government and the municipalities.

Governments in Latin America tend to be very centralistic; the municipalities hardly function without the cooperation of the central government. But change is underway, due to pressure from world institutions such as the IMF and the World Bank; new regulations are made to give more power to the municipalities. Slowly this process continues, but more problems are faced by the different institutions itself who are involved in the decentralization process.

The question that comes up is: what do I want to research? After reading articles by Ryan (2004) and Hall(2002), I decided to focus on the problems that are being faced by the municipalities in the decentralization process.

As a consequence of the centralist regime, service to the public is lacking in quality since the government would control many aspects of their service delivery. Municipalities have to deal with a lot of civil servants from the government who make the decisions for them. This is seen as problem for the different regions that would benefit much more if some tasks of the government would be decentralized to them, the reason for this lies in the fact that some problems in a region or a community can be specifically targeted since the origin of the problem is known. With a centralized government this is difficult since it has to focus on too many differentiated problems which it doesn’t have the manpower nor the knowledge to solve these frictions.

The origin of the centralized governments can be seen in different settings, which I will explain when I make a case study of both these countries.

1.3 Objectives

In writing this project I have set the following objectives for this project:

- Insight on the policymaking and implementation process of decentralization within Costa Rica and Panama
- Insight about the similarities and differences in the decentralization process. Through the analysis of this information, one can see at what the obstacles are for each country.
1.4 Aim of the theoretical research
The aim of my project will be to see how the decentralization process is taking place in Panama and Costa Rica. By analyzing different theories and articles about decentralization and linking them to the countries, I will try to well understand and map the process, eventually identifying the existent problems, and even more important, try to find solutions to those problems.

1.5 Practical relevance
My study of these two countries with regards to the decentralization process will make clear what the current status is on decentralization. The insight in how these governments deal with decentralization can be used as an example for other governments who are experiencing problems in implementing decentralization. Or for other countries who are planning on decentralizing their governments. It also gives a clear distinction in what type of decentralization there has to be invested in and what should be done for an effective implementation of those policies. This study may help other countries in a way that certain problems or struggles can be avoided.

1.6 Central research question
When analyzing the decentralization in Costa Rica and Panama, I have opted for a set of questions which explain the nature of the problem: what the common problems are at policy making and implementation levels, and how can these problems be dealt with.

In order to clarify my research question, I make a distiction between four separate elements (Q1 to Q4), which can be visualized in the following matrix:
### 1.7 Research sub-questions

The sub-questions that help us to answer the central research question, can be split into two groups, of descriptive and prescriptive character:

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<td>1. How can the decentralization process in the two countries be</td>
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<td>4. What is the role of the EU and the IDB in Costa Rica and</td>
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governments have clear guidelines which are legally based, and are able to operate within the boundaries of these laws.

3. Deconcentration: the goal of this type is to transfer resources and some responsibilities of public service towards other organizations of governments, this can be lower governments and autonomous organizations from the state as well. The accountability here still lies with the central government.

1.9 The theoretical framework
The theoretical framework that I will be using throughout my project is from different researchers that have been writing about decentralization. First I will make clear what kind of political structure the countries have and how that system influences the decision making within government. To make this clear I will use the theories and findings of Ryan (2004) and von Oosterhout (2002) they focus on the characteristics of political systems and how they evolve over time. By using their theory, the political system of these two countries will be put forward and how decentralization fits into this. Pellini (2000) uses a timeframe to show how decentralization started and how more countries came involved with their way of making new strategies.

Another theoretic model I will implement is the Souffle theory, this theory gives a deeper look into the different ways decentralization can be implemented, and then I will comment on this theory further by using the findings of different authors who have written about decentralization.

To measure the degree of decentralization I will implement the decentralization toolkit from the WorldBank, which I will use to describe and explain the decentralization process in Costa Rica and Panama. The toolkit contains different sets of questions, about all aspects of the national governments and the local governments. The questions are referring to the political, economical and legal settings of a country. An example of the toolkit can be found in the appendices. For the two countries that I will be basing my study on, not all the questions are answered. This is due to the fact that I was not able to find answers for all of the questions and some information was not of any importance for my paper. The finding’s of the toolkit will be integrated in the different theories throughout my thesis.
1.10 Information collection

The data that I have collected for this project was obtained through desk research in the library of the Erasmus University and the information obtained throughout my fieldtrip to Latin America, which consisted of interviews and document collection from the libraries of the universities.

In the Netherlands I have gathered additional info from the CEDLA (Centre for Latin American Research and Documentation) concerning the countries background in politics and history. The World Bank documentation centre has also been of importance to me, the toolkit for measuring the decentralization process is a scheme that permits me to see how far decentralization is a specific area.

To gain deeper insight in how the situation actually is, a study trip was undertaken in April 2005 to Costa Rica and Panama. The purpose of the trip was to collect data on the spot and to have structured interviews with the people who work with the governments and people who work for the government. I held interviews with Mr. Smith from the EU headquarters in Costa Rica, and with Mrs. Gutiény from the IFAM, the cooperation of all municipalities working together in Costa Rica. But the data that I have gathered for this paper was not enough; it was not specific, so most of the information used throughout my paper is mostly based on written literature.

Due to a short time span and not being able to contact more people, my research was limited to only holding two interviews. During the trip I held informal interviews. The interviews were prepared along side the toolkit from the World Bank. The length of the interviews varied, but was approximately about an hour to ninety minutes.

1.12 Content of the thesis

In the second chapter the focus will be on what decentralization is and what types of decentralization there are. Here a closer look is taken at the different types of decentralization, the benefits and risks of decentralization and when tools of decentralization do work.

Chapter three discusses the case of Costa Rica. A look is taken in the political background and how the process of decentralization is evolving. With the latter is meant the problems that are occurring when implementing new policies but how they
are taking affect in reality. And also what changes on paper mean for the municipalities.

Chapter four discusses the case of Panama. Again a short analysis is given about the country’s political history and how decentralization is taking place. What kind of forms of decentralization the country is opting for. Which kind of problems are arising from decentralization and how the local municipalities are coping with the changes.

Chapter five discusses the impacts of the world institutions that give technical assistance to Costa Rica and Panama. The projects that the IDB and the EU are co-financing with the national governments.

Chapter six discusses the conclusions and the differences of the two countries and tries to give a clear picture of how the situation is at hand. Recommendations are given for future use, which can help these two countries when implementing new decentralization policies.
2 What is decentralization?

2.1 Theory of decentralization
Decentralization is a term that began to be popular in the eighties of the previous century when central governments in developing countries began to realize that state planning had a lot of flaws. During the golden age of planning in the sixties and in the seventies, governments tended to arrange everything through central planning regimes. When the world economy started to show signs of decline in the eighties it became apparent that governments could not continue steering this course. It appeared that state planning had accumulated a budget deficit and it was time that governments had to cut back on their own spending. Decentralization was introduced, where lower levels of government would get more power in certain fields, so that the central government could focus on its core issues. Every country implemented decentralization in its own way, there was no handbook to doing good decentralization and that is why there are different meanings and actions are linked to this term.

Decentralization is a term that has been used in several contexts and has accumulated different meanings throughout the years, but one thing still remains the same and that is there is a transfer of government tasks to lower levels of government. There are countless publications and guidelines about the term (Yuliani (2004), Veylon (2004). Decentralization has been implemented in different ways by many countries and will continue to be so in the future. There is no best way to implement decentralization, since it has no standard approach; it depends on the country itself and on the political background. With the ‘no standard approach’, I mean that there is no best way given on paper on how to implement decentralization. In my thesis I there will be focus on the decentralization process in Costa Rica and Panama.

As mentioned before there have been many different definitions for decentralization published the last few years but the one that I choose to work with, is the administrative definition of the World Bank:
“Decentralization is the process of transferring power and resources from central Government to the lower levels of government, such as the regions, provinces, districts and municipalities.”

2.2 Types of decentralization

There are three basic scholars who have written a lot about the different types of decentralization. There are not a lot of differences in their writings but each one of the scholars give their own point of view. Rondinelli (1984) was among the first to make a clear distinction between the different forms of decentralization. He had made the following categories:

- **Spatial decentralization**: the process of diffusing urban population and activities geographically away from large agglomeration
- **Market decentralization**: process of creating conditions in which goods and services are provided by market mechanisms and private entrepreneurs rather then by government decision (privatization)
- **Administrative decentralization**: transfer of responsibility for planning, management, and the raising and allocation of resources from the central government and its agencies to field units of government subunits. Administrative decentralization can be divided into:
  - **Deconcentration**: the distribution of decision making among different levels within the central government, without the transfer of political power, but transfers do come from the government,
  - **Delegation**: the transfer of responsibilities, power and resources from the central government to semi-autonomous organizations not wholly controlled by central government but ultimately accountable to it. This form also applies for lower governments.
  - **Devolution**: the transfer of political powers from the central government to independent sub national government.

Litvack (1999) is the second scholar who uses the framework of Rondinelli but adds his own definition:
• **Fiscal decentralization**: This form of decentralization implies that resources are raised locally or transferred from the central government and that the authority to make decisions on expenditures also lies with the municipality.

Manor (1997) and Rondinelli ea (1983), both have the term delegation in their theories and also share the same view when it comes to the term. The only difference is that Manor uses a different perspective in his definitions for decentralization; he uses a contradictory stand, mainly what decentralization shouldn’t be:

• **Decentralization by default**: the situations when the public sector has such severe administrative and financial shortages that it cannot ensure the delivery of basic services. In this case community based organization (CBOs) and non-governmental organizations (NGOs) take over the supply of those services and funds them with local funds or project funding from donors. The central government has no control or cannot influence the activities at the local level, in this case there is no talk of decentralization between the national government and the local government.

• **Privatization**: this is the situation when the private sector takes over or is given the right to deliver services. This is done from a political perspective, since government cannot or is not able to provide the services accurately. But there is a turning point, it is mentioned that in some cases state monopolies might turn into private monopolies, the reason for this is that these companies maybe the only ones delivering a specific service, for example in the Netherlands, the national railway company was sold, but still it is a monopoly since there is no other company offering train transportation.

• **Delegation**: is the situation when projects and program management and implementation is given to parastatal bodies. Manor argues that this solution has very limited evidence and in the few occasion that it has been applied has failed to transfer decision making power to those bodies.

