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Ecuador in the Latin American Context

Final Report of the Country Working Group Ecuador

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Preface

Decentralization reforms have been among the most important aspects of state modernization in developing countries. From a normative perspective, such reforms are expected to promote economic development and democratization. Unfortunately, however, the course of real decentralization processes has often been incoherent and defective. In this context, this study analyses the challenges for successful decentralization in fragmented polities focusing on Latin America and the special case of Ecuador. Based on a political economy perspective on decentralization, we attempt to show, how political fragmentation has affected decentralization. From there, we develop criteria on how development assistance can at least partly counter the negative effects of political fragmentation. Finally, we analyse to which extent donor agencies have been pursuing such strategies in Ecuador.

This study is the result of a research project, which has been carried out at the German Development Institute (DIE) in 2004 and 2005 as part of the DIE Post-Graduate Training Course for young professionals. Field research was conducted from February to April 2004. The research project was carried out in close cooperation with the Facultad Latinoamericana de Ciencias Sociales (FLACSO) in Quito Ecuador, which supported the project from its early stages. Among many FLACSO members, who gave advice and valuable comments on different parts of the study's content, the authors especially thank Santiago Ortiz, who has intellectually and logistically supported the project from its beginning. Many thanks also go to the GTZ program on decentralization in Ecuador. Janos Zimmermann and his team provided us with many valuable insights about the decentralization process in Ecuador and development cooperation's attempts to foster subsidiarity oriented state structures.

We also profited much from different presentations of the study's preliminary results at FLACSO in Quito and at the Interamerican Development Bank and the World Bank in Washington, where the respective staff members constructively commented our findings. In Bonn, our colleagues at the DIE also offered useful comments and constructive criticism. Special thanks go to Matthias Krause, Tilman Altenburg and Oliver Schlumberger. Finally, we would like to thank Gisela Kuhlmann, without whose skills and patience, the technical process of editing this study would never have come to an end.

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Acronyms and Abbreviations

AECI	Agencia Española de Cooperación Internacional
AME	Asociación de Municipalidades del Ecuador
BEDE	Banco de Estado de Ecuador
ARD3D	Associates in Rural Development – Decentralization, Democracy and Development
BID	Banco Interamericano de Desarrollo
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (German Ministry of Economic Cooperation and Development)
BTC	Belgische Technische Coöperatie
CAF	Cooperación Andina de Fomento
CASI	Consejo Asesor de la Cooperación
CEPAL	Comisión Económica para América Latina y el Caribe (Economic Commission for Latin America and the Caribbean)
CFP	Concentración de Fuerzas Populares
CIM	Centrum für Internationale Migration und Entwicklung
CONAIE	Confederación de Nacionalidades Indígenas del Ecuador
CONAJUPARE	Consorcio de Juntas Parroquiales Rurales del Ecuador
CONAM	Consejo de Modernización Nacional
CONCOPE	Consorcio de Consejos Provinciales de Ecuador
CONESUP	Consejo Nacional de Educación Superior
CORDES	Corporación de Estudios para el Desarrollo
COSUDE	Coopération Suisse pour le Développement (Agencia Suiza para el Desarrollo y la Cooperación)
CTB	Coopération Technique Belge
DAC	Development Assistance Committee
DANIDA	Danish Development Agency
DED	Deutscher Entwicklungsdienst (German Development Service)
DEZA	Direktion für Entwicklung und Zusammenarbeit (Swiss Development Agency)
DFID	Department for International Development

DGCD	(Belgian) Direction Générale de la Coopération au Développement
DP	Democracia Popular
DPUDC	Democracia Popular – Unión Demócrata Cristiana
ECORAE	Instituto para el Ecodesarrollo de la Región Amazónica
EU	European Union
FLACMA	Federación Latinoamericana de Ciudades, Municipios y Asociaciones
FLACSO	Facultad Latinoamericana de Ciencias Sociales
FODESEC	Fondo Desarrollo Seccional
FONDEPRO	Fondo de Desarrollo Provincial
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German Agency for Technical Cooperation)
HDI	Human Development Index
HSS	Hanns Seidel Foundation
IADB	Inter-American Development Bank
ID	Izquierda Democrática
IDT	Index of Territorial Distribution
IEE	Instituto de Estudios Ecuatorianos
IIG	Instituto Internacional de Gobernabilidad
IMF	International Monetary Fund
INECI	Instituto Ecuatoriano de Cooperación Internacional
InWent	Internationale Weiterbildung und Entwicklung GmbH
KAS	Konrad Adenauer Foundation
KfW	Kreditanstalt für Wiederaufbau
LAGNIKS	Latin American Governance Network Information and Knowledge System
MDG	Millennium Development Goals
MEF	Ministry of Economy and Finance
MITA	Movimiento Indígena de Tungurahua sede Ambato
MPD	Movimiento Popular Democrático
MUPP	Movimiento de Unidad Plurinacional Pachakutik
NPE	Nueva Economía Política

NGO	Non-Governmental Organization
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
PACHAKUTIK	Movimiento de Unidad Plurinacional Pachkutik – Nuevo País
PDM	Programa de Desarrollo Municipal
PL	Partido Libertad
PRE	Partido Roldosista Ecuatoriano
PRIAN	Partido Renovador Independiente Acción Nacional
PROMACH	Proyecto de Manejo de Cuencas Hidrográficas
PROMODE	Programa de Modernización y Descentralización
PRSP	Poverty Reduction Strategy Paper
PSC	Partido Social Cristiano
PS-FA	Partido Socialista – Frente Amplio
PSP	Partido Sociedad Patriótica 21 de enero
RDO	Regional Development Organizations
SENPLADES	Secretaría Nacional de Planificación y Desarrollo
SIISE	Sistema Integral de Indicaciones Social del Ecuador
SNV	Stichting Nederlands Vrijwilligers (Netherlands Development Cooperation)
SSP	Sector Strategy Paper (Schwerpunktstrategiepapier)
UBNI	Unsatisfied Basic Needs Index
UDyEE	Unidad de Descentralización y Estructura del Estado (CONAM)
UNCT	United Nations Country Team in Ecuador
UNDP	United Nations Development Programme
UN-HABITAT	United Nations Human Settlements Programme
UN-UNO	Partido Unión Nacional
USAID	US Agency for International Development
WB	World Bank
WBI	World Bank Institute

Executive Summary

Even if the collection of empirical evidence for this study was completed already in 2005, we believe that our findings are still of substantial relevance for understanding decentralization processes in Latin American and for organizing effective strategies for external assistance in the field of state modernization. Thus, the following paragraphs will shortly introduce our major conclusions from a more aggregated perspective.

The purpose of this study is twofold. First, we attempt to advance the knowledge about the origins of defective decentralization. Second, we attempt to use these newly gained insights for analyzing aid agencies' attempts to promote decentralization.

Using quantitative and qualitative methods of enquiry, we show with evidence from Latin America and especially from Ecuador that political fragmentation leads to severe deficiencies of decentralization processes. Political fragmentation thus seriously constrains the emergence of a coherent and subsidiarity-oriented state structure. Our econometric comparison of Latin American democracies demonstrates, that the level and the quality of decentralization have been negatively affected in political environments characterized by high amounts of veto-players and fragmented party systems. The Ecuadorian case study reveals in detail, how political fragmentation fostered defective decentralization respectively strong incoherencies among the political, fiscal and administrative dimension of decentralization. Beyond, our analysis of aid agencies' attempts to promote decentralization in Ecuador also resembles important features of the current debate on aid effectiveness. We conclude with three major recommendations for aid agencies, which attempt to promote decentralization and state modernization in fragmented polities.

- First, seriously advancing donor coordination and harmonization should be a priority in fragmented polities. If the donor setting itself is characterized by fragmentation, it will add further centrifugal tendencies to the decentralization process instead of providing more coherency.
- Second, donors should attempt to implement multi-level strategies, which attempt to connect the political dynamics on different levels of government: the national, the regional and the local level. Advancing a coherent modernization process only from below is as illusive as at-

tempting to reform only from above without getting systematic feedback from subnational entities.

- Finally, fragmented politics come along with “fragmented ownership“ and in some cases with no ownership at all. If ownership is absent, aid agencies should consider an exit-strategy. If key players, however, are interested in advancing reform but consensus building is constrained by political fragmentation, external consultancy can help to organize a collective reform strategy. This generally requires a long term oriented, iterative and inclusive consultancy process and a flexible donor approach.

Why decentralization?

From a normative political perspective, decentralization aims at bringing state services closer to the citizen in order to deepen democratic legitimacy and political transparency. In addition, subnational entities should enjoy high levels of fiscal and administrative autonomy in order to compete among each other for investment and human capital. Increased fiscal and administrative maneuvering at the subnational level does not only limit discretionary attempts of the central state to politically allocate financial resources and administrative responsibilities. Additionally, sustainable competition also fosters policy innovation and imitation among subnational entities, thereby promoting socioeconomic development.

Yet, successful decentralization also has to take into account that several competences have to be kept at the centre to prevent “market failure” of subnational competition. For instance, central governments need strong fiscal responsibilities, oriented at preventing subnational governments from becoming excessively indebted. Central governments also have the important task of guaranteeing the free flow of capital and human resources within the national territory and to organize at least a subsidiarity-oriented framework for all kind of social policies.

Thus, decentralization processes should follow the principle subsidiarity. Subsidiarity as a guiding principle of state structures, that fosters economic development and political legitimacy is highly accepted among scholars and political practitioners. However, it is a normatively and empirically highly debated issue, which concrete issues fall under the domain of the central government and which areas are to be governed by subnational entities. In fact, there is no blueprint for all societies drawing the

normatively “correct” lines between national, regional and local responsibilities.

How does politics cause deficiencies of decentralization processes?

While in many countries, especially in Latin America, decentralization processes have advanced significantly, most decentralization processes have been plagued with different kind of deficiencies. In most cases, these deficiencies have also political origins because decentralization as a process of deep institutional transformation of state structures has a strong political component.

There is little doubt, that subsidiarity oriented decentralization has little room to prosper under autocratic rule because the autocratic elite will have little interest to give away part of its privileges and promote potential opposition at the subnational level.

However, decentralization may also confront serious difficulties under democratic rule. In many emerging democracies reform processes have often failed to follow the basic principles of subsidiarity in a coherent manner. In Latin America, the following deficiencies have been among the most common challenges for subsidiarity-oriented decentralization.

- Increased political and fiscal autonomy of subnational governments has often weakened national governments’ capability to impose credible budget constraints. This, in turn, often has provoked excessive debt levels at the subnational level, subsequently being followed by a “transfer” of such debt to the national level.
- Incoherence among different dimensions of decentralization has often characterized decentralization processes. In many countries the distribution of administrative competences among different levels of government remains unclear, which makes it extremely difficult to provide an appropriate distribution of fiscal competences and resources.
- The opaque mixture of administrative and fiscal decentralization reduces the accountability of political leaders at the national and subnational levels and therefore works in favor of traditional clientelism.
- Fiscal decentralization is still strongly based on fiscal transfers, while own revenues at the subnational level have remained low. This has sustained vertical dependency of subnational entities and reinforced existing problems of low accountability and low transparency.

Often, the lack of administrative capacities and knowledge existing at many subnational entities is made at least partly responsible for these shortcomings. However, while the lack of administrative capacities is a serious shortcoming, a political economy framework can better explain most deficiencies. From such a perspective, the distribution and coordination problems of decentralization are responsible for most deficiencies. Organizing a coherent decentralization process, where political, administrative and fiscal decentralization are crafted in a consistent manner is difficult, because most actors involved follow rather special interests instead of promoting the broader goal of a coherent and subsidiarity oriented process. Because decentralization encompasses all state levels, several conflict lines might obstruct the process.

- Probably, the most prominent conflict line is between different levels of government. As subnational governments in Latin America are elected in democratic elections, the struggle between different levels of government centers on the distribution of resources and competences.
- Conflicts between levels of government are supplemented by conflicts among actors at the same state level. At the national level, conflicts between different ministries are usual when it comes to craft transfer systems and the distribution of administrative competences. The existing heterogeneity among subnational entities, for instance with regard to size and economic development, also creates strong conflicts.
- Finally, the notion that civil society groups automatically pursue collective interests is rather naïve. This is not to say, that civil society groups have no role in increasing participation and transparency, at least at the subnational level. Often, however, local communities have been led by leaders dependent on vertical structures of clientelistic networks, whose potential as subnational democratizers is consequently limited. Additionally, powerful social groups at the national level, such as labor unions, have often played an obstructive role in decentralization processes.

How does political fragmentation affect decentralization?

State actors from and within different levels of government often follow conflicting interests with regard to decentralization, which leads to serious collective action problems. Thus, one must ask, which political actors could organize a more coherent process?

Civil society is only to a limited extent capable of bringing together diverging interests. The important function of a vivid civil society consists in articulating the political concerns of citizens rather than aggregating these interests into consistent political strategies. Instead, the aggregation of interests in representative democracy is the central task of political parties. Especially in decentralization processes, where central governments pursue their own special interests, political parties have a crucial role as potential organizers of more coherent decentralization. As political parties should play an important role on each level of government and party elites will include successful politicians from each level, party structures seem to be the most adequate place to develop coherent strategies of decentralization.

Unfortunately, many Latin American party systems are ill equipped for such a demanding task because they are experiencing a problematic process of fragmentation. When party systems split into many small organizations, each party will represent a rather small percentage of sector- or region-specific interests, thereby losing its capacity to provide coherent strategies for decentralization. If relatively small parties are characterized by hierarchical and traditional Caudillo-structures impeding intra-party democracy, these organizations will be even less likely to take over the role of organizers of a coherent respectively successful decentralization process. Consequences of such fragmented polities are rather volatile governments, which are built on fragile coalitions in parliament. As the executive is not based on a programmatic majority, which has defined at least some common core policy contents, policies will be over proportionally guided by special interest politics.

In two quantitative exercises of our studies we support these claims with empirical evidence. We show that there is an inverse-u relation between the number of veto-players respectively party system fragmentation on the one hand and the level respectively quality of decentralization on the other hand. Thus, two extreme actor-constellations are unfavorable settings for advancing subsidiarity-oriented state structures: For instance, polities characterized by only one veto-player or one dominant party normally show strong autocratic features, which in turn tend to obstruct decentralization. On the other extreme, polities fragmented into too many veto-players respectively political parties will also be confronted with serious deficiencies concerning decentralization. While these kinds of policies

might reach a certain level of decentralization, they probably face high level of incoherency among the different dimensions of decentralization.

In our in depth analysis of Ecuador, we provide case-study evidence of the latter by identifying and analyzing the deficiencies of the Ecuadorian decentralization process.

On the one hand, decentralization in Ecuador has not stood still since re-democratization and has advanced since the end of the 1970s. On the other hand, however, these dynamics with regard to political and fiscal decentralization have been uneven and erratic so that the overall process can be described as defect. Fiscal decentralization has been characterized by low fiscal autonomy and subnational entities' ongoing dependence on a complex and sometimes opaque transfer system. Administrative decentralization has proceeded in a very unorganized manner. No overall framework at the national level existed, that would have guided the distribution of administrative competences in a subsidiarity-oriented manner. Despite democratic elections at the municipalities and provinces, long-lasting clientelistic and illiberal structures often hampered the emergence of stronger accountability and transparency at the subnational level. Moreover, the incoherence between different dimensions of decentralization added further problems to the process. Most importantly, fiscal and administrative decentralization have been disconnected from each other. Not only has administrative decentralization been lacking behind fiscal decentralization but both processes have been rather disconnected.

As we attempt to show, these deficiencies were caused by a highly fragmented actor-constellation at the national level, which has its deeper origins in a problematic process of nation-building. Not only faces Ecuador the challenges of an ethnically heterogeneous society with strong socio-economic cleavages. Furthermore, the country is historically divided into three major regions, adding a strong regional cleavage to national politics. These challenging conditions in combination with strong distribution conflicts of democratization and decentralization had strong centrifugal forces on the political setting. An already weakly nationalized party system became even more fragmented during the 1990s. Thus, political parties in Ecuador have not functioned as organizers of an encompassing interest, but rather as special interest groups, mostly with a strong regional bias.

Given this situation, the decentralization process became deeply affected by the fragmented actor constellation at the national level. Consensus building was very short term oriented and the national government could not count on a stable and programmatic majority. Thus, neither a political party nor the government had the strength respectively the will to design respectively implement a more coherent national framework on fiscal and administrative decentralization. Instead, the fragmentation of the national political scene into many special interest groups caused rather short term oriented bargaining within congress, between congress and central government and between central government and subnational entities.

At the local level, party politics also mattered. Our statistical comparison of the 219 Ecuadorian municipalities reveals several interesting patterns. Most importantly, we find that municipalities governed by the indigenous movement's political party, have shown significantly more interest in increasing their administrative responsibilities for local service-provision. In contrast, municipalities governed by more traditional parties such as the PSC, PRE or ID had significantly less interest in advancing administrative decentralization in the absence of fiscal incentives. This finding supports the claim, that civil-society based local governments are more engaged in taking up administrative responsibilities because they are held more accountable by a broader citizenry for providing adequate public services. Yet, while civil-society based local governments could well have improved local governance, they could not reduce the political obstacles for more programmatic policy-making at the national level.

What role for development cooperation in fragmented polities?

The above-mentioned political problems of organizing successful decentralization are common to many developing countries. Thus, even in emerging democracies, donors should not expect easy progress with regard to the promotion of subsidiarity-oriented state structures. In polities with high levels of political fragmentation, they face at least a combination of three severe challenges, when at-tempting to promote subsidiarity-oriented decentralization:

- To start with, an exclusive focus on traditional forms of capacity building will only prove to be helpful for some aspects of local governance. Thus, traditional capacity building has to be combined with political consultancy, aiming at promoting the improvement of the national de-

centralization framework. Consequently, development assistance becomes directly involved in a conflictive political process.

- Political fragmentation comes along with “fragmented ownership”. Because most of the governments have neither a solid programmatic basis nor stable majorities, there will be no solid ownership. Consequently, development assistance often gets involved in a conflictive political process, where it cannot simply align itself with a strong “owner” pursuing encompassing interests because no such “owner” exists.
- If the possibilities for alignment along strong “ownership” are very limited in fragmented polities, development assistance itself should attempt to promote ownership. Unfortunately, the usual organizational set up of development assistance is often ill-suited for such an ambitious endeavor. Most importantly, the donor community itself is regularly characterized by internal fragmentation and rivalry. Yet, if “coordination” among donor organizations does not go beyond information-exchange, the multiple decentralization programs and projects can easily worsen policy incoherency on the recipient side.

In Ecuador, many donor organizations have been involved in state modernization and decentralization activities: among others, the German Technical Cooperation (GTZ), the Coopération Suisse pour le Développement (COSUDE), the Dutch agency for international cooperation, Associates in Rural Development – Decentralization, Democracy and Development (ARD3D), financed by USAID as well as several Spanish agencies, United Nations Development Programme (UNDP), the European Union (EU) and the Interamerican Development Bank (IADB), only to name the most prominent.