### 2.3 Focus of paper

In order to avoid the risk of focusing on a too broad area of analysis, this paper tackles three fields of decentralization specifically:
- Delegation
- Devolution
- Deconcentration

1. Delegation: Delegation occurs when fiscal resources and revenues of generating powers are being decentralized. In this form there is transference of powers to local governments or to semi-autonomous organizations that are not specifically part of the central government, though the accountability still lies to the central government. One of the specific features is, is the power for local governments to raise their own revenues so lesser money is needed from the central government for their annual budgets. By doing this they are allowed to raise different kinds of taxes in their territory. They are also allowed to take out loans at banks or at other national co-operations. With their own budgets, allocation to specific areas is easier then when waiting for approval from the central government.

2. Devolution: here the difference lies in the fact that political powers are being passed down to other levels, this can be regional or local. This form is one of the strongest forms of decentralization; here the political power is passed down to other levels where decisions can be made concerning problems in specific regions. This gives the central government to focus more on national problems. In much of the research devolution is also called democratic decentralization. The accountability here lies in on the democratic elected organizations who have the decision making power in a specific territory. The powers of the local governments have a legal basis in the national law. They also have the power to raise taxes and they can decide where the resources should be allocated.

3. Deconcentration: The goal of this type is to transfer decision making authority, resources and responsibility of some specific public service towards other organizations of governments and at different levels but which still directly fall under government authority. This is technically seen as one of the weakest form of decentralization, since there is hardly any change in the power structure, the
guidelines that are given to the organizations have to be implemented the policies do not have a lot of freedom

2.4 Decentralization toolkit

As I have mentioned in chapter one that the decentralization toolkit of the Worldbank is used to some extent in my thesis. The toolkit is set of questions that looks at the political, administrative and fiscal level of a country. By answering questions the degree of decentralization can be measured. This toolkit doesn’t say that decentralization is a good thing or a bad thing it just tries to give a clear picture of what is happening in a country and what it is doing. Though some of the questions are difficult to answer I have tried to implement in the best way possible for this thesis. In the appendices a copy of the toolkit can be found.

2.5 Decentralization in developing countries

In the case of developing countries, decentralization is of a different nature. An important aspect that should be looked at especially in Latin America is that many countries have had a dictatorship, civil war or military regime in the past. The turnover to a full democracy is still taking place. Today elections are being held and the people can freely choose their politicians who should govern their country. With this turnover signs of decentralization are becoming more apparent in limited form. Manor (1999) also suggests in his writings that decentralization was more successful in countries that had already undergone certain political and economical developments, the countries that are meant here are the Western countries.

To show how lacking the national governments are in Panama and Costa Rica with their budgets on municipal spending, one can look at the chart. These two countries belong to the last group and have the lowest income of all Latin America. This chart is based on government spending on a subnational level, that includes local governments, provinces or states.
2.6 Top down vs Bottom up

An important factor that is worth mentioning is that decentralization is mostly a top down decision in developing countries. National governments are pressured by donors to shift responsibilities towards the lower levels of governments.

The national governments in their turn set up new policies to make decentralization possible, but this often leads to more problems. Decentralization policies should not be looked at independently but as a whole, since it can affect the national policy structure. For instance in the field of education, where policies are centrally organized, might come to loose its efficiency when handed down to local governments, since they cannot meet the standards that were possible on a national level.

As mentioned before developing countries are under pressure by donor organizations to decentralize activities, these frameworks that are being set up by the agencies, often fail to comply. The reason for this should be sought that practices that may be successful in Western countries do not lead to success in developing countries.

Something that plays a big role in developing countries is the tendency of national governments to hold on to power, they are in many ways reluctant to give up power to lower levels of government. Politicians are afraid of losing political power in regions in which they might have a steak. Since there has been a culture where there is small group of elite people at the top, deciding for the whole country, it is decidedly clear that they have a lot to lose when decentralization takes place.

2.7 A short historical sketch of decentralization

Pellini(2000) suggests that decentralization took place in three phases. The first two phases do not apply for Latin America but the last one is of importance. First I have given a brief description of the different time periods, and for the last period I will continue to go on for the case of Costa Rica and Panama.

*The first phase 1945-1960*
Almost the whole world was recovering from the Second World War, there was a tendency of strong state planning and the governments were very much centralized. This wasn’t just happening in the Western countries but also in the Communist countries, though both having strong ideas of how a country should be run, they both had similarities. For the developing countries the case was slightly different. Most of the colonies were still under the power of their colonizers and the state had also passed a strong centralistic regime, with many countries gaining their independence, the centralist regimes were not overthrown. Instead things did not change at all, the people who now came to power, held on to the idea of being centralized.

The second phase, the 70’s
The change that took place during this period was that many colonies had become independent. The people trusted their national elite politicians to rule the country for them. Lots of change had come to them, since the politicians seem to understand the national problems. But then crisis arose, the two oil crisis had put a different perspective on the problems; economic crises arose in many countries in the developing world. With the crises many people in those countries started to realize if it was wise that only a small amount of people controlled the country. The elite only had their own pockets in mind and were not too much concerned with national interests. The need for decentralization was recognized but it wasn’t incorporated in the national policies, where in the developed countries such New Zealand and Great Britain strong measures were taken to make the state less centralistic.

The third phase the 80’s until now
In this phase decentralization processes have been implemented in many countries in different ways and in various sectors. The decision to decentralize was always a political one and there are many reasons behind them for taking them.

A few reasons for introducing decentralization were:
- The donor organizations have put force on developing countries to change their way of governing the countries. Funding was granted only when certain conditions were met and one of those was to decentralize certain aspects of government, privatization was also a common used argument.
- The elite politicians and the most powerful ruling parties in government could not provide the basic services for their people. The central government was being too much dependant on by everyone. This was due to the centralistic planning where government made all the decisions. Now the government started to change her behavior by decentralizing some administrative aspects.

It is the last phase that is important for many developing countries and it accounts for Latin America to. It is the period where donor organizations started reinforcing measures to countries when loans were being approved. The countries were forced in a way to change their way in governing and ruling the country. That the donor organizations were putting pressure on to the countries was one thing but another thing that was happening at the same time was that the national governments were not able to perform state duties, since they had a lack of finance.

In other words decentralization began its kick off when national governments were facing political and economic difficulties.

In a report by Tulchin and Selee (2004) for the Woodrow Wilson center on decentralization in Latin America, it was stated that during the 80’s and the 90’s of the last century, severe crisis were occurring in Latin American countries. The state was losing its legitimacy due to the political and economic problems. With political problems is meant that new groups were being formed in society and that they were willing to take part in the political arena. The new groups were mostly indigenous, whose voice was previously ignored, women’s right groups also started to appear and human right groups. They showed that they also had a voice and were willing to take a stand, this has led to a shift in some political arena’s were the traditional powers had to give up some of their power.

**2.8 The benefits and risks of decentralization**

When a country is introducing decentralization it takes a lot of effort to make it into a success. Decentralization is not just a policy that can be done without any caution. The acceptance from different actors in the process is also very important. The ruling party may decide to go with it, but without support from government and civil society it cannot become a success. With the latter is meant that the cabinet finds that the
decentralization policies are necessary, but in order to carry them out support is needed from the government and from the civil society who have to work out the policies. If these two parties are not in agreement with the cabinet, the plans will not be carried out. There are of course like any other policy positive and negative aspects to the term (von Oosterhout, 2002).

2.8.1 The benefits of decentralization

A lot of International finance institutions support decentralization, a few examples are:- The World Bank: decentralization enhances service delivery, better division of expenditures at the local level, sustainability, participatory democracy.

The Inter-American development Bank view on decentralization is the following:
"The most common used argument in promoting decentralization (especially by donor organizations) is that decentralization has a positive effect on the government’s dealings. It brings with it good governance, political participation is brought closer to the people, the service delivery is more effective and efficient, since the local government has autonomy to provide the services themselves. The local government has more freedom to handle specific problems in their regions, which are not prone to the national government."
I will deliberate a little more on the points that I have mentioned before, in order to make a clear picture of the arguments used.

The term good governance is mentioned in the quote, there are different meanings for this term and scholars and organization don’t always agree with the many terms that have been given (Rosenbaum, 2000). The concept is unclear but most of the definitions have some corresponding points.
What good governance tries to entail with decentralization is to preserve a good balance between the decision makers at the national level and at the local level. Finding way to share responsibilities and working together in finding solutions to solve problems.
The link between good governance at the local level is that it enhances political equality and greater democracy, effectiveness and efficiency, more transparency in
the dealings of the local government, better product delivery and performance. (von Oosterhout, 2002)

**Better knowledge and insight**

The service delivery can be more tailor made and in that way national governments can be more focused on problems that at the national level. Meanwhile the local governments can attend to local problems with a specific plan to solve the local entities. Decentralization makes it easier for them to deal with problems quicker then before, since they have the authority to answer to the local needs. National governments are mostly a big bureaucracy where it takes time to obtain approval from government officials, where in the meantime an urgent approval is needed in order to react to the situation, with political decentralization this problem has been somewhat overcome.

**Effectiveness and efficiency**

Effectiveness and efficiency are two common terms that have been used all over the world the last two decades. Governments have to do more, for the people with smaller budgets. This has been the plan of many governments throughout the last 20 years. The bureaucracy should be less big and using market strategies should do the services. By introducing decentralization the government is trying to elevate its services by giving local governments more power and responsibilities. The latter have the means to operate by them and should be able to deliver services at a lesser cost and be more efficient. The services that are being offered have to be paid by the local government, so this will make them more aware of the budgets. Optimizing the budgets will be one of the targets of the local governments in order to succeed in their tasks.

**Ownership and participation**

With the responsibilities being transferred to lower levels, it also gives the people living in the communities a chance to have some saying in the matter; the plan of the government is to make people more responsible for the politics that are occurring in their town (Pellini,2000) and that to teach them that it is not the only the job of their local politicians but as a citizen they should also be alert of the problems and try to come up with solutions to.
Cooperation

With decentralization a better cooperation can be created with other regional organizations (Pellini, 2000). Because of the autonomy of the local government they now have the chance to seek a closer relationship with organizations outside the governments for cooperation. Private organization, NGO’s and other regional organizations can come together to look for solutions that a certain area is facing, this can be important since the local government not always has the capacity to solve everything by itself. Also for introducing new programs cooperation of different organizations can be imperil.

Transparency

Where the national government used to be centralized, it now has the opportunity to transfer programs to lower levels (Pellini(2000), von Oosterhout (2002)). For the local governments the advantage lies in the fact that now more access is given to them, by the latter is meant that previously where government officials had the right to block programs or hide information from the local governments, the local governments now have more access to programs that concern their region.