Donor coordination and harmonization: Until at least 2005, there was almost no evidence that donor organizations have attempted to engage in more long-term oriented cooperation, including joint strategy-building and implementation. In some cases however, we could at least observe cooperation and co-financing agreements. Most of these agreements, however, were built on an ad-hoc basis, sometimes because local donor representatives did not have the decision-making-capacity to credibly engage in long-term-oriented cooperation. While a coordination table on decentralization existed and more or less frequent meetings have been held, the major function of this table still was to exchange information.

Donor harmonization has also been seriously hampered by the fact, that the Ecuadorian government itself has had no clear and coherent strategy on how to align donor organizations active in the field. Given the circumstances of a fragmented polity, the incapacity to align donors is of no surprise. With no majority in congress, a divided government and an atomized party structure, governments failed to provide a coherent strategy to foster decentralization and state modernization. Thus, the relevant state agencies for aligning donors, for instance the National Modernization Council (CONAM) or the Ecuadorian Institute for International Cooperation (INECI), could not fulfill the task of aligning donor organization according to a common strategy. This illustrates a dilemma that can be observed in many developing countries. On the one hand, there is a need for a strong partner government able to adopt ownership, align donors and to set incentives for donor harmonization; on the other hand, many developing countries are characterized by rather weak governments, which lack political and technical capacities to formulate and implement coherent policy reforms.

Local bias in donor strategies: Because of donor fragmentation, different donors have pursued diverse approaches and strategies with regard to decentralization. Furthermore, most donor agencies still have been focusing on the municipal level. As such, their support was rather concentrated on local capacity-building and local development in a limited number of Ecuador's municipalities. Addressing the provincial or the national level in order to promote subsidiarity-oriented decentralization has been the exception rather than the rule.

This traditional focus, however, is only of limited use for overcoming the major deficiencies of the decentralization process, which are caused by serious defects of the national framework. Working with the subnational level does not automatically foster the decentralization process. The overall decentralization process only benefits from such interventions when good practices are systematically transferred to a broader range of subnational entities or when such experiences are transferred into the national policy-making process. This, however, has only rarely been the case. Instead, many donors have stuck to specific local entities, which had build up favorable governance framework, such as the famous municipality of Cotacachi, which has become a prominent donor darling.

Multi-level strategies: While most donors did not find a strategic response to political fragmentation and continued to follow a rather isolated, municipality-approach, among some donors there has been an increasing awareness that such an exclusive focus on the local level does little to improve the general framework of decentralization. These donor agencies have argued that it is necessary to be active on different levels of government at the same time, stressing the importance of crafting both, interventions of bottom-up and top-down support. Recognizing the fact, that causes and solutions of problems in the field of decentralization generally require linkages between several levels of government, these agencies attempted to work the same issue at several levels of government and accompanied local level projects by promoting reform on regional and/or central level. Likewise, interventions on the central level generally required additional consultancy on the intermediate and/or local level in order to facilitate the transfer of central measures to the local level.

Despite of the difficult circumstances for promoting decentralization in Ecuador during the period under investigation, multi-level strategies proved to be successful several times. For instance, the Law on Fiscal Responsibility (2002) and the Municipality Law (2004), both improving the decentralization process, were accompanied by donor agencies, who successfully attempted to integrate actors at all levels into the decision-making process. Thus, in these occasions, donor agencies functioned not only as providers of technical expertise but also managed to build-up a more consensus and constructive negotiation process. Moreover, in several occasions, donor agencies have successfully used national universities and institutes as replication and capacity-building agencies for best practices, identified at local pilot projects.

In sum, neither an isolated perspective on the subnational level nor an exclusive focus on the national level would have effectively promoted these advances. These examples also point to the effectiveness of process-oriented political consultancy and honest brokerage. Political reform, especially in fragmented polities, often is characterized by iterative processes, where different actors have to meet several times in order to develop a common agenda and to engage in a constructive negotiation process. Such iterative processes between political and technical actors, which have different interests respectively different perspectives with regard to a given problem can be fruitfully accompanied by technical cooperation. In

best of all cases, effective “honest brokerage” can bring diverging interests together and thus help to craft consensus and ownership with regard to urgently needed reforms. Functioning as a “honest broker”, who gives technical guidance to conflictive issues nevertheless requires, first and foremost, the capability of donors to identify and use political windows of opportunity. Only then will they be able to effectively provide “technical” solutions for political problems.

Planning illusions and flexibility: There must be, however, a note of caution. In highly fragmented polities, even donor agencies with substantial political knowledge and mediating experience will not totally overcome the deficiencies of a fragmented actor constellation. Especially in emerging democracies, which generally face serious distribution conflicts and coordination problems, this requires a lot of operational flexibility. What on one day appears as a political window of opportunity for effective technical and/or financial cooperation might well disappear on the next day due to the changing political priorities of relevant actors – just to reappear in the next week. Donor agencies have to adapt to such iterative and volatile political processes, which are – to a certain extent – endogenous to democratic polities.

As developing countries become more democratic, their political processes become more complex and iterative. Such political environments are not well-suited for big and detailed development plans developed at overcrowded donor tables. Thus, donor agencies face a difficult situation. On the one hand, they must coordinate and harmonize their strategies in order to reduce centrifugal impacts of the donor community on the recipient country. On the other hand, they must resist attempts to develop big and streamlined policy-plans, which have almost no chance of becoming implemented in a political context of democratic order and a fragmented actor constellation.

In sum, and broadly defined, our analysis of the Ecuadorian case and the current discussion on how to promote state modernization with the instruments of development cooperation, leads to three basic recommendations.

- First, development assistance should attempt to provide a combination of expertise-based consultancy and capacity-building to the political process at all levels of government. This should include assistance for negotiation processes at the national level: for instance, with regard to important legislative projects at congress or administrative reforms in

the finance and sector ministries or other national state agencies. Furthermore, such process oriented consultancy should also address the subnational levels, when it comes to consensus building among subnational entities, for instance among municipalities and/or regional governments. It is important that these consultancy processes should not be disconnected from each other but rather attempt to promote potential linkages of reform attempts on several levels. While, by doing so, donor organizations will automatically become involved in the political process, they must be careful to avoid being perceived as a stakeholder. Instead, the metaphor of “honest brokerage” describes best the role that donors should attempt to play, if they want to offer demand-driven consultancy.

- Second, major decentralization programs are to be organized in a way that allows high degrees of flexibility. Decentralization reforms in general, but even more in fragmented polities, are often iterative, volatile and open in character. For instance, while today a certain project might be viable with a given ministry, tomorrow the same ministry might face changes in administrative or political staff, which can easily have other priorities. At the same time, a window of opportunity for consultancy could open up in another area of decentralization. Consequently, donors must be apt to react to a rapidly changing environment with flexibility. Procedures, which bind local project managers with too many fixed bureaucratic requirements, official requirements and inflexible indicators, are ill suited for re-acting quickly and effectively to political changes. However, donor organizations will have to walk a thin line between a flexible approach and an activist “anything-goes-attitude”. On the one hand, strategic priority respectively continuity and capacity-building are crucial for the success of multi-level-relevant initiatives with regard to subsidiarity-oriented decentralization. On the other hand, concrete operational capacities should be organized in a way, allowing flexibility with regard to concrete consultancy projects.
- Finally, there is a need for harmonizing activities among donors as long as the programmatic coherency and political capabilities of the recipient government are insufficient to effectively enforce alignment of donor organizations. Moreover, given the usual high number of donors involved in subnational governance and decentralization issues there is a strong need for a division of labor and silent-partnerships. This challenge is probably the most serious one, given the permanent turf fighting among donor-agencies, which compete for scarce local personnel, prestige and funds.

1 Introduction

Decentralization has gained popularity on all continents, regardless of the political orientation of governments, the political system or the level of economic development. Especially with regard to developing countries – along with democratization and economic liberalization – decentralization has been one of the most widespread political trends during the last few decades. Given this background, this study aims to contribute to the growing literature on decentralization processes by exploring the case of Ecuador. It highlights the relevance of domestic political actors for decentralization processes in fragmented polities and assesses the potential of development assistance in the area of state modernization and decentralization. From a theoretical perspective, this study aims to demonstrate how the collective choice approach (Olson 1997) can be fruitfully applied for analyzing decentralization processes. From a methodological perspective, this study combines qualitative research methods with quantitative statistical analysis, the latter using subnational political variance to investigate the effects of political factors on decentralization in Ecuador.

From a normative perspective, decentralization – i. e. the transfer of administrative responsibility, fiscal resources and/or political legitimation from the national to subnational levels – has the potential to achieve a number of objectives. A functioning division of labor between national and subnational governments enables a state to effectively offer public services and goods to its citizens. In a broader sense, decentralization may thus lead to enhance the legitimacy of political power, as well as promote democratic consolidation and economic development. In sum, decentralization can potentially boost and be part of *good* governance, thereby contributing to overcoming socioeconomic barriers for development. Unfortunately, in reality decentralization efforts rarely meet these expectations. What appears to be normatively good about decentralization seems very difficult to implement in practice.

Given the importance of decentralization for *good* governance and economic development, development cooperation has increasingly been aiming to promote decentralization in developing countries. During the last decade, it has become widely acknowledged that political institutions are decisive for a country's economic development (Knack / Keefer 1995; Olson 2000; Faust 2006). Consequently, there has been a shift in development cooperation from a traditional focus on the micro level (projects,

direct interaction with target groups) towards more macro-oriented interventions (structural impacts). Overall, this strategic shift has implied that development assistance has become more political and has created a need for conceptual reorientation in order to address the complex issues of promoting *good* governance. This is also true with regard to external support for decentralization processes.

As decentralization has become one of the most prominent topics of state reform in developing countries, so has the academic interest in these processes. There is a growing amount of literature that deals with the causes and effects of decentralizing the state. In this context, the political economy of decentralization processes has become a major field of inquiry.

One strand of research on the political economy of decentralization processes comprises large-N, cross-country analysis. This methodology has been fruitfully applied to investigate the effects of fiscal decentralization on macroeconomic stability across countries (Wibbels 2000; Treisman 2000a). Furthermore, several scholars have used this methodology to investigate the effects of party organization on federal arrangements and fiscal decentralization (Wibbels / Rodden 2004). Some studies have investigated the effects of economic globalization on fiscal decentralization (Garrett / Rodden 2003). While not trying to diminish the value of this research strand, these studies nevertheless focus on fiscal decentralization only. However, decentralization is a “multidimensional process” that reflects complex and dynamic relations between the national and subnational levels. Analyzing decentralization processes should thus take a broader perspective that includes political, fiscal and administrative decentralization (Faletti 2005). While measures of fiscal decentralization maybe used as plausible proxy variables for multidimensional concepts of decentralization in longer time periods, they are of less use when investigating possible incoherence between the three dimensions in specific cases. The largest part of the existing academic literature does not touch the issue of how to promote such multidimensional processes most effectively with the instruments of development assistance.

The other strand of research encompasses qualitative countries studies and small-n comparisons. Especially with regard to Latin America, such studies have been fruitfully applied to investigate the political economy of decentralization processes. Obtaining insight about causal relations between decentralization and political variables through intensive field re-

search is considered the main advantage of such research. Indeed, some small-n comparisons (Garman et al. 2001; Faletti 2005; O'Neill 2003) and country studies (Careaga / Weingast 2003) have made important contributions to our knowledge about the political economy of decentralization. However, the majority of these case studies is only loosely embedded in a consistent theoretical framework and often tends to provide country-specific narratives only. Thus, it hardly advances our knowledge of the effects of political variables on the course of decentralization processes and conclusions rarely contain general lessons for other regions or countries. Furthermore, case studies on the political economy of decentralization have also only addressed the question of how to effectively promote such processes.

Given this background, this study attempts to address some of the shortcomings described above. While our main focus is on a specific case, namely Ecuador, we embed this case study into the broader Latin American context and combine qualitative and quantitative methods of analysis. We attempt not only to investigate the shortcomings of the decentralization process in Ecuador but also to analyze how development assistance can effectively contribute to overcoming these shortcomings. More precisely, the study seeks to answer the following empirical questions:

1. What are the effects of different levels of political fragmentation on decentralization processes in Latin America?
2. What are the specific consequences of political fragmentation for the decentralization process in Ecuador?
3. Given these effects of political fragmentation, what are the strategic options for development assistance to support Ecuador's decentralization process?

This study perceives decentralization as a process accompanied by tensions among and between different levels of government. However – in order to produce the intended effects on governance and economic development – decentralization has to evolve in accordance with certain guiding principles. The most important principle in this regard is coherence within and between the three dimensions of decentralization, which in turn requires a certain degree of coherence within and between the different levels of government involved in shaping decentralization processes. Therefore, an aggregate bird's eye perspective on the process is required. Consequently, this study is not so much about analyzing advancements or

defects in particular policy sectors or in specific geographic regions. Rather, these issues will only be used to illustrate more general findings on the overall coherence of the decentralization process in Ecuador.

If the coherence of a given decentralization process is crucial for its overall quality, than a political economy perspective must focus on the political actors and institutions that have an impact on the coherence of the process. Furthermore, political economy approaches¹ perceive decentralization as an institutional reform process that is plagued by the tension between individual and collective rationality. As such, the normative end of achieving coherent decentralization is confronted with a vast amount of coordination problems and distribution conflicts between levels of government and within the same level of government. Decentralization is a deeply political process, where political legitimacy, fiscal resources and administrative competences are redistributed among political actors at different levels of government. In such a context of institutional change, the central government, municipalities and provinces have strong incentives to follow particularistic interests instead of organizing decentralization according to the encompassing interests of society.

Because state actors follow special interests in decentralization processes, political parties play a crucial role as potential organizers of coherent decentralization. However, as parties and party systems vary across countries, the coherence of a given decentralization process is strongly influenced by the characteristics of the party system. The process of decentralization may not only foster the fragmentation of a given political system because decentralization tends to produce a whole set of relevant political actors. From our perspective, the causality also goes in the other direction: a fragmented political system hampers the development of a coherent decentralization process. More specifically, we deduce a non-linear, inverse-U relationship between the degree of party system fragmentation

1 The terms "(new) political economy", "collective choice", "(new) institutional economy" and "actor-centered institutionalism" are often used synonymously (Olson 1997). Some authors see political economy as being part of new institutional economy (see Erlei et al. 1999, 44). In this study, we suggest that these schools focus on slightly different aspects but share very similar basic assumptions. First, they highlight the relevance of political actors, whose decisions to allocate resources or change existing institutions are based on their preferences but at same time shaped by a broader context of formal and informal rules (North 1986).

and the overall quality of the decentralization process. Accordingly, neither countries with a highly concentrated party system nor countries with a highly fragmented party system are likely to achieve a satisfying quality of decentralization. Particularly, polities with fragmented party systems will be characterized by incoherent decentralization processes, because small and institutionally volatile parties will be interested in satisfying the interests of their regional or sector-specific constituency instead of formulating and implementing more encompassing programs with regard to decentralization.

This argument has important implications for the third research questions of this study, namely the effectiveness of development assistance strategies with regard to the promotion of decentralization processes. Especially in Latin America, where many countries are faced with the erosion of party systems and increasing political fragmentation, development assistance has to take into account the consequences of these developments for the political process. On the one hand, donor agencies have a strong focus on working with specific counterpart organizations. On the other hand, development assistance in general has given special (rhetorical) relevance to the principle of ownership during the last decade. Ownership of a partner country's government for pursuing "good" governance reforms is said to be crucial for effective assistance in state reform. However, these two guidelines of donor interventions create tensions when donor agencies operate in highly fragmented political contexts. In such countries, encompassing country ownership is an illusion rather than a reality. Thus, in the absence of country ownership for state modernization, focusing on cooperation with single counterpart organizations will not tackle the shortcomings of a fragmented actor constellation. Consequently, donor activities attempting to promote decentralization in fragmented polities need to follow alternative paths in addition to – not as a substitute for – the traditional emphasis on counterpart institutions and partner country ownership.

Ecuador has been selected for this study for several reasons. From a methodological perspective, we have selected a country with an extreme value for the most interesting independent variable: political fragmentation. Ecuador has one of the most fragmented party systems in Latin America, which makes it a highly relevant case for our analysis. Moreover, the country has a long history of decentralization efforts. Nevertheless, Ecu-

dor continues to struggle with a deficient decentralization process.² Ecuador is characterized by weak and unstable political structures, and public sector performance remains relatively poor. Although a pioneer of democratic transition in the region, Ecuador's democracy remains fragile and vulnerable. Evidently, successful state modernization and decentralization may potentially address a number of these fundamental problems. Finally, in Ecuador many donor organizations are engaged in a variety of activities to promote decentralization and local development, again making the country an interesting subject for increasing our knowledge on the effectiveness of these different activities in a fragmented political context.

This study covers the period between 1997 and 2004. This period has been chosen for several reasons. First, major legislative and constitutional changes effecting decentralization have occurred in this period. Second, a number of local participatory initiatives and changes in the party systems have emerged during this period, which have had an impact on the decentralization process. Third, political and economic instability has characterized this period and has strongly influenced policy-making and the decentralization process.

Empirically, this investigation builds upon three pillars. First, our findings are based on an analysis of the existing literature on decentralization in Latin America and case study evidence from Ecuador. Second, our findings are based on more than 60 semi-structured interviews with political practitioners, academic experts and professionals from development assistance that were conducted during field research in the first half of 2005. Third, this study makes use of a variety of quantitative methods to test our hypothesis. Not only do we provide descriptive statistics, but also inductive statistical methods, such as ordinary least square, time series cross-section, Tobit and Logit regressions. For this purpose we have assembled available data on political, administrative and fiscal decentralization in Latin America and Ecuador, the latter reflecting subnational differences within the country. Therefore, we hope that the combination of qualitative and quantitative methods makes our major findings empirically more robust.

2 Wiesner (2003, 23) refers to the defective decentralization process by describing Ecuador as “the antithesis of a true process of decentralization”.

The following report is divided into four parts. *Chapter 2* presents the normative foundation of decentralization efforts. On the one hand we distinguish between the different dimensions of decentralization and the guiding principles within each dimension. On the other hand, we also identify different forms of coherence as criteria for successful decentralization at the macro-level. Chapter 2 also provides a theoretical explanation for gaps between normative expectations and empirical shortcomings. Perceiving coordination problems and distribution conflicts as inherent to every decentralization process, we develop the hypothesis about an inverse U-effect between political fragmentation and the level and quality, respectively, of decentralization. From the theoretical analysis of the challenges of decentralization in fragmented democracies, this chapter also discusses the effectiveness of donor strategies aiming to promote decentralization. More explicitly, we argue that efforts to effectively promote decentralization in fragmented polities require strategies that focus upon the major problem of decentralization in such countries: the inability of political actors to overcome their collective action problems. Therefore, in addition to providing technical expertise and financial support, effectively fostering coherence requires donors to engage more actively in a role as mediators and honest brokers between diverse political actors. It also requires supplementing their manifold activities at the subnational level with interventions at the national level, as national actors heavily influence the overall framework of decentralization processes. Finally, effectively supporting coherent decentralization in a fragmented polity requires donors to strongly coordinate their interventions. If donor behavior is disperse and uncoordinated, it will increase rather than mitigate the collective action problems resulting from political fragmentation.

Chapter 3 provides quantitative, cross-country evidence for our main hypothesis about the non-linear linkages between political fragmentation and decentralization. Using alternative variables for measuring decentralization and political fragmentation, we find support for our hypothesis that – at least in a Latin American context – there is a non-linear relationship between political fragmentation and the level and quality, respectively, of decentralization. Given these results, we briefly introduce the case of Ecuador and its decentralization process, identifying the country's party system as one of the most fragmented in Latin America in terms of electoral volatility and number of effective parties.

Chapter 4 addresses the context of decentralization in Ecuador and the main actors involved. We identify Ecuador as politically and economically unstable with deep regional cleavages. These context factors have intensified the distribution conflicts surrounding decentralization as the constellation of political actors relevant for the process of decentralization has been highly fragmented. Our analysis of subnational actors (municipalities, provinces and their respective associations), national authorities (such as the ministry of finance) as well as political parties and civil society presents a picture in which decentralization confronts immense coordination problems. Especially political parties, due to their orientation towards sectorally and/or regionally defined special interest have not been able to act as organizers of a coherent decentralization process. Together, the high level of distribution conflicts and the coordination problems stemming from a fragmented actor constellation has resulted in a highly deficient decentralization process. More specifically, we identify several aspects of severe incoherence of the decentralization process in Ecuador. Most interestingly, Ecuador presents one of the rare cases in which fiscal and administrative decentralization has almost totally been disconnected. While during the second half of the 1990s, the relatively weak central government was forced to transfer substantial amounts of fiscal resources to the subnational level, administrative decentralization remained optional. On the basis of an original data set, we show that decentralization led to a situation in which a large number of subnational entities enjoyed an increasing amount of fiscal transfers without a parallel transfer of responsibilities. Where subnational governments that enjoyed broad popular support and had close links to civil society existed, the resulting bottom-up pressure led to a significant increase in demand for administrative responsibilities. In contrast, subnational governments belonging to rather traditional and more clientelistic parties have been significantly less engaged in obtaining administrative responsibilities able to improve living standards at the subnational level.

Based on our analysis of the political factors shaping decentralization in Ecuador, *Chapter 5* presents the empirical findings with regard to donor activities in the area of decentralization. When political parties largely fail to organize a coherent national framework for decentralization and a relevant part of the process is merely driven by heterogeneous subnational interests, development assistance needs to play a more active and political role. The case of Ecuador reveals the shortcomings of many en vogue

concepts that put emphasis on the support for “change agents” in fragmented polities. In the fragmented setting of Ecuador, single counterpart institutions at the national or subnational level serve as ‘change agents’ to only a very limited extent. Therefore, in addition to focusing on the cooperation with and the strengthening of single counterpart institutions, donor organizations need to pay much more attention to the process as a whole. In fragmented polities, we conclude, development assistance needs to promote the coordination of the decentralization process, for example through integrating the dissemination of good local practices in single project designs. Furthermore, donors should attempt to promote a stronger continuity of the decentralization process by acting as “honest brokers” between several actors with diverging interests. Finally, donors themselves have to coordinate their actions in a much more consistent way. A fragmented donor setting without a strategic dialogue that goes beyond mere information exchange will intensify the coordination problems of the partner country instead of contributing to a more coherent decentralization process.

2 Conceptual framework: decentralization, collective action and development cooperation

2.1 Normative considerations about successful decentralization

2.1.1 Direct and indirect objectives of “good” decentralization

Although decentralization is a widespread phenomenon that has invited scholars all over the world to produce a considerable amount of literature, it is surprising to see that basic definitions and normative expectations of decentralization still vary and remain controversial.

First, there seems to be no commonly accepted definition of decentralization. In general, definitions include the idea of power transfer from the central government to subnational levels of government. This idea of transferring power suggests a process-oriented perspective on decentralization. However, opinions among donor agencies vary as regards what the term power comprises. Some authors speak of a transfer of “decision-

making power” (DEZA 2001, 6), while decentralization also can be defined as the process of transferring power and resources to subnational entities. Others are more specific by speaking of the transfer of “tasks, responsibilities, resources and political decision-making power” (BMZ 2002, 8). Many academic studies too define decentralization in different terms. It remains relatively unclear, however, whether and how the concepts of federalism and decentralization can be separated and how to measure different degrees of decentralization (Rodden 2003a).³

Second, regarding the normative purpose of decentralization, the existing literature tends to list a variety of objectives such as improving public sector performance, consolidating democracy, enhancing economic growth, reducing poverty, strengthening civil society or reconciling an ethnically diverse society. What becomes clear is that decentralization is not an end in itself. In order to define *what* needs to be transferred from one level of government to another in a given decentralization process, one needs to determine *why* this transfer is necessary or “good” from a normative perspective. Yet, instead, of categorizing the goals in an analytic manner, much of the existing literature, especially within the development assistance community, merely describes decentralization as a means to many ends.

Given this remaining conceptual vagueness of definitions on the one hand and the variety of goals on the other, we start our discussion with a relatively broad normative definition of decentralization. To achieve the political and economic goals of decentralization, decentralization has to distribute political legitimacy, fiscal resources and administrative competences among levels of government according to the principle of subsidiarity. As Wiesner (2003, 6–7) has noted for the Latin American context, decentralization aims to

“...encourage the provision and consumption for public goods and services at the particular level of government (...) where it will be most efficient to do so. The underlying objective of decentralization is to improve the overall performance of public sectors.”

3 For definitions and aims of decentralization, see for example World Development Report 1999/2000, Chapter 5, 107–124; Shah / Thompson 2002, 4; Rodden 2003a.

The performance of public sectors is described by Treisman (2000a, 1) as the “quality of government” in the sense of “the provision of public goods and services that the public demands at minimum cost in taxation and regulatory burden”. We call the improvement of the quality of government the *direct objective* of decentralization. Therefore, from a normative perspective, decentralization is a crucial part of state modernization. The goal of enhancing the quality of government is closely related to a number of *indirect political and economic objectives*. Especially the link between the direct objective of improving government structures with the indirect economic objectives fits well with the strong empirical evidence that supports the assumption about a causal link from the quality of government towards socioeconomic development.⁴ Political systems with low levels of corruption, strong property rights and inclusive democratic participation support economic growth and productivity and are equipped with a higher degree of political legitimacy. Thus, the *indirect objectives* of decentralization express structural political and economic benefits. Consequently, “good” decentralization should improve the legitimacy and stability of the political system not only through more inclusive participation but also through economic gains. Nevertheless, while “appropriate” decentralization will improve the quality of governance, democracy and active civil society participation will also support successful decentralization. Therefore, direct and indirect objectives of decentralization are often interrelated. They do not describe a strict relation of cause and effects. “Good” decentralization will not only promote the quality of governance but also vice versa.

So far, we have defined decentralization as a transfer of power to subnational governments in order to improve public sector performance and achieve a number of indirect goals, which are related to good governance and economic development. Yet, we have not specified what “good” or “appropriate” decentralization is. To the extent that the term “power” leaves much room for interpretation, this definition is unsatisfactory. Therefore, we will differentiate between three dimensions of decentralization.

4 See among others Knack / Keefer 1995; Olson et al. 2000; Plümpert 2001; Acemoglu et al. 2002; Faust 2006.

2.1.2 The three dimensions of decentralization

Determining the improved quality of government as the essential objective helps to define what needs to be transferred in a decentralization process. According to a slowly emerging consensus, decentralization encompasses three dimensions: 1) responsibilities (*administrative decentralization*), 2) resources (*fiscal decentralization*) and 3) legitimation (*political decentralization*).⁵

Ad 1) *Administrative decentralization*: The transfer of responsibilities concerns the administrative competencies of a level of government or the “*responsibility that state/provincial and local governments have to set goals, muster resources, and administer and implement public policy*” (Montero / Samuels 2004, 7). The transfer of responsibilities is thus referred to as the administrative dimension of decentralization. According to a classical definition, administrative decentralization can mean the transfer of responsibilities to authorities with limited independence from the central level (delegation) or to levels of governance that are autonomous (devolution). Devolution is often described as the strongest form of administrative decentralization because it ultimately leads to “empowering people politically” (Shah / Thompson 2002, 3). Some authors describe the transfer of responsibilities from national to regional or local units within the same organization (deconcentration) as being the weakest form of administrative decentralization (see, among others, DEZA 2001).⁶

5 Most authors distinguish between these three dimensions of decentralization (Falletti 2005). Some, however, describe market decentralization as being a further form or dimension of decentralization. Market decentralization means the transfer of responsibilities from public to private actors (through privatization or deregulation). Thus, market decentralization does not concern the assignment of responsibilities within a state or a public administration. It instead raises the question which responsibilities should be better taken care of by private enterprises or other non-governmental actors. This question is undoubtedly of utmost importance. But since the purpose of this study is to analyze the process of decentralization within the public sector, we will not focus on the question of what should and what should not be part of public responsibility.

6 The responsibilities that are being transferred remain under the total control of the central government. Therefore, deconcentration may be a predecessor of decentralization in a given case, but we do not consider deconcentration to be part of decentralization. For a similar view, see, among others, Shah / Thompson (2002, 3): “*Administrative deconcentration, where decision-making is shifted to regional and local offices of the central government, would not be consistent with administrative decentralization.*”

The ordering principle within the administrative dimension of decentralization is the *principle of subsidiarity*. While subsidiarity often refers to the overall decentralization process, it originates from the administrative dimension. The principle of subsidiarity determines that the responsibilities should be assigned from a *bottom-up perspective*. That is, the higher level takes over a policy responsibility only if the lower level, which is closer to the citizen, cannot provide the public goods related to the policy field.⁷ On the one hand, subnational entities that have administrative competencies according to the principle of subsidiarity will engage in a fruitful competition for investment and human capital, which leads to policy innovation and policy imitation (Weingast 1995). On the other hand, subsidiarity can be seen as a "double-edged sword" in a positive sense (Schilling 1995). Realizing the principle of subsidiarity prevents each level of government from obtaining policy competences that would better be operated by the respective other level. Subsidiarity thus also illustrates the limits of decentralization. It refers to a division of labor for the sake of a common, efficient and transparent political system as a whole. Therefore, subsidiarity is quite the opposite of terms such as autonomy or secession, which suggest the establishment of independent political structures dealing with *all* public policy fields. Thus, pushing decentralization too far can imply negative consequences for the provision of public goods (Treisman 2000, 20). For instance, the central government should keep competences that guarantee the free movement of capital and labor within the national territory in order to allow subnational entities to compete among each other (Weingast 1995).

Ad 2) *Fiscal decentralization*: The direct transfer of fiscal resources from the central government and the transfer of fiscal instruments to obtain financial resources at the subnational level is necessary in order to enable subnational authorities to effectively fulfill their administrative responsibilities. In other words, subnational public entities need to have a consid-

7 The idea of subsidiarity has already been included in the Federalist Papers, but the specific term subsidiarity originates from an encyclical on the social order published by Pope Pius XI in 1931. Pope Pius writes that it is "intolerable and unjust for responsibility for what can be achieved by smaller and subordinate communities to be taken over by larger and higher-level social units" (quoted in McDonald Ross 1993). The same idea is referred to in the preamble of the Maastricht Treaty: "*Decisions are taken as closely as possible to the citizen in accordance with the principle of subsidiarity.*"

erable amount of autonomy in terms of their revenue if they are to function effectively.⁸ Fiscal decentralization may thus mean to provide subnational levels with autonomous rights in terms of tax bases and tax rates and/or establish rights regarding fees for specific goods and services. In addition, the transfer of resources may imply borrowing privileges for subnational governments or the direct transfer of financial resources from the central government to subnational levels. The direct transfer can be part of a decentralization process when the subnational recipient has considerable expenditure autonomy.

Fiscal decentralization should also be ordered in accordance with the principle of subsidiarity. Thus, subsidiarity also sets the limit of fiscal decentralization. For instance, certain fiscal responsibilities have to be kept in the hands of the central government in order to prevent subnational governments from engaging in ruinous competition leading to macroeconomic instability (Weingast 1995; Wibbels 2000). If subnational governments do not face borrowing constraints, they will tend to engage in unsustainable lending, thereby provoking macroeconomic instability. Thus, budget constraints imposed by the centre aim to keep subnational debt at a tolerable level and prevent subnational governments from transferring their deficits to the national level.⁹ Furthermore, fiscal transparency regarding the allocation and expenditure of resources is another important principle of fiscal decentralization. In order to create transparent fiscal mechanisms, fiscal decentralization needs to be based upon clear, effective and transparent legal norms, which avoid the emergence and survival of clientelistic networks and prevent subnational and national actors from discretionally allocating fiscal resources. Yet it is important to note that subnational governments should have a certain degree of fiscal autonomy in terms of both revenue creation and expenditure. As for the revenue side, this includes a certain degree of autonomy to define both tax rate and tax base. Subnational governments that exclusively depend on central transfers will

8 In our understanding, expenditure autonomy is part of administrative decentralization. Other authors, however, see expenditure and revenue autonomy as a part of the fiscal dimension (Shah / Thompson 2002).

9 According to Weingast (1995, 4), one core element is that *“lower governments face a hard budget constraint, that is, they have neither the ability to print money or access to unlimited credit. This condition is not met if the central government bails out the lower one whenever the latter faces fiscal problems.”*

evidently be politically prone to central influence and will have very little incentive to create a stronger tax base by promoting economic development in their respective territory.

Ad 3) *Political decentralization*: The transfer of legitimation means giving local populations the possibility of participating in local decisions. The most important mechanism in this respect is the direct election of local governments “thereby making elected officials accountable to citizens” (Shah / Thompson 2002, 3). Existing literature is not always precise regarding the specific elements of political decentralization and the differences to fiscal and administrative dimensions.¹⁰ Nevertheless, successful *political decentralization* must encompass fundamental political freedoms, the most prominent being democratic elections at the subnational level as well as the possibility to participate in local political decision-making. The transfer of legitimation to subnational levels thus means allowing subnational officials to be elected in free and fair elections. In addition, the legitimacy of subnational authorities depends on their ability to respond to demands expressed by the local population. The argument in favor of inclusive and democratic participation at the subnational level follows very similar considerations, which have been made with regard to the dividends of democracy at the national level (Olson 1993; Faust 2006). Democracy provides political inclusiveness, reduces the impact of special interests and thus sets strong incentives for politicians to orient their policies according to encompassing interests. Inclusive and democratic participation at the subnational level is therefore of special importance for achieving the indirect objectives of decentralization in developing coun-

10 Regarding political decentralization, the literature offers a variety of definitions that are often very close to administrative or fiscal decentralization. Treisman (2000b), for instance, distinguishes five types of political decentralization, of which two (structural and decision decentralization) are very similar to our understanding of the administrative dimension of decentralization. For example, Treisman defines decentralization of decision-making as “*the scope of issues on which subnational governments can decide autonomously*” (2000b, 3). A further type (resource decentralization) comes very close to what we have defined as fiscal decentralization because it refers to “*how resources (revenues, manpower) are distributed between central and subnational tiers*” (2000b, 3). Likewise, the World Bank Institute uses a definition of political decentralization that, in our view, makes it difficult to distinguish between political and administrative decentralization: “*Political decentralization occurs when political power and authority are decentralized to subnational levels*” (online: <http://www.decentralization.cc>, 20.12.2004).

tries, where the legitimate interests of a broader part of the population have long been neglected on account of political exclusion.

2.1.3 Coherence and incoherence in decentralization processes

Each dimension of decentralization may be considered as a process which redefines certain aspects of the existing rules of the political game. As will be explained in more detail, these processes necessarily create tensions and conflicts among the political actors involved. On the one hand, complying with all of the outlined guiding principles within each dimension is probably an illusion. On the other hand, if a given decentralization process is characterized by too many deficiencies in one or several dimensions, the process as a whole becomes defective and will not produce the desired results.

However, evaluating a decentralization process as a whole requires going beyond the micro perspective of analyzing single dimensions of decentralization and adding up the deficiencies and advances within each dimension. If successful decentralization is a complex bundle of different measurements in several dimensions involving a vast amount of political and societal actors, evaluating the “quality” or “aptness” of the process as a whole for the achievement of the direct and indirect objectives, one needs a conceptual perspective that focuses on the process as a whole. From such a macro perspective, the term “coherence” can be fruitfully applied for analyzing decentralization processes. In general terms, we can identify a multidimensional process intended to move towards a certain direction as coherent if the different parts of the process are logically ordered and consistent and hence if the different aspects of the process logically stick together. In contrast, incoherence refers to a lack of cohesion or clarity of organization. Thus, we call a decentralization process coherent if the different parts of the process are ordered logically in such a way that the sum of these actions drives the process towards our normative goals.

Again, it is important to note that given the variety of actors and interests involved in decentralization, a certain degree of incoherence is probably part of each decentralization process. However, the degree of coherence of decentralization processes varies across time and countries. Therefore, incoherence of the decentralization process must be held within certain

limits if the direct and indirect objectives are to be fulfilled. In other words, coherence serves as a basic ordering principle, which, although it probably cannot be entirely implemented, should not be violated on a permanent basis. In this regard, we distinguish four forms of coherence.

Coherence between the three dimensions refers to the balance between administrative, fiscal and political decentralization. Decentralization efforts face differing sets of actors and interests concerning the three dimensions of decentralization. Thus, administrative, fiscal and political decentralization will hardly evolve at the same speed. As several authors have highlighted (Garman et al. 2001; Faletti 2005), national as well as subnational political actors generally have different preferences about the three dimensions. Examining several Latin American countries, Tullia Faletti (2005) argued that subnational actors will be most interested in political decentralization followed by fiscal decentralization and finally, administrative decentralization. Accordingly, national governments will be most reluctant to offer political decentralization, while at the same time being relatively well disposed to offering administrative decentralization. Consequently, in one dimension, centralist structures can more easily be overcome than in another and the level of coherence will depend much on the specific constellation of actors and their relative political weight. Permanent and systematic incoherence between the three dimensions will most likely put the objectives of overall decentralization at risk. For instance, a decentralization process that excludes administrative decentralization will entail that subnational units are free to spend resources for whatever purpose, thus opening broad maneuvering room for clientelistic politics. What needs to be stressed is that we do not aim to identify the “correct” sequencing of decentralization. Rather we want to highlight the fact that all three dimensions of decentralization should hold a certain balance in the long run.¹¹

11 There is no commonly accepted position regarding the sequencing of the three dimensions of decentralization. With respect for the potential effects of decentralization on poverty, one conclusion has been that “*political and administrative decentralization should precede fiscal decentralization. Otherwise, participation and accountability are not assured*” (Braun / Grote 2000, 26). However, it should be clear that the lagging behind of one dimension poses a considerable risk to the success of the entire decentralization process.