2.8.2 The risks of decentralization

Politics plays an important role when it comes down to implementing decentralization. Whether or not there is acceptance there will always be some form of resistance coming from a certain level. This can be felt in the way that decentralization policy will be implemented. Delay can be obtained by not implementing policy correctly or just by having no means at all in implementation.

Poverty stricken regions

An aspect that accounts for many developing countries is that there are regions that are severely lacking in development, with that comes the fact that the local governments are heavily dependent on subsidies from the government. This creates an even bigger problem for the local government, who has gotten the power to new fiscal policies but don’t have the resources of exploiting them. There are several reasons for
this problem and come from different corners, an example is in the case of Costa Rica where in some municipalities there is a lack of proper cadastre. There is no registration of people who are living in certain areas, with this occurring; income for the government is lost that is so desperately needed.

*Power struggle*

Decentralization is also seen as an instrument by political parties to extend their power. Central government does not always see it as a negative aspect since they are able to fill the positions of local governments with their own people and still say to the world that there is decentralization when in fact it is still a patronage system, this can easily be seen in Italy. On paper it might seem that more responsibilities are transferred but it doesn’t show that the elected officials are just carrying out the orders from above.

*Struggle for power by the local elites*

With decentralization taking place at the lower level, another factor may come to light and that is the one that has to do with the local elites coming to power. These people might gain the benefit of making use of the scarce funds that are available for the community by supporting activities that have their personal support. The accountability and transparency at this stage is completely lost, since many countries lack of monitoring from the government.

As mentioned before monitoring the decentralization process is very important if the policy is to become successful, but in many countries like for example Uganda (Olowu & Smoke,1992), it is often seen that there is hardly an effective program to contribute to the decentralization process. When the decision to decentralize takes place, a program should be designed in order to monitor the different phases that decentralization will go through. This program can help the participating parties’ control what is going on during the process and maintain control of the situation when problems occur. If the latter is lacking the effects cannot be measured and most important of all the government doesn’t have an oversight of what is going on in the different local governments.

*Lack of proper personnel*
The one thing that most governments tend to overlook is that many regions were local
governments are active is that there is lack of proper trained civil servants
(Ryan(2004), Pellini(2000)). In areas where the development is not taking place and
poverty is the norm; one cannot expect that the decentralization process will
overcome these problems in a medium to long term. The problems that are being
faced by many local governments are that they haven’t got a lot of skilled civil
servants to work out the new powers that have been transferred to them. The local
governments may already have problems with their financial status but also being in
deep water with untrained personnel cannot be taken lightly. Proper trained civil
servants make sure that the policies that are being made are being implemented well.
Not only that they are also responsible for the delivery of services towards the
citizens. So instead of bringing change, decentralization only brings more problems.

2.9 When does decentralization work

To find out whether decentralization policies really are successful, a certain period of
time has to go by. After this period successes and failures can be monitored and
measured in evaluation programs. That is why it’s important to monitor new policies
when set active. von Oosterhout(2002) stresses this out in his book. There is no
standard approach to make decentralization work, but its dependent on the situation of
the implementing country itself, Bahl (1999) also gives a list of 12 fiscal
decentralization rules that can be implemented. For Venezuela I found some basic
principles when taken the financial aspect of decentralization (Bland 2002).

- Ensure macroeconomic stability, the pressures that are being faced by
different countries show how poorly the lower governments financial policies
are.

- Fiscal responsibilities should be shared. All levels of government should work
together in developing an efficient and effective fiscal system. The system
should also be transparent.

- Efficiency and effectiveness can be important indicators that should be put
next to each other when looked at the importance of financing goals.
Resources and funding should be done according to clear guidelines

- Accountability and transparency. These two objectives should also be one of
the goals when making policies for fiscal decentralization. Corruption cannot
prevail in a system where there are proper mechanisms to open up the workings of government.

- Some regions may benefit more from decentralization then others. It is the task of the national governments and lower governments to work together to find solutions in minimizing these problems.
- Make clear and easy policies. In many cases governments make unclear and unstructured policies. The best thing to do is to make policies clear and understandable for legislators who have to implement the policies. In this way confusion can be avoided.

2.10 What is the perfect setting for decentralization

There is no perfect setting for decentralization. In all the cases that I have read (Llambi & Lindemann, 2001, Selee, 2004) it seemed that every country has a different starting point or a different background.

As Selee (2004,) discusses the case of Venezuela, the municipalities can request certain specific functions for the national government. If the request is approved by the national government, the task is handed down to the lower government with the necessary finance. This has lead to a patchwork system of decentralization varying from state to state within Venezuela.

Decentralization has to take place on a total level if success is the goal, with the latter is meant that in order for decentralization to work, all the organizations, national and lower governments should work together in making policies successful. The policies should also be clear and realistic and funding should also be appropriate. When policies are made to decentralize, it should not just be put on paper, but be worked out in reality as well. Stimulation of the total decentralization process should not just be a top down approach but also a bottom up approach as well. Citizens should work together with the municipalities to strengthen decentralization, which can lead to better governance, which in the end can lead to a better democracy.

The focus of the central government shouldn’t limit it self from just passing tasks over to lower governments, but also help them in providing for them. Municipalities who don’t have the technical know how and lack finances needs guidance so that the tasks can be performed more efficient.

In an article by Andrews & de Vries(2005) it criticize the World Bank and other donor organizations are criticized for pushing decentralization without taking the
country’s historical and political setting into account. Most of the ideas from the World Bank are Western oriented and in many cases don’t fit with the national policies in Latin America.

2.11 What are the expectations of decentralization?
Decentralization should not be seen as a panacea for solving government’s troubles. To curb national spending governments may use decentralization as an instrument to achieve their goals. The expectations are in many cases different then the outcomes (Llambi & Lindemann, 2001). Tasks are being passed down to local governments, with the goal that they can perform the tasks more efficient, since they are more closely linked to the citizen. For Latin America this approach can have a negative effect, since there are many regions, which are underdeveloped, and who lack the technical capacity and the resources to carry the tasks. Being more efficient and service oriented is the expectation in this point in question.
3 Costa Rica

3.1 Historical background
Costa Rica has been famous for its democracy in Latin America, a political stable country. After the elections of 1948 a brief civil war started that was caused by the results of the presidential elections. After the war, the modern Costa Rican constitution was formed. The new constitution entailed that women and blacks were allowed to vote, voting was mandatory from the age of 18. Most important the military forces were abolished, making it one of the most peaceful countries in Latin America. Also tribunal was introduced to guarantee free and fair elections. This is one of the reasons Costa Rica differs when looked at the political background; they have no history of dictatorship.

During the *la decada perdida* (*during the 1980’s*) where a lot of Latin Americans were facing crisis and military regimes, radical change took place in the socio economic and political spheres. Because of the crisis in many countries, decentralization plans were introduced. Costa Rica was a country that already decentralized some of its tasks to the lower government (*during the seventies*) but it lead to problems, which will be discussed in 3.14. What makes CR different then the other surrounding countries was that it was peaceful and wasn’t under power of a dictator.

3.2 Current situation
Costa Rica is a unitary republic and only has two tiers of government; there is the national government and the municipalities. There is no existence of a regional government. The country is divided in 7 provinces, the provinces are divided in *cantones* (*local municipalities*), and together there are a total of 81. Each canton consists of an elected mayor and a municipal council. The size of the town’s council is dependant of the amount of inhabitants in that area. The elections for the national government are held on the same day together with the elections of the mayor and the municipal council, on the first Sunday of February every four years (Hall ea, 2002). In the past, elections were held to elect the municipal council and they themselves would elect a person (alcalde) who would represent the county.
The tradition of having a centralistic government can be traced back in time when the constitution was formed. National institutions were formed, so that the sectors can be organized nationally instead of locally, and these institutions in return would provide specific services to the public (health, education etc). This makes clear that only certain tasks were left for the municipalities.

The budget of the local government needs to obtain approval from the state, it should be specified where the funds will be allocated.

**3.3 Tasks of the local government (2),**

The tasks of the local government are (Villegas, 2004):
- Maintaining the road infrastructure and public lightning
- Maintaining and constructing parks
- Garbage disposal
- Special allocations program
- Provision of social services
- Assistance to charity organizations, with approval by the municipal council
- Construction of sport facilities

**3.4 Municipal income (3)**

The resources from the local government come from different areas:
1. Property tax
2. Liquor tax
3. Tax on public events
4. Transfers from government
5. Rent from the markets stalls
6. Commercial patents
7. Service fees (licenses, parking fees, street cleansing, waste management)

**3.5 Instituto de Fomento y Asesoría Municipal (IFAM)**

The IFAM, Instituto de Fomento y Asesoria Municipal, is a public sector institute, which was established in 1970, and its main purpose was to promote and help develop

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2,3 La municipalidad y sus funciones, La municipalidad de San Jose, 1986
the local governments (Hall ea, 2002). This organization portrays a very important role in the supporting the municipalities financially and technically. It provides loans to the municipalities at low rates so that the municipalities can use that money in order to develop their communities. Borrowing at other local financial institutions is allowed but permission should be obtained first from a special committee of the state, borrowing from the IFAM is less restricted. The financial funds from the IFAM come from the national government who transfers some of the tax money into this institute; the funds come from different institutions. About 10% of the budget is obtained from the property tax, 50% comes from the proceeds of the national liquor tax, and the remaining amount comes from soft loans by foreign donor agencies. (Nickson, 1995) This institute has also tried to bring about change for the municipalities, but its efforts were not rewarded. They had proposed a decentralization plan in 1991, but it has failed in obtaining its objectives, the proposal discussed transferring powers back to local governments and developing them to make them more effective and efficient, but the proposal failed to gain enough political support (Nickson, 1995).

3.6 The Municipal code
In 1970 the municipal code was introduced, this code contains all the rules of how to govern and how the municipality should be organized. This is done to give the local governments the chance to develop itself properly. The information in the code varies from the salaries of the civil servants up to the guidelines of how local elections for the mayor and the municipal council should be held. The code also brought some changes for their perspective; it stated that the IFAM would come to live with the purpose to help the municipalities with their development

3.7 Type of decentralization policies
As mentioned before Costa Rica has had a centralist regime for quite some time now, decisions that are made by the national government have usually been top down. In this section I will focus my attention on the different areas of decentralization.