Coherence within a given dimension refers to the balance of important issues within one of the three dimensions. The relevance of this argument is most obvious with regard to the administrative dimension of decentralization. As such, coherence between policy sectors is important for preventing differing policy dynamics from ultimately determining the overall decentralization process. Interests in defending the status quo in terms of responsibilities, resources and political legitimation are stronger in some policy sectors than in others. Therefore, public health, environment, agriculture, education etc. will most unlikely reach the same degree of decentralization at the same time. One could argue, for instance, that municipalities and provinces should first apply for policy areas with lower levels of complexity, and only in a second step apply for sectors that have a higher complexity. Such a gradual, long-term strategy is not an obstacle to the principle of coherence between policy sectors. Instead, incoherence between policy sectors emerges if the distribution of policy responsibilities is not part of a long-term strategy that includes numerous policy sectors. Rather, incoherence emerges if the political constellation makes it impossible to advance decentralization in sectors in which decentralization would make sense from a normative perspective, while at the same time decentralization advances in other, less desirable sectors. Again, this form of incoherence – if permanent in the decentralization process – would run counter to the direct and indirect objectives of decentralization.

Vertical coherence aims to avoid overlaps and foster transparency between levels of government. Decentralization redistributes power between national and subnational entities of the state. This redistribution creates conflicts between levels of government such as central ministries, provincial and local authorities. While some incoherence between these layers of government is unavoidable for a limited period of time, a permanently incoherent allocation of responsibilities, resources and legitimation between national and subnational levels will jeopardize the positive effects that decentralization seeks to produce. In concrete terms, vertical incoherence makes it more difficult for the citizens to monitor the actions of different levels of government and reduces the accountability of different levels of governments with regard to their level-specific responsibilities.

Horizontal coherence refers to the degree of decentralization within one level of government. Some central ministries will be more susceptible to decentralization efforts than others and the same is true for specific prov-

inces or specific local communities. These differences might be helpful for a transitional period when specific actors may serve as protagonists of decentralization and contribute to a higher willingness to reform at their respective level of government. From a longer-term perspective, however, the success of decentralization also depends on a coherent and transparent allocation of effective responsibilities, resources and legitimation within the same level of government. A decentralization process that permanently allocates more responsibilities, resources and/or legitimation to one province than to another is most unlikely to improve people's countrywide access to public services.

Given these distinctions of different aspects of coherence in decentralization processes, one can broadly distinguish between different levels of "coherence". Again, while every decentralization process will have to cope with certain problems of coherence, an enduring violation of coherence in several aspects makes a given process highly *defective*.

Table 1: Three dimensions and process coherence of decentralization			
	Administrative Dimension	Fiscal Dimension	Political Dimension
Content	Transfer of responsibilities to subnational governments of limited independence (delegation) – autonomous subnational governments (devolution)	Transfer of resources in terms of – revenue autonomy (tax base, tax rate) – borrowing privileges – direct transfer of financial resources	Transfer of legitimation through the inclusive and democratic participation at the subnational level
Ordering Principles	<p style="text-align: center;">Coherence</p> <ul style="list-style-type: none"> – between dimensions – within a given dimension – between levels of government (vertical) – within a given level of government (horizontal) 		
	– Administrative subsidiarity	– Transparency & rule of law – Hard budget constraint – Minimum of fiscal autonomy	– Fair and free elections – Inclusive participation

2.2 Explaining empirical variance: collective choice and decentralization

2.2.1 Context, actors and decentralization

Despite the normative expectations for the potential benefits of decentralization, a vast amount of studies shows that outcomes of decentralization processes vary greatly. While some processes are fairly successful, others are characterized by defects and fail to produce the desired effects.

This variance is partly due to different context factors, which impact on decentralization processes. Context factors influence the shape of decentralization by influencing actors' attitudes, capabilities and perceptions. First, temporary context factors affect the time horizon of actors and the intensity of conflicts arising in the course of decentralization. Typical examples are political and economic instability. Economic crises, for instance, reduce available resources and can therefore intensify distributional conflicts among actors. In times of political crisis, decentralization might be used to deflect political pressure. Such decentralization initiatives are unlikely to correspond to a long-term strategy. More likely, they are motivated by the short-term interests of actors (Wiesner 2003, 21–22). Second, structural factors, in contrast to temporary context factors, rather describe long-term characteristics such as country size or regional and ethnic cleavages. These long-term features might affect actors' interests as well as their capacity to organize and mobilize support.¹² Finally, interactions between political actors with regard to decentralization are embedded in a broader institutional context. As decentralization processes take place within the broader institutional environment of the political system, this institutional context can influence a given decentralization process. Institu-

12 The relationship between structural context factors and conflicts among actors can be illustrated by the following example: Regional or ethnic differences under certain circumstances can lead actors to mobilize along regional or ethnic lines. Although each decentralization process is characterized by conflicts, coherent decentralization will be harder to achieve if actors' interests and capacities differ remarkably. If the context is characterized by regional and ethnic heterogeneity distribution problems and coordination conflicts might be harder to overcome as it may be more difficult to aggregate the regional and ethnic interests into a national project.

tions as the rules of the political game establish the room to maneuver for actors involved in the decentralization process.¹³

Yet, context factors do not impact directly on decentralization processes. Instead, decentralization should be considered as a political process, primarily shaped by political actors, such as the national government, societal interest groups, subnational entities and political parties. Such actors perceive certain decentralization measures as favorable or unfavorable for the pursuit of their interests and thus will attempt to promote or delay specific aspects of decentralization.

Furthermore, we assume that the constellation of actors characterized – their number, their interests, and their capabilities to organize and pursue their interests – is of crucial importance with regard to coordination problems and distribution conflicts, because endogenous to every decentralization process. These inherent conflicts of decentralization arise horizontally between actors on the same level of government as well as vertically between different levels of government. They emerge because decentralization processes constitute institutional changes, thus producing winners and losers. As many actors are involved in these conflicts, the course of decentralization generally does not depend on one political actor alone but rather on the constellation of a whole bundle of actors with different interests. Thus, the constellation of actors is decisive to overcome such conflicts inherent to decentralization.

More specifically, we assume that successful decentralization will rarely occur in a fragmented political context. Rather, successful decentralization depends on the ability of political actors to organize the encompassing interest of coherent decentralization. In other words, while broader context factors generally influence the intensity of coordination problems and distribution conflicts, the constellation of actors reflects their general ability to solve these problems. If actors fail to overcome these conflicts, incoherent decentralization will arise. Thus, we differentiate between the process of decentralization as the dependent variable, the constellation of

13 For example, a political system characterized by a strong position of the president might cause incoherent decentralization as the central government is able to permanently promote the special interest of the centre. The electoral system strongly influences political parties and the incentive structure of politicians with regard to decentralization.

tors as the independent variable and context variables as intervening “background” variables.

2.2.2 Collective action and the challenges of decentralization

Individuals often organize in groups, such as states, parties or associations to achieve their common interests. These groups enable their members to create goods, which a single individual cannot produce.¹⁴ Within a political system like the nation-state or the international system, these groups appear as collective actors. Certain rules or institutions characterize their internal organization. These “rules of the game” (North 1986, 3) influence the behavior of each member. Nevertheless, there exists a permanent tension between the collective interests and individual interests within each group (Olson 1965, 14). Rules or institutions affect the distribution of benefits among group members. Consequently, members will try to influence institutions in a way that provides benefits to them. Therefore, institutions not only reflect the encompassing interest of a given group, but also the special interests of some of its influential members. As is well known, groups tend to suffer from the free-rider problem, where the group provides collective goods and services even to those individuals that do not participate in the production of such goods and services.

According to Olson, the intensity of free rider problems is a function of group size. Large groups will be influenced by this problem to a greater extent than small groups (Olson 1965, 29). Hence, they will experience more difficulties in organizing their members and creating their institutions according to the encompassing interest. In contrast, smaller groups are more likely to act according to their interests because their members can more easily and frequently communicate with each other and control each other’s action (Clague 1997, 21). Within large societies, better organized small groups will have a greater impact on the rules of the whole society, thus promoting their special interests at the cost of more encompassing interest of society. Consequently, societies will only be able to ensure the encompassing interest if there are selective incentives, which

14 Olson equates public goods with collective goods. These are characterized by two elements: first, they are non-excludable and second, they imply a non-rival consumption feature. For details, see Burki / Perry (1998, 42).

encourage actors to pursue the encompassing interest. He defines selective incentives as

“...rewards or punishments that, unlike the collective good the organization provides to its constituents, can be applied to or withheld from individuals depending on whether or not they contribute to the costs of collective action.” (Olson 1997, 47)

In this context, decentralization processes can be considered as far-reaching institutional transformations, which create tensions between individual and collective rationality, the fundamental problem of groups attempting to achieve common interests.¹⁵ Generally, institutions determine the distribution of income and benefits among various actors on different state levels. Within decentralization processes, these institutions are altered significantly. In consequence, the distributional effects of such institutional reforms produce winners and losers. Hence, decentralization processes cause coordination problems and distribution conflicts between actors. Furthermore, decentralization influences the constellation of actors within a political system. Administrative and political reforms might produce new actors (for instance, new subnational units). Decentralization is a reciprocal process between actors and institutional arrangements, in which actors can influence institutions as well as institutions, affect actors and their behavior. Decentralization processes involve the redistribution of financial resources, administrative responsibilities and political legitimacy. New actors (e. g. municipal governments) and existing actors (e. g. the central government) have to agree on new rules concerning existing resources.

Coordination problems and distribution conflicts occur on two dimensions: the vertical and the horizontal dimension. Vertically, the central, provincial and municipal governments have to create institutions, which organize the distribution of resources and responsibilities among actors. However, different levels of government (central government, provinces, municipalities) will tend to compete for financial resources without giving much importance to a collectively optimal distribution. In addition, actors also have to coordinate horizontally to work out distribution schemes within each level of government. For instance, municipalities have to work to-

15 For background information on the collective choice approach in the social sciences see Olson 1965.

gether to achieve a collectively optimal allocation of resources and responsibilities among them. Yet, municipalities different in size, level of poverty and other characteristics will probably have different interests when it comes, for example, to defining common rules on how to distribute financial transfers from the center (Treisman 2000a, 7). However, in such a conflictive environment, most actors will prefer to follow their particular interests than contribute to the more encompassing goal of achieving a coherent decentralization process able to provide overall political and economic benefits.

Given these assumptions, decentralization processes are plagued by coordination problems and distribution conflicts. These problems and conflicts have to be overcome to achieve a coherent decentralization process and ensure the best possible allocation of resources, administrative responsibilities and political legitimation. Coordination among actors on the horizontal level (e. g. among all municipalities, among ministries and among provinces) and on the vertical level might produce positive decentralization outcomes (Weingast 1997, 248).¹⁶ By contrast, a lack of coordination will cause suboptimal outcomes in decentralization processes not only by producing deficiencies in specific dimensions of decentralization. In addition, the permanent failure to overcome the tensions between individual and collective rationality will also permanently and negatively affect the coherence of the process as a whole.

2.2.3 Organizing the encompassing interest of coherent decentralization

A critical degree of process coherence with regard to decentralization implies that coordination problems and distribution conflicts have to be overcome. Variance in decentralization processes and outcomes can be explained accordingly. What is crucial for overcoming these challenges is the existence of actors who are capable of organizing the encompassing

16 For discussion, see Weingast. According to the Collective Choice Approach, he assumes that coordination problems exist in every process of institutional transformation. Overcoming these problems will help actors (e. g. citizens) form coalitions and articulate their interests against the government. Coordination can therefore provide benefits to all coalition members (Weingast 1997, 248–49).

interest of coherent decentralization. We call such actors *organizers of the encompassing interest*.¹⁷

On the one hand, we assume that all actors pursue special interests and try to influence institutions and institutional reforms accordingly. Actors who pursue only their special interest are called particularistic actors. On the other hand, challenges of decentralization can only rarely be overcome if actors' special interests do not coincide with the collective interest. Nevertheless, some actors will also pursue encompassing interests, if their special interest coincides with the encompassing interest. If incentives are set so that the two interests coincide, actors might become organizers of the encompassing interest. Such organizers of the encompassing interest have the potential to represent the encompassing interest under specific circumstances and therefore are able to foster coherent decentralization.

The *central government* plays a crucial role in decentralization processes because resources, responsibilities and legitimation are transferred from the central government to subnational governments. From a normative perspective, the central government should transfer as much power as needed to satisfy the subsidiarity principle. Nevertheless, the central government often acts differently because decentralization threatens its interests. For instance, successful decentralization processes require the transfer of financial resources in order to enable subnational governments to fulfill their responsibilities. Nevertheless, central governments have often opposed fiscal decentralization because it decreases resources available to the central government. Such opposition to fiscal decentralization can be legitimated by normative aspects, if fiscal decentralization comes along without hard budget constraints and threatens macroeconomic stability (Rodden / Wibbels 2002, 500).¹⁸ All too often, however, increasing fiscal

17 In his work "The Logic of Collective Action", Olson uses the term "encompassing interest" as opposite to the term "special interest". While special interests focus on the implementation of particular benefits, the encompassing interest is characterized by the objective to provide benefits for the collective welfare. It therefore refers to a collective goal, namely the provision of public or collective goods. For a detailed discussion, see Olson (1965).

18 For a discussion of central governments' position in decentralization processes, see Wibbels (2000, 688). He points out that especially fiscal decentralization may illustrate the diverging interests of different actors in decentralization processes: Central governments want to ensure their power by being re-elected. But, their re-election depends

autonomy of subnational entities reduces the maneuvering space of the central government to allocate fiscal resources according to its political preferences. In such cases, opposing transparent and rule-based fiscal decentralization reflects particularistic interests of the central government.

Subnational entities such as municipalities and provinces are recipients of resources and responsibilities within decentralization processes. Politicians from the subnational level are likely to support political and fiscal decentralization processes because this leads to an increase of their political and fiscal power. Nevertheless, municipalities often prefer to increase fiscal resources and political autonomy without taking over concrete administrative responsibilities. Again, this reluctance towards administrative decentralization reflects special interests of subnational entities, because the absence of concrete policy responsibilities would allow them to discretionally spend their resources according to their political needs. Furthermore, subnational units often compete among each other, so that on the same level of government, each subnational unit will try to gain the greatest possible benefit.¹⁹ While on the one hand, such competition is desirable within a given framework of decentralization, one cannot expect single subnational units to pursue an encompassing interest with regard to establishing such a framework. Hence, single subnational units will not pursue the encompassing interest with regard to the distribution of resources and administrative responsibilities. Therefore, in the process of decentralization, subnational governments are generally particularistic actors (Frank 2004, 83).²⁰

heavily on the country's economic performance. Especially sovereign indebtedness will impede electorates from voting for a party again. Even if the increase in public debt is due to subnational borrowing, citizens tend to hold the national government responsible for economic performance.

- 19 A lack of coordination easily leads to defective outcomes of decentralization. An illustrative example represents the case of Brazil. Here, decentralization provoked extreme competition among municipalities, which tried to attract foreign investment by reducing trade taxes. This thus led to a decreasing budget of various municipalities and almost provoked their insolvency. This example may illustrate that decentralization processes require a certain degree of coordination, although they also aim to enhance competition among subnational units. For an overview see Faust (2003).
- 20 Frank points to the cases of Chile, Bolivia and Ecuador where regional governors are installed by the central government and possess large executive powers in their appointed province. For more details, see Frank (2003).

Associations of subnational governments such as provincial or municipal associations are supposed to improve communication and interaction between subnational units at one level of government and thus to coordinate actors horizontally. Their capacity to fulfill this task, however, depends on how they are organized and financed. If association officials are elected by association members, they are likely to be more responsive to member interests than if they are appointed by the central government. To ensure independence of associations, they need to be able to generate their own resources. If they are financed by discretionary transfers from the central government, they will probably act in favor of the center (Frank 2004, 84). The effectiveness of associations depends on their ability to overcome internal coordination problems and distribution conflicts. Even if they manage to overcome these problems, however, they represent only the special interest of actors at one subnational level, but not the encompassing interest. Associations are important actors within decentralization processes, but they are unable to organize a coherent decentralization process.

This brief overview of crucial actors that shape decentralization highlights the shortage of potential organizers of the encompassing interest. As central governments, subnational politicians and subnational associations often tend to behave as particularistic actors and pursue special interest, relying on such actors alone will probably fail to achieve coherent decentralization. Beyond these actors, however, *civil society* has significantly gained importance as crucial for sustaining democracy and participative political institutions. Yet, while a vivid civil society undoubtedly plays a crucial role in expressing citizen's interests towards the state, it remains questionable whether the diverse organizations in civil society can effectively overcome the collective action problems of decentralization. Thus, although actors from civil society may play an important role when driving politicians' interests towards relevant demands of specific social groups, we are skeptical with regard to the collective action capacities of civil society. First, civil society itself consists of a multitude of actors with special interests and loose organizational capacities. Consequently, civil society groups, at least at the national level, do not aggregate interests and therefore do not organize the interest of society as a whole. Second, civil society might be able to transport political demands of citizens to political decision-makers and increase the pressure on political parties. Nevertheless, civil society is not a clearly defined actor within the political arena.

Thus, it will hardly be possible for civil society to act at all three levels of a state, which is a precondition for overcoming coordination problems and distribution conflicts and finally for a coherent decentralization process.

Instead, we perceive *political parties* and the overall party systems as crucial for explaining successful transformation in general and more specifically successful decentralization. Located at the intermediary level between the individual or small groups and the government, political parties have the function of aggregating individual interest and mediating between governments and smaller interest groups. As Juan Linz and Alfred Stepan (1996, 274) note, successful transformation towards consolidated democracy “*requires that a range of political parties not only represent interests but seek by coherent programs and organizational activity to aggregate interests.*” While civil society groups and NGOs do play an important role in articulating broader interests, the organizations that have the potential of organizing and implementing encompassing political programs are generally conceived as political parties. Therefore, these organizations have the potential to iron out the endogenous coordination problems and distribution conflicts of deep institutional change.²¹

With regard to decentralization as well as other transformation processes, we consider political parties as actors, whose particular interests might coincide with the encompassing interests of society. Nevertheless, political parties only behave as organizers of the encompassing interests if selective incentives offer benefits that are high enough to bear the costs of collective action (Olson 1997, 47). Thus, if we assume parties to be possible representatives of the encompassing interest, we will have to look more closely at their special interests and their relationship to the encompassing interest. Within decentralization processes parties are interested in a) ensuring their political power by being re-elected, b) securing their political power over a long time horizon, and c) extending their political power from national to subnational offices or vice versa by holding seats in subnational govern-

21 Such potential organizers of an encompassing interest become even more important than state bureaucracies. In some of the emerging industrial economies, effective technocracies have acted as effective promoters of state development, especially under authoritarian order. Yet, as political transformation processes gained force, the bureaucracy quickly developed into narrow interest groups, which tried to shelter its influential position or became captured by strong special interest of the private sector (Schneider / Maxfield 1997).

ments (O'Neill 2003, 1087). As political parties are elected at all levels of government, they will be interested in being represented in governments at different levels. Therefore, they might look at decentralization not only from a “narrow” angle.