Delegation
Costa Rica has been active in forming new policies.
There have been 4 key reforms (Ryan(2004), Hall ea (2002) the last 10 years:
The local property taxing authority
The new municipal code
The Specific Allocations law
Article 170 of the Constitution

The property or real estate tax 1995
Formerly these taxes were collected by the state and the funds were transferred back to the municipalities, but now the collection of the taxes was transferred directly to the municipality itself (Hall ea, 2002). This gives the municipalities freedom in the way they would like to collect this type of tax. This new reform can be seen as a delegation policy, since it refers to the municipalities in raising their own taxes but it can also mean devolution since the municipality is allowed to raise their own taxes.

The new Municipal code
The New municipal code was introduced in 1998 and it stated that the head of the community, alcalde (mayor), would be chosen by the inhabitants of that certain community. The first elections were held in 2002. Today the inhabitants of their towns directly elect the mayor and the municipal council. (see page 33)

The Specific Allocations law
This law entails that government decides where extra funds should be allocated in regions that need extra help. In the past legislators could decide how much money would be allocated to specific regions according to a special model. This model was based on the amount of inhabitants, size of the community and other economical factors. With the new changes, a commission that consists of national and local government, decide on different criteria such as poverty and human development. The balance statements of the municipalities are of no importance. The commission decides on the projects and the municipalities who will receive funding. The resources for this law come from almost every national institution. These institutions have to donate a certain amount of their budget. The institutions (for example the ICT, national institute for tourism) that donate money for this law are nationalized.

Article 170
In 2001 a law, article 170 of the constitution, was approved where municipalities would receive a total of 10% of the national budget, but until today this law hasn’t been implemented (Ryan, 2004; Hall et al., 2002; Nickson, 1995; IFAM, 2005). (See page 33).

3.8 Difficulties in municipalities implementing delegation policies

3.8.1 Property or real estate tax 1995

It was now possible for the municipalities to raise taxes, but the difficulties start when implementation takes place. In many municipalities taxes cannot be raised properly. The reason for this is that many cities and regions don’t possess a proper cadastre. With no cadastre available it is difficult to raise taxes on properties.

There is another obstacle when it comes to the cadastre is that many properties hadn’t undergone any revaluation. The value of many properties might have risen over several years, but no record of this has been kept.

What does this leads to, is that municipalities miss the opportunity to raise proper taxes. There are some municipalities like San Jose and other big cities that have used this opportunity to raise taxes and have put the money for better use. The income that the municipalities get from the taxes is used for the delivery of public services and delivering basic infrastructure. But first approval must be given by the state.

3.8.2 The Specific Allocations law

The Specific Allocations law (Hall et al., 2002) is very important for the municipalities since it is heavily needed for those who are lagging behind in development. Almost every national institution (for example the National institution of tourism) has to donate a certain amount of their budget according to this law. The recipients who benefit from this law are the municipalities. This law plays a prominent role for the municipalities since they can be eligible for extra transfers from the state to deliver basic public services.

In an interview that I had with Mrs. Guitiény (IFAM), it clearly came to light that there are many municipalities in Costa Rica that cannot support them even if more policies of delegation would occur. She had professed that the common problems were that to little finances and the lack of technical capacity were the main issues.
3.8.3 Municipal funding

Municipalities receive their income from taxes and service fees such as services for solid waste management, street cleansing, and transfers from the central government and specific allocations (Nickson, 1995; Hall et al., 2002, La municipalidad y sus funciones, 1986).

With the municipalities receiving more responsibilities new problems are met, and the biggest obstacle these lower governments face is funding.

The municipalities in Costa Rica only receive about 2-3 % of the total spending budget of the national government at the moment. Due to this many municipalities are in financial difficulties and started lending at private institutions and at the IFAM.

With the new law coming into act, some strain will be put on the national budget to increase the municipalities’ budgets to 10% in one year. To avoid this national government decided to raise the budgets with 1.5% of the municipalities every year for the next 7 years up to 10% (Ryan, 2004, Hall et al., 2002, IFAM, 2005). At this moment the raise in their budgets have not been in effect yet. It takes two to three years before a law comes into effect, but by the time the municipalities finally receive higher budgets most if them will be structurally lagging behind (Ryan, 2004). There are many municipalities struggling to survive as it is and are heavily dependent on their transfers from the state, but with new legislation that has to be implemented, they will undergo a serious set of problems for example not being able to deliver the proper public services such as waste disposal and putting up infrastructure (Esquval, 2003).

3.8.4 Article 170

The clauses in article 170 (Ryan, 2004) of the national law state that in order for municipalities to receive higher budgets they must prove to have a sound balance sheet and have implemented their tasks correctly, but it doesn’t state to whom they have to prove their efforts (Ryan, 2004; Esquval, 2003) but if taken a closer look, municipalities must gain yearly approval by the CGR (Controloría General de la
República)⁴, so in my view they have to show their financial statements to this organization. This is vague indeed, since there are no clear criteria that have to be met in order to get the higher funding. When new policies haven’t been implemented properly, there will be no raise in the annual budget.

The information mentioned above undermines the position of the local government completely, as written earlier there are municipalities who are facing economic problems and with hardly enough finances to do their work they also have to implement new regulations in order to get the raise they badly need. So what does this mean, no implementation of policies means no more money. Here the contradiction sets in place, the government is saying we want to decentralize but the new law makes it even impossible for decentralization to take place.

### 3.9 Devolution

To give a better account of devolution, I will make use of the decentralization toolkit. The toolkit analyses the way government is elected and what kind of representation is presented. There are 3 factors in which there is looked at the political level and those are the civil liberties, whether people have the right to choose their own representatives, political rights and democratic pluralistic system. For the case of Costa Rica, it shows that elections are held at regular intervals for the government, this accounts for the national and local level. There are two tiers of government; there is no existence of a regional level. The country has a multiparty system that shows that parties within government have to explain their actions and are accountable for them. The latter means there is more than one party in the government, it is likely that corruption will be lesser presented since there will be some control by the opposition.

The inhabitants of that certain city choose the mayors of the municipalities and the council is also chosen on the same day as the elections for the mayor and for the president of the country same as the members of government. Elections are held every 4 years.

The tasks of the Municipal council:
- Plan the general municipal strategy

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⁴ According to Lehoucq (2005), the CGR is the watchdog of the government, but it has showed that it is not able to perform its duties with success since it has a more book keeping function rather then checking the facts and controlling the budgets.
- Approve the budget
- Fix the tax rates
- Appoint the members of the administrative council who have to work out the decisions of the municipal council

3.10 Difficulties implementing devolution initiatives

When the law of the elected mayor came into action, there were also different expectations; instead some more problems were created. The mayors became a new player in the arena of local decision-making. The towns’ council wasn’t the only one making the decisions but also the mayor. This has played a significant part in the decentralization process where the mayors have tried to bring out change and support to the new policies, but with the lack of decision making power within the municipality, it was in most cases impossible to carry out the task. This led to a high turnover rate within the municipalities; in many municipalities the change of a newly elected mayor was yearly. In most cases there were problems with the council members who had also played a blocking factor in the political arena. But the biggest reason for the resignations of the mayors was the misguided expectations and the limited amount of resources that were available to carry out the new decentralization plans and to find solutions to the local problems.

3.11 Deconcentration

von Oosterhout(2002), describes in his book that the way decentralization is organized is often an issue. He mentions that decentralization doesn’t just happen but that problems evolve during the decentralization process. The link that I want to put is on the way decentralization is taking place in Costa Rica. In chapter two I had mentioned that many countries were forced to decentralize due to pressures from world institutions and donor countries. In the situation of Costa Rica, the government really does not want to implement decentralization policies, but have to, and so it is done in a way that is not clear to the civil servants and the municipalities (Esquval,2003). It is a complicated situation where a top down approach is taken. The national government takes all the decisions where the civil servants have to work out the policies, which are often vague and unclear. This leaves the municipalities in the dark.
The latter has also been a problem according to an article from Ryan (2004) many civil servants who work at the municipalities were not informed of many legislation changes concerning their position in obtaining more autonomy. In their case it also has to be stated that interests in decentralization from their perspective is limited. The people who are involved in making the legislation for decentralization often don’t communicate to the people who the new policies will affect. Often when a council has approved policies then some notification is send to the municipalities. This leads to confusion of what really is going on. When policies have been rejected no notification is send to anyone, the council will keep on working on other proposals, and in this case it is quite clear that input from the local government is not of importance, while new policies will have the biggest effect on them.

3.12 Difficulties implementing decentralization policies in general

3.12.1 Definition of decentralization

The municipalities often don’t see decentralization as a positive change for their status, it is often seen as a mandate that is given to them by the national government and that the orders should be obeyed (Ryan,2004; von Oosterhout,2002). There is no positive communication in the sense of making the relationship between the national government and the local government stronger.

A problem that many municipalities face is the unclear definition of decentralization (Esquval,2003). Most municipalities view decentralization often as a negative thing, since their input on the policies is limited. For a country that had a centralistic regime for so long, new policies like decentralization are difficult to apprehend. The municipalities were not properly informed of the changes that were going to happen. At the moment the decisions are made at the top and they have hardly any say in the matter. So their perception of decentralization is not clear, different definitions are given to the term.

Ryan (2004) mentions in his writings that in certain municipalities, many civil servants were unaware of the concept, lack understanding of what the policy entails or where in share confusion. And that is why von Oosterhout(2002) is urging countries to have a good communication policy between the different actors so that misunderstandings about the terminology can be overcome.
Approved policies about decentralization also bear a few shortcomings; their main flaw is that they are very vague and not fully written. This can be seen from a political perspective as well, the national government doesn’t want to relinquish their power, but have to decentralize the state from outside pressures, and so by approving policies that are unclear to most of the public, the national government shows to everybody that they are changing the way of governing to good governance on paper. But in reality nothing has changed, legislation has been made on paper, but cannot be implemented. The only people who are confronted with the seriousness of the problems are the local governments who are faced with new plans that undermine their power instead. (Ryan, 2004)

3.12.2 The lack of trained civil servants

In most of the 81 municipalities throughout Costa Rica there are hardly any university educated staff. According to Ryan(2004) more than a quarter of the local governments do not have any university-educated staff, while the capital has about 110. To this extent it is no wonder why the perception of decentralization is so hard to comprehend, it isn’t only the lack of coordination from the state’s perspective but also from the local government. With the new decentralization laws coming into effect, it is the lack of technical expertise that will plaque the municipalities from implementing. The expertise that is so badly needed for the areas is not given and it will only affect in further decline.

3.12.3 Timing

Timing is an issue that is faced by the Costa Rican government. New policies are approved and more powers are being transferred to the local governments. There is no serious time plan available in which the policies are approved, often a multitude of policies are approved at the same time and it is too much work for the municipalities to handle. With little or no resources it is often impossible for them to incorporate the new policies in their local constitution. There is no time plan involved for the lower governments to know which policies will be approved when and where, so it makes the work for the civil servants in the municipalities difficult. As mentioned before they are hardly up to date with the current political issues regarding decentralization.
Ryan (2004) describes that timing and the sequence of policies are of importance, if the two aspects are not opted together in a good scheme, the chance of success will be limited.

Decentralization takes place at random order, there is no exact plan of what powers are to be transferred, finding a good mix of decentralization seems to be difficult, not only in the case of Costa Rica but for many other developing countries (von Oosterhout, 2002)

3.12.4 Problems with the new municipal code

Although the municipal code tries to enhance the power of the municipalities there are also contradictions in them as well, which conflict with the national laws, one of them is article 4, here on paper it states that municipalities have the freedom to organize their service delivery in the way that they see them fit. It has the most wide-ranging activities for the municipalities from maintaining the infrastructure until the education of the children. But in reality there is not much autonomy, the article in the code suggest that the decisions that are made by the municipality cannot be put first, since the national government plans are given more authority. An example of this is the one used by Ryan (2004) and Pallavicini (No date), it states that although the local government has the formal responsibility for carrying the regulations for local building activity, building permits and regulations over land use are still issued by the national housing institute.

With this clause in the municipal code, the municipalities gradually lost all their power in the different sectors; they had a very low level of activity and direct service delivery.

3.12.5 Accountability and transparency

Accountability and transparency is somewhat vague in this case, the civil servants at the local government are suppose to implement the policies of the national government and whether they perform the actions right or wrong, I couldn’t find any evaluation from any institution which monitors the last two indicators.
3.13 Local government in crisis during the 80’s
To give some indication of how the borrowing of local governments went wrong is given next (Hall et al., 2002). A situation that is highly volatile will of course escalate in a certain amount of time. And that is what happened in Costa Rica, I have chosen one about the IFAM where it all went wrong at a moment. At the IFAM forgiveness of debt isn’t allowed and the government at the same time doesn’t permit a budget deficit for more than one year and delay of debt payments.

During the eighties an economic crisis had engulfed Costa Rica and devaluation of their currency was staggering. The IFAM had to give out more loans, with lesser restrictions in order to help the municipalities get back on financial track. Since it cannot give debt forgiveness, it restructured the debts so that it would still be repaid in the future; the CGR also collaborated with the IFAM in order to restructure the debts. Some municipalities were facing high debts due to the crisis and were not able to pay, so with help from the IFAM, new loans were given to pay the accumulated debts. The crisis had its effect in the way that many municipalities had borrowed money to invest in their region but was not able to pay back the loans since devaluation of the national currency made it impossible. Some of the loans that were borrowed were in foreign currency. With this problem at hand, the municipalities could not collect more revenues from their community and were left with high budget deficits. The IFAM also extended the loan repayment for a couple of years, so that soften the blow for the municipalities and give them the time to restructure their budgets.

The government’s role in all of this came to light when the municipalities were facing extreme difficulties, in many cases the government denied a bail out for various reasons, one of them was the election period, where political leaders could abuse the situation to their own benefit. Another one is the legislation of the country, which makes it impossible sometimes to change the rules, if one takes the municipal code in mind. In the end the government did not pay enough attention to the problems that were occurring and didn’t respond in time.

3.14 Municipal borrowing
The final stage of the toolkit contains questions whether local governments are permitted to borrow funds at national or local finance institutions. We already know that it is possible for the municipalities to borrow at low rates at the IFAM. When the municipalities go for borrowing there is a check up to see what kind of loans are still
left open, to see in which ways the debt can be restructured and how a future loan will be conditioned. There must also be approval from the Contraloría General de la República (CGR). Another alternative is to borrow at private institutions, where the interest rates are higher and are even under stronger regulation by the CGR, approval is needed in every case and thus makes it unattractive to borrow at these kind of institutions (Hall et al., 2002). The municipalities are not allowed to have a deficit in their budgets for longer than one year puts a strain on the local government. So if a deficit occurs during one year the municipality must work really hard to cover the deficit for the next fiscal year, if it fails to do so, the CGR can reject their budget. The municipality must pay for the deficits and debts that occurred in that certain year and must make a payment plan in order to receive their finances. There was a moment in the past where the CGR restricted the municipalities to only paying a maximum of 10% to their debts. That again proves the centralist attitude; the municipality doesn’t have the power to decide how much it is willing to pay for their debts (Hall, 2002).

With the new law that came into effect in 1998, borrowing from national and international institutions was changed into a tax-exempt bond by the government. This was done to control the borrowing climate yet again, but the requirements from the budget deficits were still in effect.

Ryan (2004) mentions in his article, that the new municipal code puts restrictions on the municipal budget, when it comes down the expenditures. Property taxation is one of the most important revenues for the municipality. But the code restricts the municipal from spending the budget in the way that they seem to think is best. The new code limits the spending by saying that a maximum of 40% of the income may be spent on personnel costs, another 20% must be spent on health and 10% is destined for local education boards. If taken the 10% that goes to debt repayment, one can get a pretty good look at how the finances are spent. The municipality doesn’t have a lot of room to spend the finances, as it wants to. To comeback to the current situation it is quite simply to say that the municipalities who are in financial difficulties do not have a lot of choices.

3.15 Conclusion
To conclude this chapter, I will end with some of the main problems of decentralization in Costa Rica according to my central research questions:

Q1 Policy making stage
• The contradiction of the municipal code. The new law that was introduced in the municipal code is supposed to make the municipalities stronger but instead it's making the municipalities weaker, in the case of the subsidies they receive.

• Lack of information and communication. There seems to be a lot of misconceptions about the term decentralization within the local governments. The national government isn’t doing its work to clear up these misconceptions instead it is pushing for more policies on decentralization.

Q2 Implementation stage

• Little finances available. The municipalities often cannot implement the new strategies, since municipalities lack resources and proper information. And for that the new law, which will create an even bigger gap between the regions, is punishing many of the municipalities who are facing financial challenges. Some regions will of course benefit from the new law, but there are others who lack development and will keep on dwindling.

• No compensation for local governments. The national government is demanding so much change, but isn’t willing to compensate that with extra financial funds so that the new policies can’t be implemented properly by the local governments.

• Lack of technical assistance and monitoring. Technical assistance and monitoring is seriously lacking and that will continue to be a problem throughout all the areas of policy that are facing change.
4 Panama

4.1 Historical background
The history of Panama goes along way, since it was part of the Spanish colonies in Latin America. Panama gained its independence in 1821 from Spain and formed an independent state together with Columbia. In 1903 Panama again declared itself independent and sovereign from Columbia.

It was around this period in time that Panama signed a treaty with the US, where the Americans would build the Canal. This was of great importance for the US, since it meant that ships would pass easier from the Pacific to the Atlantic Ocean.

Panama is a country with a long history and was very much in the picture in the end of the eighties when the dictator Noriega was at power. He came into power after he had lost the national elections in 1989, where his followers had attacked his winning opponent on national television, he remained in power and called himself the new ruler of Panama and funded his activities from narcotics and weapons. He also declared war on the USA; in the end there was an invasion from the US. This led to a period where rebuilding the country became necessary and where democratic ideas would be installed. In 1994 the first free elections were held under the careful eye of world organizations and Panama could start rebuilding itself.

4.2 Current situation
Panama is a country divided into nine provinces; there are three tiers of government, the national government, the regional council and the local government. Panama is divided politically and administratively. The provinces are divided into 75 districts and each has a municipal status and 588 corregimientos (indigenous communities). There is one district that has special status and that is San Blas (Comarca de Kuna Yala), they have autonomy from the national government and are free to decide over their territory. This special status was rewarded to them in 1925.

The president of Panama appoints the heads of the provincial councils; their function is to have a limited form of supervision over the municipalities under them. Representatives from the municipalities form the provincial council.
The government in Panama is just like Costa Rica very centralist. This dates back in the constitutions from 1941 and 1972. Here the powers of the local governments were very restricted, it was mostly based on deconcentration (what is ironic since their main functions today are still based on decenoncentration). The constitutional change that took place in 1972 made clear that the local government didn’t play an influencing role when matters of the municipalities were taken into consideration. This meant that the problems that were happening in their municipalities would be dealt with on a national basis. The municipalities do not have any say in their affairs. In fact it stated that the national legislature had the power to decide whether the head of a municipality should be an elected alcalde or an appointee from the central government. In this case the alcalde wasn’t really elected but chosen from three candidates from the municipal council and appointed by the president; he was also called the representative of the government. The town’s council had more power then the representative, since the head of the council would lead the meetings and they could make the decisions. The president of the council was chosen among the candidates themselves who are in the council. The representative of the municipality was the face of the community. All of this changes in 1994 when there was a realization that the council held all the power and that the local government was rather a weak one then a strong one. Change came about and the role of the representative changed to alcalde or mayor and the people would directly elect him.

The local government still has the same structure; the mayor is chosen by the people and works together with the townsmen. Today the mayor has a dual role, he is the representative of the community and a representative of the government, and the number of people in the council differs. The elections are held every five years together with the national elections; re-election is possible (which isn’t the case for Costa Rica, the president can only sit for one term only).

4.3 Deconcentration policies

The constitution of 1972 states that municipalities wouldn’t be autonomous, which was very rare in consideration with other countries in Latin America, who did have some rights in their constitution. What the municipalities did have was an administrative role in association with the central government in the process of developing the regions. The municipalities were active in the planning process but
their role wasn’t equal to that of the government legislatures. In 1973 change was brought in the municipal code where the subordinate role of the municipality was mentioned. This made it possible for the municipality to contribute to the planning process of in many sectors such as welfare services, public utility services, planning and urban development, sports facilities, libraries etc. They were also involved in the development of policies that were specifically targeted for certain regions. But as mentioned before they had to work together with the national department of planning, who had the approval power.