2.2.4 Two hypothesis at the level and the quality of decentralization

Many actors with special interests are involved in decentralization as a process of institutional change. In this context, our first hypothesis is deduced from the veto-player theorem by George Tsebelis. It assumes that – all else equal – the level of decentralization is a non-linear function of the amount of veto-players and checks and balances, respectively, at the national level.

According to George Tsebelis (1995, 301), a veto-player is an *“individual or collective actor whose agreement is required for a change in policy.”* While institutional veto-players are defined by the constitution, *“the number of partisan veto players is specified endogenously by the party system and the government coalitions of each specific country”* (Tsebelis 1995, 304). In essence, the veto-player framework differentiates political systems by the number of actors who can veto a change in policy and accordingly the programmatic distance between those actors (Tsebelis 2002). Others have referred to the veto-player-framework by the term “checks & balances” (Keefer / Stasavage 2003) in order to describe the number of institutional and partisan checks that have to be overcome in order to change a given policy.

If we refer to this approach, at one extreme, we can imagine a political system with only one veto-player at the national level. Such a system will come close to an autocracy, since there are no checks & balances that will prevent the veto-player from taking political decisions in its interest. In such a context, however, the single national veto-player will have little incentive to decentralize political power, fiscal resources or administrative responsibilities. Thus, we expect only a very limited degree of decentralization. This perspective is strongly related to theoretical arguments and empirical evidence that autocratic systems are characterized by low levels of decentralization in comparison to democracies.

At the other extreme, however, we also expect political systems fragmented into many veto-players to be counterproductive for increasing the level of decentralization. As has been argued, the decentralization process is characterized by distribution conflicts. Thus, we would expect at least some political actors to oppose decentralization, as such a process would reduce their political power. If we consider a political system with many veto-players, on the one hand, we expect such a system to have democratic features, which will foster decentralization. On the other hand, in a system with many veto-players, these actors will rather represent only minor parts of the society as a whole. Consequently, we expect that even in democratic systems many institutional and partisan checks will endorse some veto-players that oppose decentralization. As the central characteristic of a veto-player is its ability to prevent policy-change, we expect political systems with many veto-players as counterproductive for increasing the level of decentralization. An increasing number of veto-players will increase the possibility that one of these actors will pursue rather centralist interests and therefore blockade further decentralization.

Therefore, in our first hypothesis with regard to the level of decentralization, we assume that the level of decentralization takes the function of a non-linear, inverse U-shaped relationship between the number of veto-players and the level of decentralization.

Our second hypothesis is more specific and refers to the features of the party system and the quality of decentralization. So far we have argued that parties' special interests *can* work in favor of coherent decentralization. If electorates perceive successful decentralization as a collective good that provides benefits to them, they might elect parties that support coherent decentralization efforts. Therefore, we conclude that parties can be capable actors of decentralization processes if they aggregate the interests of several groups within society and represent the encompassing interest of society as a whole by supporting collective action through a comprehensive and long-term oriented perspective.

However, while parties might be potential organizers of the encompassing interest, they do not necessarily become de facto organizers of the encompassing interest. Specific conditions can prevent parties from pursuing the encompassing interest. Again, we propose a non-linear, inverse-U-shaped

relationship. All else being equal, highly fragmented party systems as well as highly concentrated party systems hamper good decentralization.²² To illustrate our hypothesis, we will consider three different party systems: First, a political system characterized by a one-party system, second, a highly fragmented party system and third, a differentiated party system, which we expect to offer better conditions for parties to act as organizers of the encompassing interest.

Will a stable one-party system provide conditions under which parties implement successful decentralization? Concerning the Olsonian idea of political leadership, a one-party system limits political competition. As the leading party will not have to compete with other parties to ensure re-election, it will not be obligated to pursue the encompassing interest of society. Rather, we expect the monopolization of political power in the hands of a narrow party elite, which will be reluctant to decentralize. The ruling party elite will determine the extent of decentralization and it will probably do this according to its special interest, which is likely to coincide with the interest of the central government (Olson 1997, 45). We thus conclude that coherent decentralization processes are unlikely to occur in a one-party system.²³

Yet, highly fragmented party systems also will not provide conditions for a coherent decentralization process. Such systems are characterized by a number of parties and high volatility. The large number of different actors implies numerous special interests involved in the process that focus on specific sector or regional policy issues. Thus, the interests of small parties, because of their limited constituency, will probably not represent interests at all levels of government. Therefore, they will not be able to pursue multi-level strategies, which are necessary to overcome vertical coordination problems and distributional conflicts. For instance, fragmented party systems often consist of various regional parties, which are rooted only in some provinces and only rely on these regional strongholds. Within decentralization processes, such parties will represent the special interest of these regions because they only aggregate the societal interests in their political programs that represent their specific constituency. Addi-

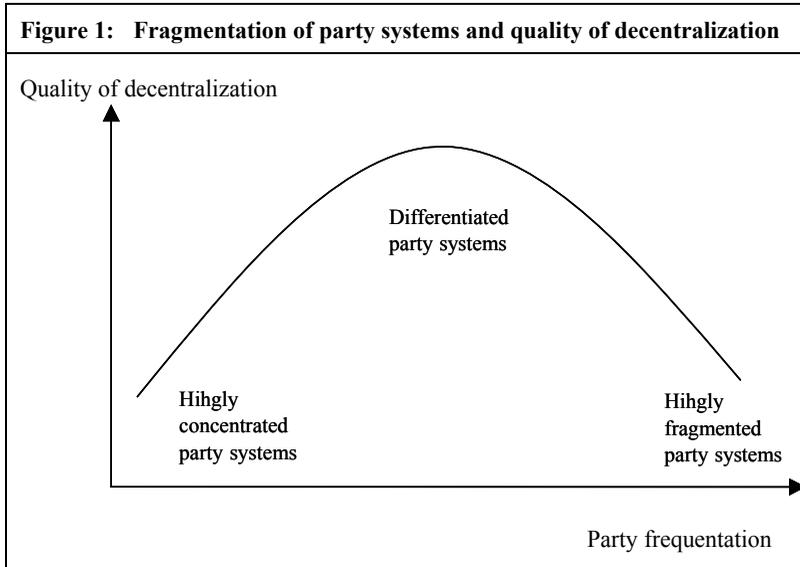
22 Fragmented party systems are defined as systems with a large number of parties and high electoral volatility (Kaminski 2003, 72).

23 For a discussion about autocrats' or monopolists' behavior, see Olson (1993, 572–74).

tionally, the high electoral volatility in fragmented party systems will hamper the implementation of long-term strategies, which are also necessary for a coherent decentralization process. Thus, in highly fragmented party systems, parties will unlikely organize a coherent decentralization process.

Therefore, neither highly fragmented nor one-party systems will offer adequate conditions for parties to act as organizers of the encompassing interest. Both constellations bear disadvantages with regard to decentralization processes. In contrast to highly fragmented and one-party systems, differentiated party systems offer better conditions for parties to organize the encompassing interest. In a differentiated party system, a few rather large parties will compete with each other. As such, these parties will be confronted with competition and at the same time have to incorporate the interests of a large set of social interest groups into their political program. Such catchall parties will give importance to interests at different state levels and will attempt to be attractive to a broad set of interest groups. This combination of political competition and a broad constituency brings the particular interests of such party systems closer to the encompassing interest of complex transformation processes such as decentralization. Because such parties will compete for votes from many interest groups, they will attempt to develop a broader and more inclusiveness perspective of decentralization, thus increasing the coherence of the reform process.

We therefore expect the best conditions for coherent decentralization processes in a differentiated party system. As illustrated by the figure below, our second hypothesis claims that the relationship between the quality of decentralization and party system fragmentation takes the shape of an inverse U.



2.3 Decentralization and development cooperation in fragmented polities

Various international development organizations have acclaimed support for decentralization as a key element of good governance and sustainable development (see for example OECD/DAC 1996, 2–3; World Bank 2000). Since the beginning of the 1990s, assistance for decentralization has become a core activity of development cooperation and, today, decentralization is considered a cornerstone of state modernization programs.²⁴ This applies particularly to Latin America, which is “perhaps the most experienced region in reforming state and local governments” (Campbell / Fuhr 2004a, 4) and where many donors focus their assistance on the support for decentralization processes.

Despite the variety of assistance programs, aid agencies face a number of difficulties in promoting decentralization processes. As shown in the pre-

²⁴ For example, German development cooperation focuses most of its assistance in the field of state reform on the support for decentralization processes. See BMZ (2002, 11) and Haldenwang et al. (2004, 4–5).

vious section, decentralization is an intrinsically political process, since the redistribution of political power and resources between various levels of government leads to coordination problems and distribution conflicts among a whole variety of actors. Campbell / Fuhr (2004b, 19) describe this phenomenon for Latin America as follows:

*“Due to historically strong state intervention, decentralization, in practice, is a difficult and complex economic and political process, involving numerous social and political actors. Various types of interest groups and anomalous relationships between the private and the public sectors have formed in Latin America since as far back as the 1920s. Rent seeking and skewed redistributive systems, administrative resistance, and reluctance to change in such inherited settings are pervasive and, from the point of view of established arrangements, rational reactions.”*²⁵

As a consequence, aid agencies have to be prepared to enter political processes and adjust their technical interventions according to the constellation of actors and the political context of the recipient country²⁶ (see Campbell / Fuhr 2004b, 18). Therefore, aid agencies need to take into account the specific characteristics of the political system of the recipient country.

This report is particularly concerned with countries characterized by a fragmented political system. As shown in the previous section, fragmented polities are characterized by the *lack of organizers of the encompassing interest* that have the ability to tie together the different levels of governance and to provide continuity. Many Latin American and particularly Andean countries are characterized by fragmented political systems. Development cooperation has often failed to develop sufficient concepts to

25 Campbell and Fuhr (2004b, 19) further conclude that a political economy paradigm “can bring to light the less obvious dynamics underlying the reluctance of decision makers to embark on new governmental arrangements and the difficulties of transition to decentralized governments.” Altmann (2000, 276) also stresses the importance of a political economy paradigm by pointing out that it is of great importance whether and, in fact, how strategic groups such as political parties, the military or government employees support decentralization. On the importance of political framework conditions for the evaluation of state reform programs, see Crawford and Kearton (2002, 82ff.).

26 So far, donors usually tend to concentrate their assistance on the technical and operative level and not enough on the strategic and political dimension of decentralization processes. See Altmann (2000, 277)

institutions, uncoordinated actors and a high degree of volatility.²⁷ The development cooperation debate in recent years has been characterized by notions of ownership and participation as preconditions for the success of external interventions (see for example Crawford / Kearton 2002, 24; Lopes / Theison 2003; OECD 2004). In general, recipient governments should participate in the elaboration of assistance strategies and aid agencies should seek to cooperate closely with a national counterpart (for example BMZ 2002, 15). Counterparts should therefore serve as change agents and cooperation with them should also guarantee respect for the ownership principle. A focus on cooperation with national counterparts promises to be a successful strategy in stable political systems.

In fragmented political systems, however, concentration on the cooperation with particular counterparts is highly problematic. There are two primary reasons for this. Firstly, due to the volatility and instability of the system, actors on all levels of government change frequently. Hence, most counterparts are characterized by a high degree of instability and long-term oriented cooperation with them is hardly possible. Secondly, even if donors are able to work with a political actor on a long-term basis, this actor is unlikely to represent a stable majority. Due to the fragmented nature of the system, actors tend to represent only particularistic interests or unstable coalitions at best. Given these limitations for maintaining ownership²⁸, it might be appropriate to consider alternative or complementary strategies for external interventions. The development cooperation debate, however, only rarely differentiates between the specific demands underlying assistance to stable political systems and to fragmented political systems.²⁹

27 A recent cross-section examination of German development cooperation in the field of good governance and democracy assistance concludes, for example, that project planning often fails to incorporate the high probability of changes of political framework conditions and lacks flexibility (Kurtenbach / Weiland 2003, 31). Haldenwang (2004, 191 f.) criticize that development cooperation lacks concepts on how weak political institutions might produce policies with public welfare in mind.

28 More generally, Altmann (2000, 275) notes that in many cases internal reasons of the recipient countries are causal for the failure of decentralization projects and programs, which severely contradicts the realization of the participation and ownership principles.

29 Currently there is a lively debate about assistance to Poor Performing Countries (see for example Chauvet / Collier 2004; DFID 2005; ODI 2004; OECD/DAC 2005). Even though countries characterized by fragmented political systems show some of the char-

We therefore need to identify specific challenges in fragmented polities in order to deduce objectives and strategies for external assistance to counter the negative effects of fragmentation, thus ultimately increasing the effectiveness of aid in fragmented political systems. The following paragraphs will outline the main challenges and objectives for development cooperation in fragmented polities as well as two alternative strategies for aid agencies to counter the negative effects of fragmentation.

Challenges and Objectives in Fragmented Polities

The **first challenge** for development cooperation in fragmented polities is the lack of horizontal and vertical coordination. Since decentralization processes affect a whole variety of actors and change the relations among them, there is always a strong need for coordination among actors at one level of government and, in particular, between different levels of government within decentralization processes³⁰ (see BMZ 2002, 10; Llambí / Lindemann 2001). However, we assume that the necessity for a multi-layered approach, which aims to coordinate actors involved in the process, is particularly pressing in fragmented political systems. Due to the weakness of political parties and the resulting lack of *organizers of the encompassing interest* who are able to coordinate activities horizontally and vertically and provide coordination for a well-ordered decentralization process, fragmented political systems are confronted with severe coordination problems. These coordination problems are further increased by the high number of particularistic actors, who might act as veto-players.³¹ As a consequence, coordination problems and distribution conflicts inherent to all decentralization processes cannot be overcome and incoherent decentralization processes arise. Under these conditions, development cooperation might be able to support decentralization more effectively by cooperating closely with a variety of actors at various levels of government and

acteristics of Poor Performing Countries such as weak institutions and instability (see ODI 2004, vii), the debate can hardly be applied generally to fragmented polities since it rather relates to war-torn countries, countries on the edge of violent conflicts or countries suffering from an eroding statehood.

30 Various authors have emphasized the tensions between different levels of government and authorities inherent to all decentralization processes (see Llambí / Lindemann 2004; Stockmeyer 2004, 419 f.).

31 Tsebelis (2002) argues that the probability of frequent policy changes rises with a high number of veto-players and according to the programmatic distance among them.

strengthening horizontal and vertical coordination between actors involved in the decentralization process.

The **second challenge** for development cooperation in fragmented polities is the high degree of volatility.³² Stable actors are scarce in fragmented polities. Due to the instability of governments and constellations of actors as well as political organizations, long-term processes such as decentralization are difficult to implement in volatile environments. Discontinuity is a key problem: Where bureaucrats are hired and fired constantly, no institution is able to effectively implement long-term strategies. Thus, volatility represents a main constraint for the implementation of state reform processes. Development cooperation should therefore counter the negative effects of political volatility in fragmented polities by promoting continuity. This means first and foremost that aid agencies should seek to promote the continuity of the process of state reform – in our case the process of decentralization – and not necessarily of its cooperation with a particular actor.

Uncoordinated external interventions constitute the **third challenge** for development cooperation in fragmented polities. It goes without saying that donor coordination is important in all developing countries in order to increase the effectiveness of aid.³³ However, there is a particular need for donor coordination in fragmented polities, since excessive donor fragmentation might even compound the problems of partner-countries which are themselves highly fragmented. Fragmented polities are already characterized by a multitude of uncoordinated actors and strategies. If multiple donors pursue a variety of different strategies with different counterparts and try to influence them in different ways, this will further hamper a coherent state reform process.³⁴ Thus, fragmented donors can do more

32 The term volatility means the frequent change of governments and of actor constellations at all levels of government as well as the instability of most political organizations (e. g. political parties, unions, subnational associations).

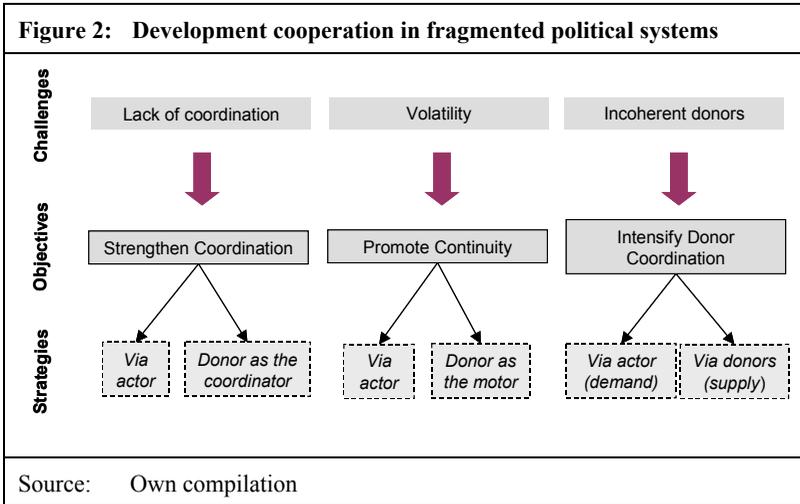
33 The necessity for improved donor coordination as well as possible means of such coordination plays central roles in the current debate about aid effectiveness. See for example Ashoff (2004) and OECD/DAC (2004). For the specific need for donor coordination in state reform process, see Stockmeyer (2004) as well as Kurtenbach / Weiland (2003, 49).

34 Knack / Rahman (2004), for instance, have shown that donor fragmentation is often associated with declining bureaucratic quality.

harm than good to decentralization processes in fragmented polities. Donors can therefore only effectively support decentralization in fragmented polities if they coordinate their activities and develop a shared vision of decentralization in the respective partner country.