It’s a unitary country, but the power lies at the center, the government takes most of the decisions and passes them on to lower levels. In this case there is deconcentration, the government still has the overhand in all of the decisions. If a look is taken at who approves the budgets then there are some differences, the bigger municipalities like Panama and Colon have more freedom when it comes to that, the income that they receive from raising taxes can cover some of their expenses and do not need a lot of extra funding from the national government. But the smaller municipalities who are completely dependent on the national government must have their budgets approved annually if they want to receive funding for the next year. About 60 municipalities are almost completely dependant on national government and must await approval every year (Delegación de Panamá).

There is also a law against corruption, La ley transparancia, there is a lot of corruption going on, but on the local level there is a lack of regulation and monitoring, so there is no effective action to combat this problem.

4.4 The devolution level according to the decentralization toolkit

On a national level everything seems to be positive, elections are held at regular intervals, there are different political parties who can run against each other. The votes are done in secrecy and the government cannot override the results. There is a special tribunal who oversees the elections. Elections are also held at the local level and the mayor of the town is also directly elected. The people in Panama vote for a president and he forms his cabinet. The president has a dual role; he is head of the state and head of the government as well. The government is the executive branch and the national assembly (parliament) is the legislative branch. There is only one chamber in parliament, the national assembly. Ministers are held accountable for their
actions, and if they have made bad decisions they can be sent away by the parliament. The Control General of the republic is the treasurer of the state.

Structure of the local government (Delegación de Panamá, 1998)
The structure of the local government is as follows:

1. The mayor, who is directly elected by the people
2. The treasurer, who is appointed by the municipal council, his duty is to take care of the municipal administration
3. The municipal council, who are also elected and oversee all the decisions, implementation of policies and development within the municipality,
4. Community associations (juntas comunales), this groups is set up of representatives from are responsible for the oversight over their community
5. Local associations (juntas locales), this is a group, which consists of citizens.

One thing that also stands out in this country is the way political parties are seen; when politicians come to power it is mostly based on the vision with a political party and how they can bring about change. But in the case of Panama when politicians come to power they can shift their agenda setting from the political party to their own private agenda and political view. The politician may decide to no longer uphold the vision of the party and can continue his or her own way, then the loyalty from the people shift towards the politician instead of the political party. The same can be sad for the case of Noriega, he was a strong leader in political party but after a while, he went on his own path and changed course, and some people didn’t follow him and left the political party.

4.5 The level of devolution
The mayor is directly chosen by the citizens and is representative for them, but in fact he doesn’t represent power when it comes down to making plans and decisions. He doesn’t have the information about the revenues and resources of the municipal budget. This puts him in a relatively weak position. The treasurer on the other hand has the access to all the municipal budgets; he gets to decide where the finances will be spend and which projects are eligible for funding. The council is keeping busy with tasks, which are purely administrative, which in many cases collides with the affairs of the mayor, again putting the mayor in a weak position to change anything. The
community associations are indirectly related to the citizens, so the decisions that they make don’t necessarily affect the people (Delegación de Panamá).

4.6 Devolution level at the local government
As I have mentioned before elections are also held for the local government, mainly the townsmen and the mayor. The political parties who are active nationally can also rally votes for their politicians on a local level. The role of the mayor is to be the representative of the community and should also try to find solutions for problems that are local. Together with the towns council they have to work to find solutions for the specific problems, they are also accountable for their actions. The campaigning that is done at the local and national level is partly funded by the state and private groups, such as wealthy families and business organizations, all hoping to gain something when that certain political party has won the elections. Combating corruption doesn’t have a high priority and that clientelism and patronage play a role here (this doesn’t only account for Panama but for many other countries as well like the USA). So campaign finance can be source of corruption as well at the local and national level.

4.7 Municipal income
Many of the municipalities are not able to collect their own revenues (only the bigger cities and provences like Colon and Panama city), since many of them do not have the capacity or ability to do so. They are financially complete dependent on the national government and have to gain approval for their budgets; they are liable for their actions when the budget is not correct. This can affect future budgets of course since the local government isn’t autonomous.

The municipalities that do have income gain it from the following areas (IDB, PN-0143):

- Municipal taxes, there are different types of municipal taxes and some of them don’t really bring a benefit to the municipal income. The problem here lies in the fact that there is a weak system of generating tax. It isn’t transparent and not fully developed. There is also a lack of trained personnel who are not able to collect the municipal taxes.
- Administrative and municipal service charges, in this case there is no real focus on efficiency and effectiveness of service delivery, which isn’t really feasible since a lot of municipal finances can be wasted. The charges that the municipal can ask for services it can provide are out of date and do not relate to the present situation.

4.8 Implementation difficulties for decentralization in general

On paper this is interesting to see that the local governments do participate to a certain extent in the policymaking, but in reality this isn’t the deal. Since many municipalities lack the resources and the trained staff they are not able to participate in the planning process. So their influence is left until a minimum.

Lack of Transfers (IDB, PN-0143)

There are no transfers from the Central government to the municipalities to stimulate good performance. Extra money that is available for local governments who are trying hard to function better under the difficult circumstances. Financial incentives would make it possible to enhance their performance.

Funding

Just like Costa Rica the funding of the local governments is very little that is the one thing these two countries do have in common. In 1995 the total spending on local government was about 2.9% of the national budget, this included direct and indirect transfers. There are municipalities that don’t have the power to collect local taxes like for example property tax. Income for some municipalities is mostly generated from non tax related revenues like permits that are given for construction of buildings, granting licenses for operating some services like sports facilities and markets. Every year the governments invest a certain amount of money in the form of a grant to the municipalities, this is seen as indirect funding from the central government, this grant is allocated to all municipalities according to certain criteria’s such as poverty and development indicators. The direct transfers that are given to the municipalities are unclear and vague and the same accounts for the amount of finances, the criteria are unknown and in some cases municipalities do not even receive direct transfers from the central government.
Support institutions
In Costa Rica there is the IFAM, that supports and advices the municipalities. Panama doesn’t have such an organization, there was one in the past but ceased its action in 1994. The organization was called Association Panamena de Cooperacion Intermunicipal (APCI). So there is no governmental institution that gives technical support, training and advice to the local government. During the information search I could not find the reason for the closing of this institution. With the lack of such a body, it also shows that the local governments do not have a lot of strength. There a technical support body to help the municipalities with assistance in financial administration, but thus far there hasn't been any progress (IDB,PN-0143)

4.9 Capital market channel
This is part of the decentralization toolkit. At this subsection the borrowing activities will be looked at in Panama. The regional council doesn’t have a lot of influence; it exists but mainly on paper. The access to capital markets is mostly between the national and local government. The local government is permitted to borrow money from national capital institutions as for example local banks, but taking out loans internationally is not permitted. The municipalities can also borrow from the national government, but there is a background check done, to see how the financial status has been of a certain community. The lending institutions also believe that ultimately they will receive their money back since the government will back the municipalities in the end. The government has the power to control the borrowing capacity of the local municipalities.

The rules concerning eradication of public debts or bankruptcy from the national and local government are that if problems occur, the budgets of other sectors will be redistributed in order to pay of the debts. For example the budget for the social insurances will be reduced for a certain percentage, so that the funds that will become available can be used to pay back the creditors.

4.10 Conclusion
To come to an overall conclusion in this chapter, I would have to mention the main problems that are playing in Panama.

There are three tiers of government, but some officials on them are appointed instead of being elected, this shows a strong clientelism, that is still going on Panama. This is
due to the fact that during the Noriega period there was a strong system of appointing people to certain posts and that still hasn’t changed. This is also due to the fact that there was a dual system, on the one hand the military power and on the other the government who was indirectly ruled by the military.

The main issue that is going on in Panama is the turnover to democracy, after years of military repression, this country is trying to find its way to democracy, but it still has a long way to go.

Q1 Policy making stage

- There are no policies that are aiming at decentralization. At the moment the municipalities have little power. Only the weakest form of decentralization is found and that is deconcentration. The lower governments works out the goals that have been set for them with the finances that derive from the national government.
- The municipalities are involved in the planning process of new policies but they cannot exert influence. They do not have a say in the matter when decisions are made.

Q2 Implementation stage

- Local governments in Panama are very weak and there position isn’t changing very fast. But there maybe a small change underway, since government decided to go over to a direct elected mayor instead of an appointed one. This is a start since the elected mayor doesn’t have any real powers.
- Minimal input from the municipalities, they only have a few basic tasks sewage and infrastructure, the lower governments are left with only a few tasks for example granting licenses.
5 The role of International Institutions on decentralization process

5.1 Context

The headquarters of Europe Aid is based in Brussels and consists of eight directorates; six of those are line directorates for a specific region the other two is operational support directorate and general affairs directorate. Each directorate has been given a letter of the alphabet so that a clear distinction can be made about their activities. Their tasks consist of making a framework for their activities, which has been designed by DG of External relations and development. This framework is part of the guidelines from the EU and it used like a terms of reference for the DG of Unpaid of how to do their operations in a most effective way. The framework consists of how the management has to be done, identifying future projects; effective and efficient management of a project from the moment the project is started until the post-evaluation of the project. The directorates are:

- Directorate A is responsible for the region of Europe, the Caucasus and Central Asia (including Mongolia)
- Directorate B has the management of Southern Mediterranean and Middle East
- Directorate C has the management of African, Pacific and Caribbean countries (including South Africa and Cuba)
- Directorate D has the management of the Asia region
- Directorate E has the management of Latin America
- Directorate F has the responsibility of the management of all stages of the project-cycle based programs. These cover areas in which the Europe Aid cooperation office is active in, mainly infrastructure, democracy and human rights, environment, social development (gender and drugs), food security and NGO financing. Another responsibility of this directorate is one that is focused on new designs for new identified future projects and to provide technical support for the other directorates.
- Directorate G has the task to provide operational support and is busy with the budgetary details of the different projects that are active, announces the new tenders, management of financial contracts, and deals with judicial affairs.
- Directorate H is the one that organizational support such as human resources, training, IT systems, and interrelations with other EU institutions. Further more it also
plays an active role in the design for methodological back up for the evaluation of the programs to see how effective and efficient they have been

The annual contribution of aid is about 7 billion Euros annually to about 150 countries; the reason for this is to establish long-term relationships with other countries and contribute development in areas where it is needed the most. As mentioned the EU is active in different sectors and those are:

• Providing access to water that is clean and healthy for everyone
• Promoting development in rural areas and also safeguarding food products
• Provision of sources and health infrastructure
• Developing good education systems and make them accessible
• Promotion of growth in the trade and the private sector
• Standing up for the rights of man: freedom, human rights and good governance (democracy for all)
• Provision of security and justice, also establishing regional cooperation

An important aspect of Europe Aid that it doesn’t finance a whole project by itself, but that there is additional funding done by the local governments itself and other local organizations as well. The reason for this is to make the project more national and that the national government will also have the responsibility to make the project successful, to stimulate ownership.

5.2 EU Country Strategy paper Costa Rica

The EU has written country strategy papers and it gives a picture what their vision is for the two different countries. Via the papers they try to exert some kind of influence over the countries who are receiving aid.

The country strategy paper of Costa Rica, under the heading of Modernization and decentralization of government, has the overall objective:

“… To modernize and decentralize state institutions in order that the services that they provide are of better quality and accessible to all strata of society.”
To prove that there is more than one form of decentralization used in the strategy I will use the following statement taken from the country strategy paper:

“The principal intervention will be in the area of municipal development and decentralization and is aimed at increasing the share of government resources delivered at the municipal level, improving the capacity to manage and deliver selected services, and stimulating the participants of all citizens in municipal decision making.”

Here one can see two types of decentralization, within the first part delegation and devolution is mentioned, the government must allocate a greater amount of funds towards municipalities. This has to be done in order for them to perform more tasks on their own. The second part of the quote also describes delegation and devolution, connecting this part of the strategy with the theory, it can be clearly seen that a certain transfer of decision making and some public services are being delegated to an inline agency, in this case the municipalities. The goal of the EU is to enhance decentralization in Costa Rica via this project.

5.3 EU Decentralization project Costa Rica

In the country strategy paper of Costa Rica, there is a specific project that involves decentralization and empowering of the local government.

The project was supposed to start in 2004 and has a budget of €9,600.00, - but unfortunately during my research I found out that this project started in March 2005, a year later than planned. The reason for this was that there were some problems between the EU and the Costa Rican government, before final approval was conceived. In the meantime the EU had also made new regulations that also had to be implemented in this project. So with all the delay the project started and I could not get any real information of this project other than the original plan from the country strategy paper.

5.4 The Inter-American Development Bank

The Inter-American Development Bank (IDB) was established in 1959 as a development institution with the power to grant loans to countries under novel circumstances. The loans that are given are used for technical assistance for economic
and social development. This bank is active in Latin America and the Caribbean countries and is one of the oldest and largest regional institutions.

The activities of the IDB are to give assistance and help develop borrowing countries 5:

- In formulating development policies
- Giving technical assistance and the necessary finances
- Enhancing social equity and combating poverty
- Modernizing the state
- Regional integration and fostering free trade

Where the Bank was originally established from 19 Latin American countries and the US, its membership grew including countries from the Caribbean, European countries and countries like Korea, Israel, Cuba and Japan.

47 countries own the IDB and a bigger part of those countries are also borrowers of the Bank. There are about 26 borrowing countries.
Each member has voting power but that is limited to the amount of money that is contributed.
The finances from the Bank derive from contributions from the members.

The IDB doesn’t fund the whole of the project but only a part of it. The remaining amount has to be funded by the government of the borrowing country itself.
In order to decide the funding of the loans the bank has divided the borrowing countries in two groups: 1. Groups A-D, this group get a certain percentage of the total amount of the program
2. Groups I and II, this group has to monitor the distribution of the loans

The Bank's division of the country is the following (6):
Group A (Argentina, Brazil, Mexico and Venezuela): 60 percent

5 Source: IDB website
6,3,4 Source: IDB website
Group B (Chile, Colombia and Peru): 70 percent
Group C (Bahamas, Barbados, Costa Rica, Jamaica, Panama, Suriname, Trinidad and Tobago and Uruguay): 80 percent
Group D (Belize, Bolivia, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua and Paraguay): 90 percent.

Groups I and II are the groups that have to monitor the distribution of the lending programs. The indicators for these groups are based on a certain percentage of the BNP of 1997.

On the basis of their lower per capita income, the Bank channels 35 percent of its lending volume to the Group II countries: Belize, Bolivia, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru and Suriname. (7)

Approximately 65 percent of the lending volume is thus channelled to the Group I countries: Argentina, the Bahamas, Barbados, Brazil, Chile, Mexico, Trinidad and Tobago, Uruguay and Venezuela. (8)

The institutions that are eligible for funding are: municipalities, national, regional and provincial governments, civil society organizations and autonomous public organizations and sometimes companies who are active in the private sector.

5.5 Decentralization projects in Panama
5.5.1 The project of the Inter-American Development Bank (IDB)
With the projects that the EU and the IDB are exploring, they are trying to enhance the countries’ decentralization process, step by step.

In 2003 there was an approval by the Inter-American Development Bank for a project that would lead to a better development of the municipalities. The project is called Municipal development and Decentralization support (PNO143).
The budget that is available is a total of U$9,750,000, -. The IDB would give out a loan for U$7,800,000, - and the contribution of the national government will be the amount of U$1,950,000, -. 

Objectives of the project
The aims of the project are (IDB):

- Modernization of municipal governments to enable them to better fulfills their current responsibilities.
- Support for improvements to the institutional and policy framework, to enable municipal governments to gradually become key agents of local development.

The program consists of two components

1. Municipal strengthening and development, the available budget for this component was U$8,044,000, -. This component entails the formulation, implementation and monitoring of institutional strengthening plans in participating municipal governments. The activities that are to be funded are:
   - Municipal strengthening subcomponent, here the formulation, implementation and monitoring of municipal action plans (PAMSs) in 15 municipal governments. The 15 municipalities that would gain from this subcomponent would be dealt with on case-by-case basis. The activities that would be looked at were: improving service delivery, financial, tax and administrative modernization and strengthening of municipal planning.
   - Development of municipal management tools. In this subcomponent the finance of the development and implementation of a basic financial management and tax administration system would be looked at in participating municipalities. The activities that will be employed in this part are the drafting of the rules, design of an implementation strategy based on municipal classification, development of information technology applications and the specifications for the equipment the municipalities will need.
   - Municipal investment projects; Priority investment projects would be financed in areas of municipal jurisdiction. Resources would be allocated contingent upon the participating municipalities, who are showing signs of modernization according to the set of rules from the PAMs. Projects that were
eligible for funding must contain facets of municipal jurisdiction, this includes improving and expanding storm drainage systems, parks, plazas and public roads, erosion and flood protection, markets, slaughterhouses, public cemeteries and infrastructure for solid waste disposal and treatment.

2. Support for local development and decentralization policy making. The budget that was available for this component is US$735,000. The funding would be used to consensus Building and formulation of the National Local Development and Decentralization (Politica Nacional de Desarrollo Local y descentralizacion, PNDLD) together with the improvements to the municipal regime. The activities that will be employed are the following:

- Development of the PNDLD; the government is supported in developing the PNDLD and municipal reforms by generating sound and reliable technical Information to be used in weighing options and making informed decisions.
- Support for consensus building and adoption of the PNDLD; there would be support for the government in building consensus and the process of adapting the PNDLD and the municipal reforms necessary for its implementation.

5.6 Conclusion
The EU and the IDB are trying to help these two countries with their decentralization process by co-funding different projects. The EU project that is currently active in CR started in 2005, one year later then planned. Since there was no current information of the current status of this project, more was not mentioned about it. According to the plan proposal this project is aiming at delegation and devolution. The quote shows these two types of decentralization. For the municipalities it means that they will have more freedom in raising their finances and delivering better services to their communities.

For the case of Panama there was a project approval by the IDB in 2003 but if this plan has been put into action is still unclear. The main objective of this plan are to strenghen the local government in its activities. The second objective is to support more policies that are aimed at decentralization in favor of the local government.
6 Conclusions and recommendations

6.1 Comparisons Costa Rica and Panama
Throughout the research of my paper, I found out that Costa Rica and Panama have some differences and share similarities at the same time. The level of decentralization in Costa Rica and Panama in relation with other Latin Americas is low.

6.2 Similarities

If looked at the political background, it can be remarked that were Costa Rica began in the early fifties with the road to democracy. This is a country with a strong centralist regime that is proving difficult to change. With all the new policies that are being made, there still is a strong tendency to (re)centralize services such as education and health care. Panama and Costa Rica are the two countries that have not decentralized these sectors like other Latin American countries have. With the latter is meant that countries such as Nicaragua and Mexico have decentralized health and education services to the lower governments or to the federal states (A.Gersberg & M.Jacobs, 1998).

Panama a country that started her road to democracy in the beginning of the nineties still has a long way to go. In comparison with Costa Rica, it has to be noted that the differences are not great. Where in Costa Rica there is talk of delegation in a weak form, Panama only has deconcentration.

The government spends about 2-3% of the BNP (Stein,1999)on municipal funding, which is not a lot of money, and that leads to problems for many municipalities who don’t have the ability to raise taxes. The big cities in both these countries are capable to finance public services since they have the capacity to do so, but as mentioned before the rural areas, are the ones facing the most difficulties.
6.3 Differences

The differences in the municipality’s actions I have put in the following table:

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<th>Differences</th>
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6.4 Conclusion Costa Rica

- The objectives of Costa Rica regarding decentralization are often not clear and vague most of the times. The objectives are very important for the people who will have to implement new legislation.

- There are no terms of reference available that give a clear picture of what decentralization is going to do for Costa Rica. With no important guidelines available, decentralization will have different meanings for all the actors who are active in the field of implementing decentralization legislation.

- Funding is an important factor, as I have mentioned earlier, Costa Rica isn’t spending a big percentage of the national budget on the municipalities. In order to become decentralized, new legislation is made but without additional funding to back it up. The municipalities are having difficulties implementing the new laws since they do not receive extra funding to implement the new policies.

- Technical competence is lacking in Costa Rica. Many municipalities lack the manpower or the competence to work out the different legislations concerning decentralization. Many public services are also nationalized so that gives the municipalities not a lot of fiscal and political power to make changes in the decentralization process that could lead to better outcomes for their communities.

6.5 Conclusion Panama

The case for Panama is somewhat different than that of Costa Rica. As mentioned before, Panama is a country that has had a very short history of being democratic,
having been under dictatorship until the beginning of the nineties during the last century.

- Decentralization is not on the top of the agenda in Panama yet. There are talks of decentralizing some tasks but that is more on an deconcentrated level. A plan has been set up to promote decentralization but this is more on an administrative level. With no real intention of decentralizing fiscal powers, objectives and goals are missing.