Two alternative sets of strategies

The three principal challenges and objectives for development cooperation, which arise in fragmented polities, are summarized in Figure 2. Furthermore, Figure 2 also indicates that one can, at least analytically, distinguish two different sets of strategies for aid agencies to strengthen vertical and horizontal coordination: to promote continuity and to intensify donor coordination. As indicated in the right-hand columns, donors might pursue the traditional approach to cooperate closely with single national counterparts (*counterpart focus*). Up till now, most donors have preferred this approach, which seeks to strengthen change agents in the recipient country and puts emphasis on participatory processes and ownership of national partners. The left-hand columns indicate a much more active and rather independent role of development cooperation, which might serve as a complementary or alternative strategy in fragmented political systems. Given the difficulties of cooperating closely with one counterpart in fragmented polities, aid agencies could also seek to assume a coordination role between national actors themselves, they might act relatively autonomous as motors of the decentralization process and could intensify the mutual coordination of their assistance. The following paragraphs outline in more detail the potentials and challenges of the two alternative strategies with regard to the specific objectives in fragmented polities.



a) Counterpart Focus

Donors might contribute to horizontal and vertical coordination by strengthening domestic actors serving as horizontal and vertical linkers. National horizontal linkers typically are subnational associations such as provincial or municipal associations. Subnational associations have, in principal, the potential to identify areas of consensus at one level of government as well as to coordinate and represent their members. Hence, they are increasingly regarded as important actors of decentralization processes (see BMZ 2002, 17; Haldenwang et al. 2004, 12). However, a main challenge regarding the cooperation with subnational associations is that they are – just like most other actors in fragmented polities – often extremely politicized and, as a consequence, lack the ability to pursue long-term strategies. In addition, subnational associations tend to compete with each other for resources and responsibilities and it is difficult to initiate cooperation among associations of various levels of government. Thus, cooperation with them does not automatically increase the coherence of the overall decentralization process.

Donors might also strengthen coherent demand by the recipient country and seek to align their assistance accordingly.³⁵ This might result not only in increased coordination of external assistance, but also in an improved linkage between external interventions and national strategies (see Paris Declaration 2005). In addition, assistance based on a coherent demand strengthens the ownership principle in the donor-recipient relationship. Thus, some authors conclude that the coordination of assistance should be assumed by the recipient country (see Ashoff 2004, 2). However, stakeholders in the recipient countries often disagree about the kind of external assistance needed and due to the high degree of instability of governmental actors the emergence of coherent demand is unlikely. In order to enhance coordination capacities of recipient countries, aid agencies might support specific departments responsible for relations with donors. However, sub-divisions responsible for cooperation with external donors also suffer from volatility in fragmented polities and are often rather weak departments that lack the capacity to successfully provide coordination (see Disch 1999, 8; Stockmeyer 2004, 428). Finally, donors themselves might lack any interest in creating a coherent demand, since this would diminish their autonomy.³⁶

Capacity building might increase coordination between different levels of governance for vertical linkers. Political parties, for instance, might serve as vertical linkers since they include officials at all levels of government and might have the ability to influence and coordinate their members.³⁷ Other potential vertical linkers are civil society organizations. However, capacity building for political parties and civil society organizations entails a variety of challenges: since decentralization is a process, which only

35 The importance and benefits of a coherent demand side and an alignment of assistance to national strategies is currently highlighted in various international initiatives. See for example Paris Declaration (2005).

36 In this regard, the collective choice approach as outlined in section 2.2 also seems to apply to donors, since a tension exists between individual rationality (aim to increase the autonomy of individual donors) and collective rationality (higher degree of aid effectiveness).

37 As shown in section 2.2, of all actors, political parties are ultimately most likely to perform as potential organizers of the encompassing interest. Kurtenbach / Weiland (2003) note, for example, that a close cooperation with political parties – primarily undertaken by German political foundations – has had a very positive impact in terms of a more coherent process of political reform in various countries.

rarely produces visible results in the short-term, it is extremely unlikely that political parties, whose actions in fragmented polities are usually determined by short-term considerations, sincerely cooperate with external actors in decentralization measures. In addition, a key characteristic of political parties in fragmented polities is that they lack stable policy profiles. Instead, they rely on personal leadership and clientelistic relations. Thus, it is very difficult for external actors to rely upon cooperation agreements with them. Finally, by cooperating with political parties, development cooperation might lose its impartiality in the eyes of other potential partners. Cooperation with civil society organizations, on the other hand, has the advantage that they have relatively stable objectives and are less politicized. However, cooperation with civil society organizations carries the risk of producing isolated impacts only, since their activities are usually limited to a certain local entity or one specific sector.

In order to promote the continuity of the decentralization process, donors might provide targeted support for motors of decentralization (see Campbell / Fuhr 2004a, 6). Motors of decentralization are actors characterized by a particular interest in decentralization steps and the ability to strengthen the decentralization process. By concentrating support on such actors aid agencies could try to keep the process going. Potential motors of the decentralization process might be governmental actors at the national and the subnational level as well as non-governmental ones. A main obstacle to providing support for motors of decentralization, however, is their identification. The frequent change of political constellations and political staff, characteristic of fragmented polities, often entail a change of political goals and programs, and complicate the identification of motors of decentralization. In fragmented polities development cooperation is therefore generally confronted with the necessity to search for windows of opportunity as well as to diversify counterparts (see Kurtenbach / Weiland 2003, 38), because possibilities of continuous cooperation with one counterpart are unlikely. However, such windows of opportunity often constitute minimal rather than ideal solutions. In addition, development cooperation has to choose its cooperation partners carefully since the selection of counterparts itself already determines to a great deal the scope of a cooperation agreement. Cooperation with central government organizations, for example, typically promises to produce more far reaching results (see Kurtenbach / Weiland 2003, 30). On the other hand, central government actors, and in particular their bureaucratic staff, are often reluctant to pro-

mote decentralization since they fear a loss of power. In contrast, some authors argue that especially local governments might serve as motors of decentralization, since decentralization increases the resources and responsibilities at their disposal (see for example Altmann 2002, 276; Campbell / Fuhr 2004, 7). However, cooperation with them carries the risk of only limited impact. The same is true with regard to cooperation with non-governmental actors.

In sum, donors might pursue a variety of strategies in close cooperation with national counterparts in order to improve horizontal and vertical coordination, promote continuity and intensify donor coordination. However, most of these approaches might be hampered by the high degree of instability of national institutions in fragmented political systems. Thus, it appears useful to complement these strategies by a more independent role of aid agencies in the recipient country.

b) Donor focus

In order to strengthen vertical and horizontal coordination, aid agencies could seek to fulfill this task of coordination themselves. Thus, they need to work with various actors at all levels of government in order to avoid bias. Many authors have criticized, however, that aid agencies often concentrate their activities at one level of government only.³⁸ Another critical point is the development of comprehensive concepts on how to coordinate various actors and levels of government. Although some aid agencies appear to have acknowledged the need to coordinate their counterparts (e. g. by knowledge transfer), concepts and the institutionalization of strategies to coordinate counterparts are often lacking.³⁹ One approach often applied by aid agencies is the support for local or sector pilot projects and the aim to disseminate these experiences (see Haldenwang et al. 2004, 19). Pilot projects might produce valuable experiences for other entities or sectors and, if successful, they might stimulate other actors to follow their examples (see Campbell / Fuhr 2004, 6–7). However, the

38 In particular the intermediate (provincial) level often receives only little external assistance (see Campbell / Fuhr 2004b, 17; Stockmeyer 2004, 418).

39 See for example Haldenwang et al. 2004: 22. More generally, Campbell / Fuhr (2004b, 18) remark that *"managing assistance projects across different levels of government – with multiple actors and interests involved – proved a daunting task."*

effectiveness of pilot projects is doubtful. A typical example of pilot projects is constituted by the support for single local entities to improve local governance. Although such projects might have a positive impact on the quality of local governance in a given entity, their impact on the overall decentralization process is questionable. For example, vertical dissemination of local best practices might be hindered by the lack of interest at the central level.⁴⁰ In addition, the support for local pilot projects is often based on overly optimistic assumptions about the capacities and willingness of public organizations to learn (see Haldenwang 2004, 202). Thus, if local pilot projects seek to develop an impact on the national decentralization process, they have to be complemented by a “strategic umbrella” (Altmann 2000, 277), which includes far reaching dissemination strategies and keeps the overall decentralization process in mind (see Kurtenbach / Weiland 2003, 19).

In order to increase the continuity of the process, aid agencies might assume the role as motors of the decentralization process by acting as honest brokers. Donors could seek to propose policy plans, to gather stakeholders, mediate and facilitate negotiations between them and provide incentives for decentralization measures. Thus, development cooperation might be able to *fill the gap* by partially assuming the role of organizer of the encompassing interest.⁴¹ However, honest brokerage is confronted with a number of challenges. Processes of dialogue and consensus building take time and resources and implementation often lag behind proclaimed commitment and even genuine intent (see Barnett et al. 1997, 15). Donors need to be prepared to accept setbacks as well as to accompany the implementation process closely. In addition, an independent involvement of aid agencies in the decentralization process through honest brokerage might convert decentralization into a donor topic. A conflict might emerge between the principle of ownership and honest brokerage, which might ultimately

40 Kurtenbach / Weiland (2003, 49) evaluate the experience of German development agencies in Angola, Cambodia, Ethiopia and Guatemala and conclude that “*the government authorities in charge are for the most part not very interested in good governance related measures at the local level. They partly react indifferently or even try to block these local measures.*” The authors note that this fact ultimately questions the sustainability of these local pilot projects.

41 Many authors have emphasized the need for aid agencies to initiate debates about state reform processes and mediate among national actors. See for example BMZ (2002, 6) and Stockmeyer (2004, 422).

undermine the legitimacy of aid agencies in the recipient country. Rather than to work closely with a single counterpart, donors would have to mediate between multiple actors. If development cooperation assumes a role as honest broker, the whole process rather than a particular counterpart becomes the 'owner' of an aid agency's involvement. Beside honest brokerage, donors could seek to promote the continuity of the process by providing information and increasing transparency. This might lead to enhanced knowledge of stakeholders about best and worst practices and increase the accountability of stakeholders (see World Bank 2000). However, the success of these measures depends to a high degree on appropriate dissemination strategies. Otherwise, they run the risk of producing only a very limited impact.

In order to strengthen coherent supply, donors might intensify the coordination of assistance. By coordinating their activities donors could counter the negative effects of donor fragmentation. Coordinated assistance and a shared vision of decentralization among donors promise to reduce the incoherence of state reform processes. Donor coordination would also reduce the burden imposed on national bureaucracies and might make assistance more effective (Ashoff 2004, 1 f.). Coordination, however, comes in many flavors and levels of intensity (Disch 1999, 17–19) Information exchange is the most basic and most common form of donor coordination, but also often produces only limited impact (Disch 1999, 30 f.). Hence, one challenge is to move on from sole information exchange to a real policy dialogue among donors. Donors should elaborate a shared vision of decentralization and develop common strategies on this basis. However, a variety of factors such as donors' national interests, different normative approaches, aid agency competition, high transaction costs and different procedures as well internal incoherence of donors impede far reaching forms of coordination (see Ashoff 2004, 4; OECD/DAC 2004, 6; Harford et al. 2004).

In sum, aid agencies should focus on three objectives in fragmented political systems: the coordination of national actors, the promotion of continuity, and the coordination of external assistance. In order to achieve these aims, donors might have to complement traditional strategies of intervention with a more active role in promoting coordination among national actors. This is not to say that development assistance should neglect the ownership principle. But if development assistance wants to promote good

governance and subsidiarity-oriented state reform in fragmented polities, it has to face the fact that broad ownership simply does not exist. Therefore, it has to engage in political processes, which aim at improving continuity of the process by supporting coordination among a diverse set of political actors.

3 Cross country evidence and the case of Ecuador

3.1 Testing the inverse U-effect in the Latin American context

As we have argued in Chapter two, the constellation of actors plays a pivotal role for policy outcomes. From a collective choice perspective, the level and the quality of decentralization will rather follow non-linear functions. In this regard, our first hypothesis stated that the level of decentralization will take the function of a non-linear, inverse U-shaped relationship of the number of checks and balances. Our second hypothesis proposed a similar relationship between the quality of decentralization and the party system. Accordingly, the relationship between the quality of decentralization and the level of party system fragmentation is not to be linear but again takes the shape of an inverse U.

To explore whether these theoretical arguments can be sustained by empirical analysis, we employ regression analysis. Our main difficulty using this kind of methodological approach consists in the scarcity of comparable data. The shortage of comparable data has forced us to limit our analysis to a Latin American context and use relatively “crude” data on political institutions and decentralization. Nevertheless, we think that our variables are sufficiently adequate to test our two hypotheses.

With regard to the influence of veto-players and the level of decentralization, we have been able to perform time-series-cross-section regressions with panel corrected standard errors for the 1975–2000 period. As a proxy variable for the level of decentralization we have used the share of subnational spending as a percentage of total government spending and build five-year averages.⁴² While this is only a crude measure of the level of

42 We combined data on subnational spending from the Inter-American Development Bank and data from the IMF Government Finance Statistic Yearbook, which correlate

decentralization, we consider it an adequate proxy for the long-term development of decentralization.

As the independent variable of major interest, we have used a variable that measures the number of veto-players and accordingly checks & balances in a given country (Keefer / Stasavage 2003). This variable (CHECKS) equals one in countries in which legislatures are not competitively elected. In countries with competitive democratic elections, the number of checks and balances is augmented according to the basic concept of the veto-player approach.⁴³ Thus, this variable is adequate to test our first hypothesis. While a system with only one veto-player will come close to an autocratic order whose government is reluctant to decentralize, many veto-players will represent a fragmented democracy.

We have included several control variables such as the population size and GDP per capita in terms of power purchasing parities. We also included the inflation rate (log) as a proxy for macroeconomic stability and the trade volume in percentage of GDP as a measure for a country's integration into the world economy.⁴⁴ Because decentralization is a rather sticky process that tends to change rather slowly over time, panel data analysis is confronted with the problem of serial autocorrelation of the dependent variable. To solve this problem we have used an AR (1) estimation technique. To counter the problem of omitted variable bias, we have included fixed country effects.⁴⁵

highly ($r_p > .90$). Due to missing data, we were not able to build a year-to-year panel data set but constructed five year averages for the 1975–2000 period.

- 43 Keefer / Stasavage (2003) construct the variable as follows: If competitive elections are established, CHECKS is incremented by one. CHECKS is incremented by one if there is a separately elected chief executive such as in presidential systems. Furthermore, in presidential systems CHECKS is incremented by one for each chamber of the legislature, unless the president's party has a majority in the lower house and a closed list system is in effect, the latter implying stronger presidential control of his/her party, and therefore of the legislature. CHECKS is incremented by one for each party of the government coalition, if this party has an ideological orientation closer to the main opposition party than to the party of the president. Finally, CHECKS is incremented by one if the opposition controls the legislature.
- 44 Data on population, inflation, GDP per capita, external trade and central government consumption are from the World Bank (World Development Indicators).
- 45 For a more in-depth discussion of our estimation technique, see Beck (2001); Plümper et al. (2005).

Table 2 provides the results of our regression analysis, which support our hypothesis. In the baseline model (1) we have included all control variables but CHECKS. In Model 2 we have added the veto-player variable. While the latter variable has a positive sign, it is not significant, suggesting that there is no linear relationship between the number of veto-players and the degree of (fiscal) decentralization. Model 3 explicitly tests our hypothesis about a non-linear, inverse U-relationship between the number of veto players and the level of (fiscal) decentralization. For this purpose, we have added the squared term of the CHECKS variable. Now, both variables, CHECKS and CHECKS squared become highly significant and have the expected signs, suggesting, indeed, a non-linear, inverse U-shaped relationship between the fragmentation of political system and its degree of (fiscal) decentralization.

The other control variables also have the expected signs. Growing population size has a positive effect on decentralization as well as the central government consumption. The latter finding is consistent with previous studies. In countries, where subnational spending is mainly based on fiscal transfers from the center – as in most Latin American countries – fiscal decentralization is accompanied by an overall increase in government spending (Rodden 2003b). While Model 3 does not show a statistically significant relationship between overall world market integration and decentralization, it does point to a negative relationship between macroeconomic stability and (fiscal) decentralization. This seems plausible from a theoretical perspective, because during times of high inflation respectively macroeconomic stability, central governments have strong incentives to reinforce hard budget constraints and to limit subnational spending. Finally, Model 4 excludes the country fixed effects and includes further time invariant control variables: namely the degree of ethnic fragmentation and the territorial size (log).⁴⁶ While, not surprisingly, a strongly increased rho questions the overall adequacy of this model specification

46 Data on territorial size are from the World Bank (World Development Indicators); the indicator on ethno-linguistic fractionalization was taken from Alesina et al. (2003).

Table 2: Political fragmentation and the level of decentralization in Latin America				
	Model 1 (AR1) With fixed effects	Model 2 (AR1) With fixed effects	Model 3 (AR1) With fixed effects	Model 4 (AR1) Without fixed effects
Population (Log)	11.86 (11.75)***	13.94 (9.53)***	12.46 (8.75)***	-76 (-1.04)
GDP per capita PPP (log)	3.38 (1.83)*	-3.64 (-1.23)	-4.89 (-1.56)	-4.67 (-3.34)***
Central Government Consumption (% GDP)	.15 .79	.37 (2.04)**	.38 (2.16)**	.10 (.40)
Inflation (Log)	-.88 (-1.67)*	-.88 (-1.52)	-.93 (-1.73)*	-1.47 (-2.21)**
Trade in % GDP	.00 (.08)	.02 (.67)	.02 (.79)	-.20 (-2.85)***
CHECKS		.34 (1.05)	2.72 (2.82)***	6.17 (3.24)***
CHECKS Squared			-.38 (-2.71)***	-.62 (-2.64)***

Territory (Log)					5.38 (6.26)***
Ethnic Fractionalization					-11.44 (-1.90)*
R2	.94	.95	.96		.76
Wald Chi2	1048.30***	2407.28***	3834.43***		709.65***
Rho	.22	.19	.14		.48
Cases	18	18	18		18
Observations	79	77	77		77

Regression with panel corrected standard errors (AR1) and fixed country effects, where indicated.
Coefficients (z-values in parenthesis); *** z < 0.01, ** z < 0.05, * z < 0.1
Stata: xtprse y x1-xn, no constant correlation (ar1) pairwise.
Countries: Argentina, Bolivia, Brazil, Chile, Costa Rica, Dominican Republic, El Salvador, Ecuador, Guatemala, Honduras, Colombia, Nicaragua, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela.

without fixed effects, the inverse-U relationship between political fragmentation and (fiscal) decentralization remains. We therefore conclude that our quantitative exercise has shown strong support for our first hypothesis.

Testing our second hypothesis about the relationship between different party systems and the quality of decentralization is even more challenging. We have argued that the characteristics of a party system influence the quality of decentralization. More specifically, we have assumed that the relationship between party system fragmentation and the quality of decentralization takes the shape of an inverse U. As such, neither concentrated party systems nor highly fragmented systems are likely to foster “good” decentralization. Therefore, in our model, the quality of decentralization is the dependent variable while party system fragmentation is the independent variable.