- The government is not planning to decentralize fiscal powers in the near future. Although there are no real plans for decentralization yet, there is a national plan for strengthening the lower governments. In the past (during Noriega) the municipalities have been stripped of their powers and left in confusion. New laws were made, but were unclear to the municipalities. This shows the changes that occur in government, are more of a political nature. It depends solely what is playing in the political field.

- Funding, most municipalities in Panama do not receive their own revenues. They are completely dependant on the national government, when looked further down the road, it can be questioned whether these municipalities will receive more freedom in gaining their own finances when will be introduced. If the budgets of the municipalities are not in order this can have effect on the approval for the next year budget, this means that less money will be available. This makes it extremely difficult for rural areas where the poverty rate is high.

- Municipalities do not have the skills on managerial or political level to participate in national policies. They are ascertained when it comes to down to giving advise but there work is not binding. The constitution states that the municipalities would not be autonomous; they are in fact subordinate to the government. This shows that municipalities do not have a lot of power. In 1973 that law was altered and involvement in the national planning process was included, this meant that the municipalities could give advice and work on policies containing public services, but they had no approval power, that was left for the state to decide.

- Most public services are centralized. Services like infrastructure, sewage and public works are all bundled in national institutions. This gives the
municipalities no say at all when it comes down to delivering specific services that are needed in a region, since it has to be organized nationally. So deconcentration is minimal.

6.6 Recommendations
For the last part of this chapter I have opted to give some recommendations concerning the decentralization process in Costa Rica and Panama. These two countries still have a long road to follow but it is not impossible. The fact that decentralization is taking place is already a good thing, but the way it is done, is somewhat lesser. Small changes in the process can make this process easier for the actors who are designing and implementing these legislations.

6.6.1 Costa Rica
The recommendations for Costa Rica and Panama will be set on the basis of my research questions Q3 and Q4. The reason for doing this is that it gives a clear picture what the outcomes are for policymaking stage and the implementing stage can be.

Decentralization is a phenomenon, which needs a clear definition, and also has different forms. Having seen all the problems that arose from this word; it is better to make a clear understanding of the term.

The recommendations are:

Q3 Policy making stage/ Solutions

- Terms of reference with clear objectives and strategies towards decentralization. To make an end to all the confusion concerning decentralization it is better to have a clear guide, which can be used by every civil servant when uncertainties arise from new legislation concerning decentralization. This guide should also contain the tools and methods that need to be used when implementing decentralization policies. This could leads to lesser confusion about the “how” and “with what kind of tools” question.
- Necessary funding. In order to make decentralization successful, funding should be made available and properly allocated to municipalities who need financial support in order to carry out the changes in the law.
Q4 Implementation stage/ Solutions

- Commitment towards the process of decentralization. The decisions are taken at the top, and the municipalities should implement them. By making decentralization a combination of top down and a bottom up approach, it gives the actors the chance to communicate with each other in order to find new ideas that would make the design and the implementation of decentralization easier. The parties that have to work together in clusters to make their ideas work will have a stronger commitment to each other and the plans.

- Technical assistance should be provided to everyone. Some municipalities have civil servants who are properly educated and know how to deal and implement new policies. But there are a lot of municipalities who do not have properly educated personnel. For this the solution should be sought at the IFAM. This organization should make it one of the primary tasks to educate the municipalities about the new policies that are made and train the personnel in how to deal and work with the new legislation.

- Monitoring and evaluating the decentralization process. A framework should be set up in which the process of decentralization is put in a scheme. A special group of different actors from the national and local government, private sector should be given the assignment to monitor and evaluate the processes regarding decentralization. The importance of this group can be seen in the fact that they are watching the process and can give advice to the actors when problems or unforeseen effects occur.

6.6.2 Panama

Panama is a different case, where this country is trying to establish a democracy; decentralization does not have a high priority within government. A country with a high poverty rate and high inequality, it is still trying to find its way towards good governance.

When looked at this country, I have made the following recommendations:

Q3 Policy making stage/ Solutions
Income and tax revenues. Only Panama City and Colon receive their own revenues from municipal taxes, this is a contradiction since other municipalities cannot receive their own income. The law should be altered to make it for each municipality possible to collect their own taxes. By doing this there will be less dependency on the national government. Subsidies from the government are still indispensable but giving this small freedom to municipalities to start collecting municipal taxes can make a difference in the system.

Equal power within the municipal council, mayor and the treasurer. At the moment the treasurer of the municipality has the most power and can decide where the funding goes. The mayor is keeping busy with tasks considering the municipality but keeps colliding with the affairs of the municipal council, this shows that the mayor does not have a lot of power. The municipal council is mostly an administrative one, with this is meant, that they have to work out the policies and the plans from the central government. This shows that the treasurer doesn’t have to be accountable. This is a sensitive point because by giving them equal power deals will have to be made and only the strongest two will win. A better idea is to set up clear guidelines in what the three different parties should do and where their work doesn’t collide with each other, but have to work together in order to achieve success. The duties should be put into a municipal law.

Recall of a support institution. A new body should be set up which consists of all the municipalities. Just like the IFAM in Costa Rica, this body can help the municipalities with different tasks, from giving advice on fiscal policies to training personnel.

Guidelines on decentralization. Decentralization isn’t one of the primary tasks of Panama, but plans have already been made to decentralize more tasks. To avoid confusion in the future it would be better to set up a guide who constitutes the goals, objectives and strategies of decentralization. This guide can be set up with help of the IDB (approval of the loan concerning decentralization).

Q4 Implementation stage / Solutions
• Commitment of the National development and decentralization policy. This plan has been set up to support decentralization but there is no real commitment to this plan yet. To create this commitment it would be wise to involve the actors in this process in the design and implementation process. By getting them motivated and planning incentives for their work, commitment would lead to a higher rate of success for the policies.

• Increasing the amount of transfers that the municipalities receive, would also benefit the municipalities themselves since more finances could mean better public service delivery.

6.7 Final remarks

The experience I have had in writing my thesis about decentralization has given me a clear picture of how decentralization is dealt with in Costa Rica and Panama. Where I had expectations to find a lot of information on this subject, I was disappointed to find out that there was not much data available concerning my topic. This gave me an indication that these two countries are lagging behind and that thus far no real research attempt has been done on this topic in these two countries.

The pitfalls that I encountered in my research were:

1. Short time span in the fieldtrip. Another pitfall that I encountered was that my trip to Latin America was too short and I did not have the opportunity to interview more persons.

2. Not enough data. The data that I had collected during the trip was not enough for the paper, for most of my findings I had to make use of written literature.

3. What is the true meaning of decentralization in developing countries? The problem that I encountered when gathering information was that developing countries get mixed up in the different forms of decentralization. The term is used in different contexts and has different meanings. That is one of the reasons why it was difficult to find specific information on decentralization.
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Appendices

Interview R. Smith, project coördinator EU head Office, Costa Rica

Interview L. Cortares, general coördinator, IFAM

Toolkit World Bank
Interview Mr. R. Smith, project coordinator EU head office, Costa Rica

What is the current status of the EU project for development in Costa Rica?
The project was supposed to start in January of 2003, but because of difficulties it began January 2005. At the moment I do not have any information available on this project.

What is the reason for this delay?
A part of the problem is the new laws from Brussels concerning projects to the developing countries. New rules and policies from the EU make it difficult to start the project since it affects the negotiation with the national government of Costa Rica as well. It is a project that is to be co-financed by CR, so when new laws are implemented, this has to be re-negotiated with CR.
Another reason for the delay is that the bureaucracy in the EU, before all the papers have been rewritten and approval has been given, it can take up to one year.

What is in your view the biggest obstacle towards decentralization?
The corruption in the government and the lack of proper information. The local governments are having difficulties since they receive little money from the national government and that they don’t have the capacity and skills to change this. The laws also make it difficult for them to change their positions.

How much money are the local governments receiving at the moment?
The law was changed a few years ago, where the national government agreed to raise the income from the lower governments to 10%. At the moments the municipalities are receiving about 1,5%. There is a big debate about that in parliament, and we will have to wait and see what will happen. For a more insight view concerning the local government I will connect you with mrs. Lucia Cortares at IFAM.

Do you have any concluding remarks?
At the moment nothing will be done that can effect the members of government. This is due to the fact that elections will be held in a short period of time. So everything is left to the next government. The political leaders do not want to make any bad legislation that can have a bad effect on their voters.
What is the duty of the Instituto Formento y asseria municipal (IFAM)?
We are an organization which supports the local governments in all kinds of areas for example with skills training, projects, public services and municipal credit.

Does your organization receive aid from the EU?
No, we do not receive any direct aid from the EU, when projects are being implemented we do deliver our services and for that we receive some compensation.

Can you characterize the political freedoms in CR?
Elections are held on a regular basis, and recently it is also possible to elect the mayors of the different counties. The president and the members of the government and the mayors are directly elected. The elections are free and fair and there is multiparty system.

Are the members of the town’s council also chosen?
Yes, together with the mayor. At the moment there is some conflict between these two parties. The reason for this is, that before the law had changed the mayor would be chosen by the council, so they would in fact choose someone who they know from their party. But now the mayor doesn’t have to be from the same political party. In this way the council has to work together with the mayor, they have to approve the plans together by law. The local government has their own auditor and they also pay the salaries to their civil servants.

Does the law permit local governments from borrowing?
Yes, it is not allowed to borrow money from foreign banks, since this had led to many economic problems in the eighties. Now if the municipalities want to borrow they have to get permission from us first. We give them the credit under certain conditions of course.

How much are they allowed to borrow and from which bank can they borrow?
The local governments are allowed to borrow to a maximum of 20% of their total budget. The IFAM gives the loans.

Who approves the budgets of the municipalities then?
That is the task of the CGR, he gives the approval for the municipal budgets every year.

What are the tasks of the local government?
The tasks and laws of the municipalities are set in a municipal code. Every municipality has one of its own. Here the salaries, tasks and services are described.

Do the lower governments receive enough money from the national government?
No, this is a problem. The new law states that the local governments will receive 10% of the national budget. Unfortunately this has not become reality yet, they receive about 3% of the total. The government has said in order to give the whole 10% they would be in financial difficulties, so the budget would be raised every year with a small percentage until it reached the final 10%. As yet this still has to be seen.
Does your organization work together with the government?
Yes, we do work together. We help the government when local governments need to have new training concerning civil tasks, provision of computers with the proper software, buildings etc