While data on party system fragmentation in Latin America are available for the 1990s, indicators that measure the various dimensions of decentralization are scarce. Obtaining comparative data on decentralization in Latin America to test our model empirically has been a major challenge. Nevertheless, we have been able to achieve data for different aspects of decentralization in 16 Latin American countries during the mid 1990s.⁴⁷ On the basis of data collected by the World Bank, the Inter American Development Bank and the Institut Internacional de Governabilitat de Catalunya we have constructed a multi-dimensional index of decentralization. As the quality of decentralization is particularly difficult to measure, it was necessary to develop a proxy that reflects various aspects of “good” decentralization. Namely, we have attempted to include different aspects of the political, the fiscal and the administrative dimension of decentralization.

Our index has been calculated by adding three component indicators. All three components (i. e. fiscal, administrative, and political dimension) of decentralization are weighed equally in the index. As a consequence, we

47 Our sample consists of 16 Latin American countries: Argentina, Bolivia, Brazil, Chile, Costa Rica, Dominican Republic, El Salvador, Ecuador, Guatemala, Honduras, Colombia, Mexico, Panama, Peru, Uruguay and Venezuela. Due to missing data, Nicaragua and Paraguay had to be excluded.

have standardized the respective values by means of a z-transformation, so that each component has a mean of 0 and a standard deviation of 1. Our index (DEC) is the sum of three components, which have been z-transformed. First we included an indicator that measures political autonomy and participation at the subnational level. This indicator reflects the quality of political decentralization. Secondly, the percentages of administrative responsibilities and government spending at the subnational level are combined in an index component to indicate administrative decentralization. The third component reflects vertical discretion. More specifically, it contains information on subnational borrowing regulations and the possibility of discretionary transfers from the center. As such, the third component reflects in how far the political system encourages fiscal discipline and transparency. Altogether, our index reflects the multidimensional features of “good” decentralization. Table 3 provides an overview of the construction of the index and the data sources.

Index Component	Indicators, Values and Computation
Political Decentralization	<p>Political decentralization is measured on a scale from 0 to 4, on which 4 represents the maximum score with regard to subnational political autonomy and participation. The indicator consists of four variables: (a) elections, (b) type of elections, (c) existence of additional mechanisms for popular participation (e. g. plebiscites, referendum) and (d) political rights. The score for the political rights component is taken from the Freedom House Index. Higher values indicate a higher quality of political decentralization.</p> <p>The variable is available at the Institut Internacional de Governabilitat de Catalunya (LAGNIKS) and consists of the average of the 1990–1997 values.</p>
Level of Vertical Discretion	<p>This Indicator is the sum of two components: The regulation of subnational borrowing and the possibilities of the central government to allocate transfers in a discretionary manner. We obtain a variable that ranges from 1 (very high level of discretion) to 6 (very low level of discretion).</p>

	<p>Data were obtained from the World Bank Data Set on Decentralization (Data exist only for 1995).</p> <p>a) Hard-budget Constraints for Subnational Entities: The original data distinguishes three categories of arrangements for subnational borrowing in Latin America, which have been coded on a scale from 1 to 3: administrative control (1), rule-based control (2) and the prohibition of subnational borrowing (3). If the arrangement for subnational borrowing includes elements of two categories, combined scores are awarded (e. g. 2.5).</p> <p>b) Characteristics of the Transfer System: The original data distinguishes two types of arrangements for financial transfers from the national to the subnational level: discretionary and automatic (rule-based). For our analysis these variables have been coded on a scale from 1 to 3, on which 1 reflects discretionary transfers, (3) automatic (rule-based) transfers and (2) a combination of both types of transfers.</p>
<p><i>Administrative Competences and Fiscal Resources</i></p>	<p>This component Indicator includes a proxy for administrative competences and subnational government expenditures as a percentage of total government expenditures. As the proxy for administrative competences and subnational expenditures strongly correlate ($r=0.85^{***}$) and are measured in percentage, we have taken the average of both as our component indicator.</p> <p>a) Administrative Policy Competences: The original World Bank data indicates how administrative responsibilities for 24 policy areas are distributed between the national, the intermediary (where applicable) and the local level of government. Our score for administrative decentralization indicates the percentage of administrative responsibilities, which are carried out by the subnational level. Data</p>

	<p>have been taken from World Bank Data Set on Decentralization (Data exist only for 1995).</p> <p>b) Sub-national Spending: The variable indicates the percentage of subnational expenditures as the percentage of total government expenditure for 1995.</p>
<p>The overall index has been constructed by adding the three index components, which have been z-transformed.</p> <p>Source: IADB (1997)</p>	

Our principal independent variable is measured by an index that multiplies the number of effective parties with the electoral volatility between 1990 and 1997 (PARTYSYS).⁴⁸ In order to test for a non-linear relationship, we also have entered the squared term of this variable into the regression (PARTYSYS squared). Since only a very limited number of observations is available, we have combined the latter two variables into one. Via z-transformation of PARTYSYS we have obtained a variable with a mean of zero and a standard deviation of one. The squared amount of the latter is entered into the regression, as it is suitable for testing a non-linear correlation (Z-PARTYSYS squared).⁴⁹

In order to account for the existing differences between Latin American countries, three theoretically relevant control variables have been included in our model. The first control variable is the logarithm of the territorial

48 Electoral volatility indicates the percentage of change in party support from one election to the next. Electoral volatility provides information on the stability of the party system. Data were obtained from the UNDP Report “Democracy in Latin America” and span the 1990-97 period. The number of effective parties in the legislative was calculated based on the formula developed by Laakso and Tagapera (for a detailed discussion of calculations see www.lagniks.org).

49 Whether an identified relationship has the form of an ordinary U or an inverse U can be determined by the sign of the coefficient. If the original curve takes a U-shaped form, the sign of the coefficient is positive. If the original curve takes an inverse U-shaped form, the sign of the coefficient is negative. This method is especially appropriate when applied for a small number of cases because the resulting problems of co-linearity do not allow for the introduction of each characteristic of the party system separately into the regression.

size (Territory). We assume that larger countries are more decentralized. The second control variable is the level of economic development at the beginning of the 1990s as measured by the Human Development Index. Finally, the third control variable is a measure of corruption control (Corruption control). Low control of corruption is expected to have a negative effect on the quality of decentralization, because in relatively corrupt countries the negative impact of special interests on the coherence of decentralization will be larger.

Table 4 provides an overview of the results from different robust OLS model specifications. Model 1 contains three independent variables: a country's size, its level of economic development and the ordinary party system variable. As expected, larger countries and countries with higher levels of economic development are significantly and positively related to higher rates of coherent decentralization. In contrast, the ordinary party system variable has no significant impact on the quality of decentralization. However, when adding the squared term of the latter variable (Model 2), our hypothesis about an inverse-U relationship gains support. Now, both variables are highly significant and have the expected signs. If we substitute the latter two variables by our squared and z-transformed party system variable, the results also support our hypothesis. The squared party system variable Z-PARTYSYS has the expected negative sign and is highly significant. To test the robustness of our results, we performed a simple Jackknife robustness tests (Model 4). The results remained nearly unchanged. Finally we obtained very similar results when substituting the variable on economic development by the control of corruption measure. Again, all coefficients have the expected sign and are highly significant. Thus, the results of our cross country analysis support our hypothesis, that there is a close link between party system fragmentation and the quality of decentralization. Nevertheless, while these findings support our hypothesis, due to the lack of more precise data, an in-depth case study will be explored more systematically to identify the concrete causal mechanisms.

Table 4: Party systems and the quality of decentralization in Latin America					
Dependent Variable: Decentralization index with three component indicators					
	Model 1 (robust)	Model 2 (robust)	Model 3 (robust)	Model 4 (Jackknife)	Model 5 (Jackknife)
Territory (Log)	.699 (3.33)***	.77 (3.53)***	.78 (3.74)***	.78 (3.04)***	.85 (3.90)***
Human Development Index	10.41 (1.76)	13.36 (3.39)***	12.52 (2.92)**	12.53 (2.37)**	
Corruption Control					1.73 (3.46)***
PARTYSYS	-.01 (-1.49)	.04 (2.72)**			
PARTYSYS squared		-.001 (-3.06)**			
Z- PARTYSYS squared			-.96 (-3.09)***	-.96 (-2.17)**	-1.02 (-2.39)**
Constant	-15.23 (-4.12)***	-20.08 (-8.06)***	-17.77 (-6.55)***	-17.77 (-5.94)***	-9.18 (-3.43)***
R2	.60	.74	.74	.74	.77
F-Value	8.97***	16.38***	13.54***	12.06***	14.02***
N	16	16	16	16	16
Robust OLS regressions. Coefficients, (in parentheses) t-values; Significance: ***p< 0.01, **p< 0.05, *p < 0.1					

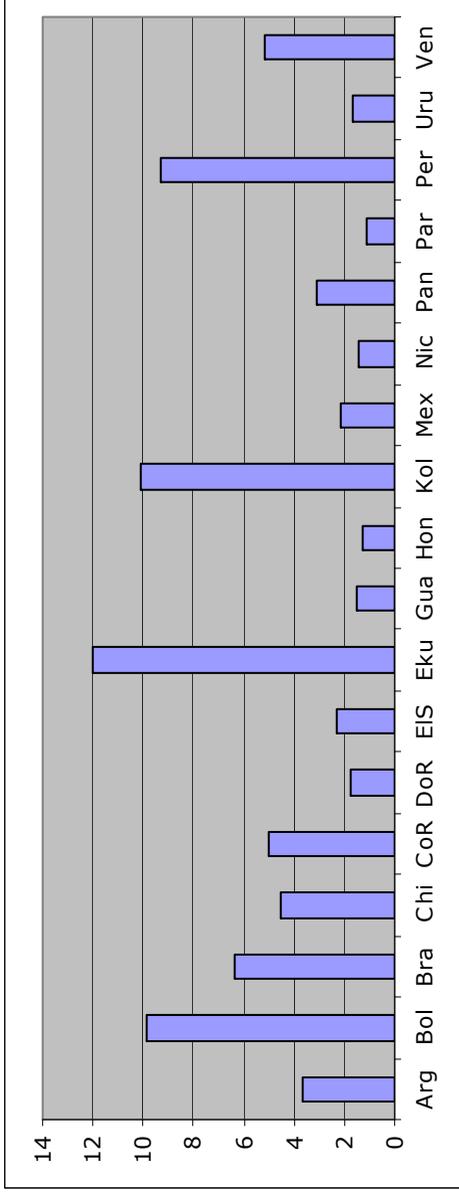
3.2 Ecuador in the Latin American context

Case selection should be deduced from the theoretical framework and should flow logically from the main research questions. As we aim to identify the influence of the constellation of actors on decentralization processes and explore strategies for development cooperation in fragmented polities, the selected case should offer an opportunity to observe both: a fragmented party system as well as a variety of activities by international actors in the field of decentralization. A fragmented party system is a particularly intriguing case as it might offer interesting insights into the extent to which non-party actors are able to ameliorate the effects of party failure. Furthermore, the analysis of recent data shows that in Latin America the problem of political fragmentation is much greater than the problem of concentration. As our comparative data ends at the end of the 1990s, the selected case should also display interesting developments in the field of decentralization as well as with regard to party system fragmentation since that time.

Based on these criteria, Ecuador appears to be an intriguing case. Our analysis of decentralization in the mid 1990s demonstrates that even though Ecuador was not among the best performers, it was nevertheless not among the worst performers such as El Salvador and Guatemala. The same holds true with regard to party system fragmentation. However, things have changed and we observe that political fragmentation as well as the shape of the overall decentralization has considerably become more problematic in the 1997–2005 period.

In the 1997–2005 the Ecuadorian party system has become highly fragmented in terms of volatility and the number of effective parties in parliament. UNDP data from 1998 to 2002 reveal that Ecuador has become the most fragmented party system in Latin America, if electoral volatility and the number of effective parties are combined in a single variable.

Figure 3: Party system fragmentation



* Data from UNDP Report 2000-2002; z-transformed with $\mu =$ arithmetic average, $\sigma = 1$

Index: Electoral Volatility multiplied with the Number of Effective Parties

With regard to decentralization Ecuador has experienced a rather disorganized process, which has led to incoherent results. In general, political decentralization has been rather advanced while the quality of fiscal and administrative decentralization has remained poor in comparison to many other Latin American countries. Revenues (with a share of 93.6 % before transfers) and expenditures (84.2 %) have been highly concentrated in the hands of the central government. In 2003, the average for the five most advanced Latin American countries⁵⁰ was between 12 and 18 % (IADB 2004).

In recent years, the decentralization process has shown an interesting dynamic including a wide range of activities by development cooperation. During our period of investigation (1997–2005) important steps have shaped the fiscal, administrative and political dimension of decentralization. While the 15 % Law of 1997 increased fiscal transfers to subnational governments without transferring corresponding competences, the 1998 constitution paved the way for the optional transfer of administrative responsibilities. Moreover, in several municipalities interesting local participatory initiatives emerged. These events have deepened various forms of incoherence, particularly between the fiscal and administrative dimension and within levels of government (horizontal incoherence). The 1998 constitution has linked the transfer of administrative responsibilities to existing subnational capacities while subnational governments have been supposed to apply for the transfer of responsibilities one by one. As a consequence, subnational entities have felt free to choose their own decentralization mix in accordance with their administrative capacities and political interests. This transfer mechanism has entailed a chaotic process where subnational entities independently apply for specific responsibilities and an intended national concept on the decentralization outcome has not come into existence. Finally, development agencies from various countries have been active in the area of decentralization in Ecuador and their efforts are supposed to be coordinated at a donor table. The case of Ecuador may thus help assess the potential of development agencies and other actors eventually able to counterbalance the effects of party failure and political fragmentation.

50 These countries are Brazil, Mexico, Chile, Argentina and Uruguay (IADB 2004).

4 Decentralization in Ecuador

4.1 Temporary, structural and institutional context

An actor-centered analysis has to consider specific context factors, which can influence constellation of actors, their interests and their capability to organize the encompassing interest. Context factors thereby affect coordination problems and distribution conflicts among actors. To describe the importance of these specific context factors in Ecuador, we distinguish between temporary, structural and institutional context factors. According to our period of investigation, we will take a closer look at these factors in Ecuador between 1997 and April 2005.

4.1.1 Temporary context factors

Temporary context factors, which include the degree of (a) political and (b) economic stability, greatly influence actors' interests by determining their time-horizon. As a consequence, distribution conflicts and coordination problems among actors decrease or intensify. In times of political and economic stability, actors may pursue a long-term horizon and shape their activities, preferences and interests accordingly. In contrast, political and economic crises will encourage actors to follow rather short-term interests and therefore attempts at coordination. In addition, in times of political and economic crisis conflicts among actors intensify and coordination efforts become more complex. As the intensity of conflicts increases, the implementation of a coherent decentralization process becomes even more problematic.

(a) *Political Instability*: Permanent susceptibility to political crisis has been one of the country's main characteristics in the last ten years. Even though Ecuador has been democratically ruled since 1979, its susceptibility to political crisis has prevailed. During the last seven years, Ecuador's political system has been highly volatile. This chronic political instability culminated in April 2005 in the dismissal of President Lucio Gutiérrez. Gutiérrez was forced out of office when the Congress voted to dismiss him and the military finally withdrew its support of the former colonel. The weeks before were characterized by massive demonstrations by the capi-

tal's middle class against Gutiérrez politics.⁵¹ Again, the dismissal of Gutiérrez reflected the traditional confrontation between the dominant elites, frequent interventions by the armed forces and fragile coalitions in parliament. More specifically, the following indicators underpin the high level of political instability in Ecuador (IIG 2004, 19, 37, 49, 56):

- (1) Presidential crises characterize the country's history. Since independence, Ecuadorian presidents have stayed in power for an average period of about two years. Less than half of them were able to conclude their term of office.
- (2) Frequent political crisis and an insufficient culture of consensus can be held responsible for the short duration of constitutions. To date, 19 constitutions have been approved since the constitution of 1830.
- (3) Presidents historically have had to deal with an opposition that has a majority in Congress. A highly fragmented Congress and a weak position of the ruling party have been responsible for the high degree of governmental instability. Until the constitutional reform of 1998, this situation was further aggravated by the replacement of more than 80 % of the deputies.
- (4) Numerous legal procedures and motions of censure that were directed against ministers have marked the first two decades of democracy: the annual average of these legal procedures in this period amounts to 2.5. 22 % of the ministers had to face motions of censure; half of these motions of censure were successful. This corresponds to an annual average of 1.2 motions of censure. However, numbers have fallen slightly since the constitutional reform of 1998 (annual averages in the period 1999-2002 amount to 1.5 and 0.5 respectively).

51 The causes for Gutiérrez' fall can be subdivided into two groups: its immediate and long-term causes. Considering the first group, the time from November 2004 to April 2005 is of key importance. In November, Gutiérrez dismissed the Supreme Court in order to weaken the opposition and put in place a court which would favor him. To reach the necessary majority in Congress, he negotiated with the PRE party. As a countermove, he agreed to drop the accusation of corruption against their party leader Bucaram and thereby enabled him to return from his exile. This provoked the protest of the capital's middle class and finally led to Gutiérrez' dismissal. Within the second group, long-term causes for Gutiérrez' fall can be found in the general crises of the Ecuadorian state. As many other presidents before him, Gutiérrez could not implement social or economic reforms. For more details, see Faust et al. (2005, 107-110).

- (5) Deputies have had very little legislative experience: In 2005, 27 % had more than 4 years' experience and only 58 % with "any" experience upon entering office. Before the reform of 1994 – when the constitution still prohibited the reelection of deputies – this situation was even worse.

In addition, several facts indicate that Ecuador's democracy has been dealing with a severe political crisis during the past eight years:

- (6) The succession of governments at short intervals has been particularly challenging since the mid 1990s. Within the last ten years, presidents have generally stayed in office for only two years. With Bucaram and Mahuad, Gutiérrez was the third elected president in succession that could not finish his regular term of office.
- (7) Between 1979 and 1998, ministers of finance have remained in office for an average period of 336 days. There have been 14 ministers of finance between 1995 and 2002 (Wiesner 2003, 121). During the first two years of his government, Gutiérrez had appointed 55 different ministers in his cabinet and dismissed most of them.
- (8) Since 1996, the (already high) number of conflicts (strikes, demonstrations, mass mobilizations and road blockades) has risen considerably (see figure below). Most of these conflicts expressed opposition to the structural adjustment programs of multilateral organizations in the aftermath of the economic crisis in the late 1990s.

The above-mentioned evidence illustrates that volatility and political instability have been permanent characteristics of more recent Ecuadorian history. These specific features had a particularly strong influence on the political setting in the past few years. The present crisis of the Ecuadorian state was recently reflected in the dismissal of the former president Lucio Gutiérrez. Nevertheless, the causes of this political instability point out general problems of the Ecuadorian state.⁵² These problems include also the failure of former governments to carry out necessary social and political reforms, refer to the citizens' needs in the political debate and agree about a coherent position towards general issues such as a free trade agreement with the U.S. respectively the Andean countries or more societal issues such as plurinationality. Frequent political crises can thus be held responsible for a shortsighted political perspective.

52 Confidential interview, Quito, 18th of February 2005.

(b) *Economic Volatility*: Ecuador's economy has been characterized by extreme volatility since the mid-1990s. Although it recovered from the late 1990s-crisis, it still remains highly vulnerable to external shocks due to its dependence on oil exports and external financing. The development of GDP per capita indicates this high volatility of Ecuador's economy. Although GDP per capita grew slightly in some years during the 1990s, it significantly decreased at the end of 1990s and until 2002, did not reach the level of 1997. Since 2003, economic growth gained momentum again, mainly driven by increasing world market prices for commodities and natural resources. However, the distribution of income worsened throughout the period between 1990 and 2005.⁵³

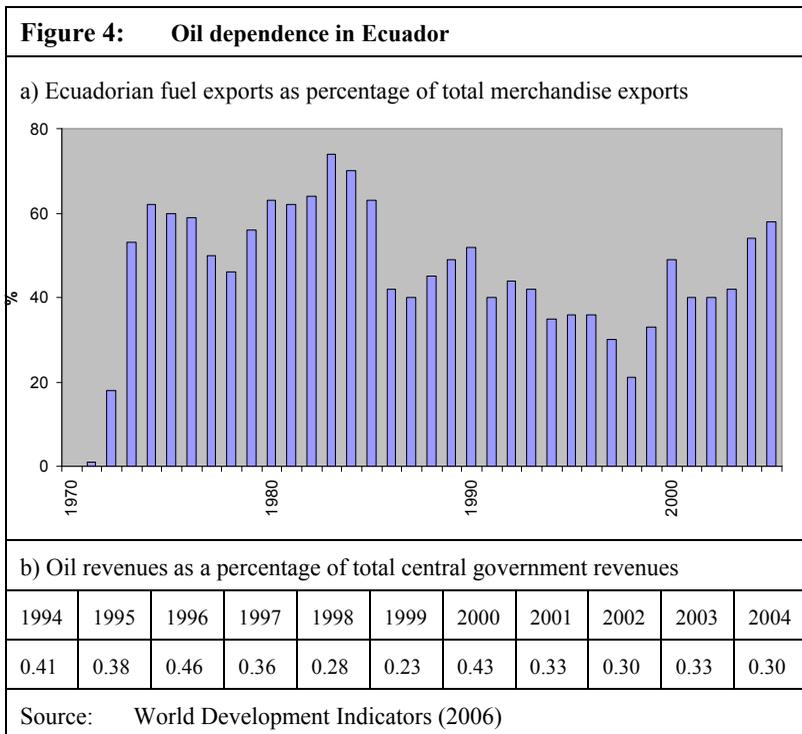
The peak of macroeconomic volatility was reached in 1999, when the economy went through a triple banking, currency and fiscal crisis. Its underlying cause was the fragility of domestic financial institutions. In 1998, exogenous and policy-induced shocks⁵⁴ provoked a loss of confidence in the banking systems and led to numerous insolvencies of banks. Due to this banking crisis, the demand for Dollars increased. The speculative run on the national currency augmented and the central bank's reserves continued to decrease. Finally, the central bank could no longer defend its exchange rate band. Ecuador's currency, the Sucre, was floated and devalued. Thereby, government's liabilities, denominated in Dollar, increased dramatically. The high public sector deficit could hardly be financed due to the withdrawal of foreign capital and the internal banking crisis (Jacome 2004, 4–5). In view of these severe macroeconomic imbalances, the government adopted the US Dollar as a substitute to the Sucre in January 2000. Nevertheless, dollarization did not lead to a permanent improvement of the country's economic situation. Wiesner (2003, 54) concludes that "this extreme measure was not the solution to Ecuador's main

53 According to CEPAL data GDP per capita (in constant 2000 values) was 1252 (1992), 1296 (2000) and 1535 US\$ (2005). While in 1990, the lowest 40 % earned 17 % of GDP, this percentage declined to 14 % in 2005. In contrast, the highest 10 % of income period increased their share from 30.5 % to 35.3 % in the same period according to CEPAL data.

54 The Ecuadorian economy was highly affected by external shocks such as the Russian and Brazilian crises as well as by internal shocks such as the decrease in exports caused by El Niño. For more details, see Jacome (2004, 16).

economic problems, but rather a stopgap action to provide time and institutional perspective for a beleaguered economy.”

GDP per capita growth since 2000 was mainly caused by the increasing oil prices, which put an end to the banking crisis. As figure 4 illustrates, oil has been the country’s most important export product. Nevertheless, downturns in commodity prices might provoke far-reaching macroeconomic imbalances (EIU 2003, 1). Thus, high oil prices have improved overall economic performance for a certain period of time, but have not helped solve the structural problems of the Ecuadorian economy.



Ecuador's present economic situation is to a great extent characterized by the importance of oil exports, which have increased significantly since the 1970s. Presently, oil revenues make up almost 24 % of total national revenues.⁵⁵ Beside oil exports, the Ecuadorian economy highly depends on external financing. By 1999, public debt reached 92 % of GDP. Although this ratio declined to 51.6 % in 2003, the public sector still has been facing the burden of a high debt service. Interest payments made up an average of almost 18 % of the state's revenues in the years from 2000 to 2003 (CEPAL 2004).

As these characteristic features show, Ecuador's economic situation is highly unstable. To work against its high dependence on oil exports and public spending imbalances, structural reforms including economic diversification efforts are needed. A coherent and consistent strategy would have to identify the country's economic possibilities in addition to oil exports. But governments until 2005 were not able or not willing to implement such reforms for instance with regard to so called "second generation reforms" in the financial and social systems. If these reforms are not initiated in a coherent manner, economic instability will persist.

To sum up, we conclude that the Ecuadorian economy suffered from high instability throughout the 1990s, and especially since 1998. Recently, the economic situation has recovered, but still remains volatile. With regard to the decentralization process, it can be stated that this macroeconomic instability has affected the constellation of actors in two ways: On the one hand, the temporary decrease of GDP and the remaining inequality has provoked increasing distribution conflicts and has strengthened the pursuit of short term oriented special interests. Dollarization might influence actors' interests in the same way because the adoption of the US Dollar generally led to higher consumer prices and worsened income inequality. Thus, the economic development should have complicated the overcoming

55 Revenues from oil export grew significantly during the last years due to elevated oil prices (Observatorio de la Política Fiscal 2005). Until 2003, oil exports were considered general state revenues, from which 15 % have to be transferred to subnational entities. In 2004, the ministry of finance declared national oil revenues as capital revenues. According to the 15 % law, capital revenues do not have to be transferred by the central government to subnational governments. Consequently, the central government benefits asymmetrically from oil revenues, while subnational entities now obtain fewer transfers. Confidential interview, Quito, 31st of March 2005.

of conflicts among actors and the implementation of a coherent decentralization process.

4.1.2 Structural context factors

From the start there was fierce rivalry between the residents of the highlands, centered on the capital Quito, and those on the coast, centered in Guayaquil...However, the deep split between the interests of the coastal and the highlands regions has at times...made it almost impossible for the government to pursue a coherent economic policy...

(Fischer 2001)

To analyze actors' constellation, structural context factors such as regional and ethnic cleavages as well as a heterogeneous state structure have to be taken into consideration. Heterogeneous state structure means, for instance, the different size and capacity of subnational entities. These factors can influence constellation of actors by affecting their special interests, by increasing the number of actors and, consequently, by increasing conflicts and coordination problems among them.

Ecuador's economic and political structure is greatly determined by regional differences. These refer to the country's regions: the Costa, the Sierra and the Amazon region (and Galapagos Islands). Generally, existing literature assigns the strong regionalism to the diverging economic activities of the two key regions, Costa and Sierra (Jacome 2004, 2). The regional economic diversity can be traced back to the 19th century. Traditionally, the Costa mainly produced commodities for export such as bananas, coffee, cocoa and, recently, shrimps, while the Sierra predominantly provided products for domestic consumption.⁵⁶ Therefore, the Costa generally promoted an outward-oriented growth strategy, while the Sierra supported inward-oriented policies. The Amazon region, where a large number of oil fields are located, gained importance in the 1970s. Regarding the country's dependence on oil, a third regional feature emerged: the growing oil exports provided and still provide high benefits to the Sierra

56 At the end of the 19th century, the Costa region became an important economic centre because increasing exports of cocoa (until 1940), bananas (in the 1950s and 1950s) and coffee strengthened its economic and political position, for details see Bernecker (1996, 155).

and to the central government, because Petroecuador, the state oil company, is the main player in this sector.

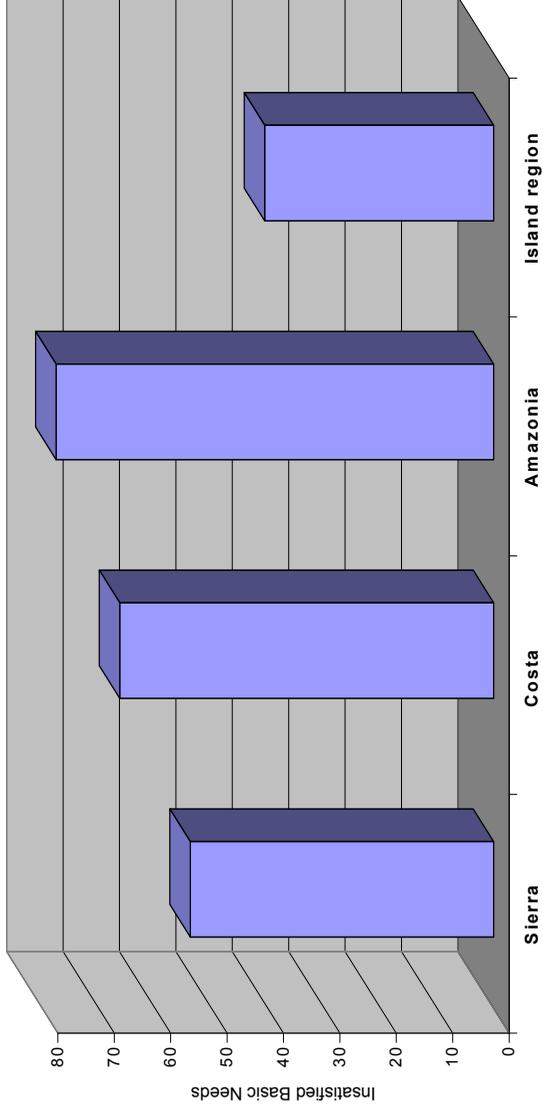
These divergent economic strategies of different regions in combination with the increasing importance of the oil industry have had an important impact on the country's political setting. Political differences corresponded mainly to the diverse economic strategies of the two key regions, the Costa and Sierra. In contrast to the liberal elite of the Costa, political leaders of the Sierra pursued a more state-interventionist policy. Existing differences in poverty among regions are measured by the index of "Unsatisfied Basic Needs".⁵⁷

Figure 5 illustrates the differences in economic development between the regions: The traditionally marginalized Amazon region presents a high poverty ratio, while the Galapagos Islands at the other extreme have a clearly lower poverty rate which almost is half of the Amazon poverty ratio. Between these extreme cases, the Sierra and Costa have lower rates than the Amazon region, but still show a high poverty level. This high variance in economic development might provoke strong regionalist interests. We conclude that Ecuador's regional cleavages tend to influence the constellation of actors. First, regional differences may have an important impact as political actors will strongly be driven toward satisfying specific regional interests. Second, strong regionalism tends to increase the number of political actors. Consequently, regional cleavages might hinder the rising of actors, who tend to pursue encompassing interests from a national perspective.

Ethnic cleavages are another structural context factor that influences the number and the interests of actors. Ecuador can be considered a "multiethnic" state with mestizo, white, indigenous and Afro-Ecuadorian groups of population. The indigenous population can be subdivided into several ethnic groups, which possess a particularly strong identity in the Amazon region. Historically, the indigenous and the afro-Ecuadorian population have been excluded from the political stage. However, the indigenous movement has gained considerable influence since the early 1990s. With

57 A person is thereby considered poor if she is unable to satisfy her basic needs with regard to health, education, employment etc. For more details see SIISE (2004).

Figure 5: Regional variances – ratio of “unsatisfied basic needs” in 2001



Source: SIISE (2004)

regard to the decentralization process, this change has increased the number of actors, which might pursue special interests. In addition, the increasing importance of the indigenous movement has deepened the divide between Costa and Sierra, as there are almost no indigenous people in the Costa.⁵⁸

A further important structural context factor is the heterogeneity of subnational entities in Ecuador. The country is divided into three subnational levels: the provincial, the municipal and the parochial level. Entities at these levels are characterized by their high heterogeneity. They differ significantly in terms of population, size and resources. Thus, a typical feature of this heterogeneity is the different capacities of subnational entities, which are expressed, in their human and financial resources. The figure presented below may illustrate the heterogeneity among subnational entities:

	Size	Population
Provinces (22)	3.100–33.900 km ² (Average: 13.000 km ²)	9.500–2.5 million (Average: 459.400)
Municipalities (215)	20–29.000 km ² (Average: 1.600 km ²)	900–1.5 million (Average: 55.800)
Parroquias (718)	2–8.900 km ² (Average: 290 km ²)	10–56.500 (Average: 4.600)
Source: CONAM/GTZ (2001)		

58 Confidential interview, Quito, 18th of February 2005.

This strong heterogeneity of entities at each subnational level can have a significant impact on the constellation of actors and thereby on the decentralization process. First, a high number of entities at subnational levels increase the number of political actors involved in the decentralization process. For instance, the *parroquias* became a new actor in the decentralization processes when they achieved constitutional recognition in 1998. Second, these actors differ greatly with regard to their resources and sizes. Entities with large resources will be able to organize their interest more effectively than entities with lower resources. Third, this situation tends to provoke a constellation of political actors, who have strongly divergent capabilities to pursue the particular interests (Guzmán Carrasco 2000, 14).

4.1.3 Institutional context factors

The institutional framework of Ecuador combines a presidential democracy with a highly fragmented party system. Main characteristics of Ecuador's unstable democracy are extreme multipartism and the persistence of political clientelism and corruption. In this political setting, organizing the encompassing interest is hindered by weak democratic institutions. Since transition to democracy in 1979, Ecuador, according to commonly accepted indicators, meets the minimal formal criteria of a formal democracy. While being categorized as "not free" in 1978 on the Freedom House Index scale, the country was considered mostly "free" in subsequent years and still "partly free" since the revolt in January 2000. Accordingly, due to the turmoil that overturned Presidents Bucaram/Mahuad in 1997 and 2000, the UNDP-Index "Electoral democracy" removed Ecuador from the maximum level that the country had obtained in the 1980s and 1990s. The variable for democratic voice&accountability from the World Bank Governance Indicators has displayed negative ratings since the year 2000, indicating serious deficiencies of Ecuadorian democracy.

Qualitative analysis generally has agreed with these quantitative results. Ecuador has met the procedural minimum of democracy in the sense that principal political and civil rights have been respected and that the legislative and executive powers have been elected in free, fair and universal elections. With regard to the latter, the European Union has confirmed an acceptable electoral process in terms of transparency with a significant participation (72.7 % voting attendance in the presidential elections of the 1990s). However, qualitative analysis has also revealed serious institu-

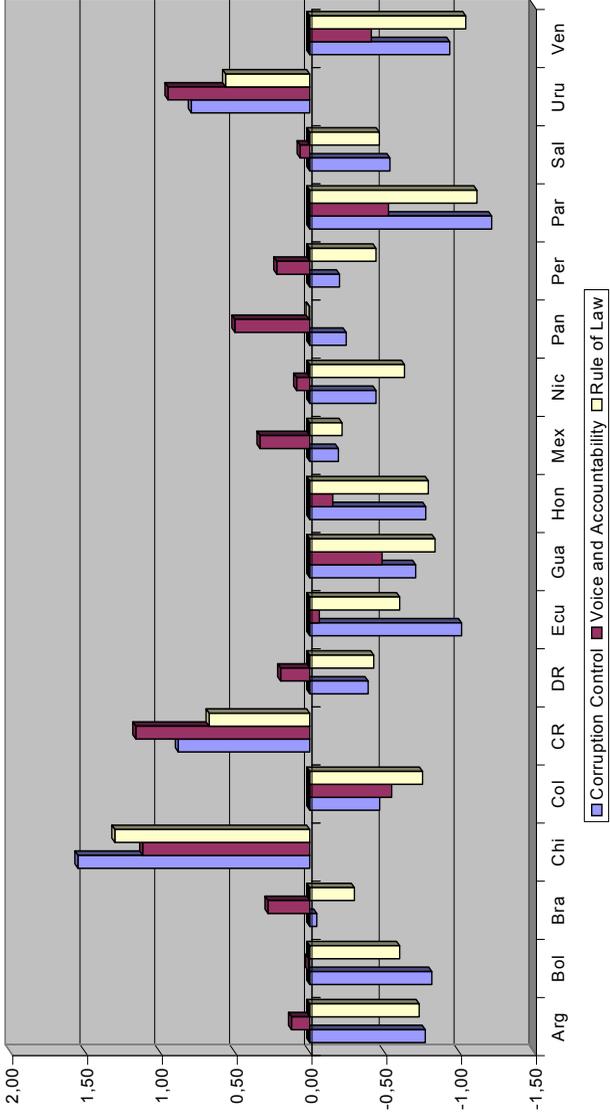
tional and functional deficits concerning the legitimacy of the democratic order (Wolff 2004, 7). These features of a defect democracy have become clearly evident in the legislature of ex-President Gutiérrez. As he could not obtain a majority in Congress, he tried to implement reforms per decrees excluding or manipulating the Congress.⁵⁹

1) *Weak formal institutions*: There are at least four factors undermining the democratic institutions of Ecuador. *First*, political actors at all levels (parties, parliament, government and administration of justice) often have followed corrupt and clientelistic incentives. According to Transparency International's 2004 Corruption Perception Index, Ecuador has been one of the five most corrupt countries in Latin America. It has received a score of 2.4 on a 10-point scale, on which a score of 1 indicates the highest possible prevalence of corruption. According to the World Bank 2004 governance indicators, Ecuador was evaluated as the country with the second highest corruption ratio; only Paraguay scored worse (see figure 6). *Second*, corruption and clientelism are closely interrelated with an insufficient enforcement of the rule of law. *Third*, the political system also has had to deal with deficits in horizontal accountability in the sense of defective mutual control of the political powers. The executive power has remained largely unchecked, limited only by coalitions of groups and a constitutionally limited term of office (Wolff 2004, 8).

The lack of cooperation between the principal political actors historically weakened the ability of institutions to canalize social conflicts and caused tensions between the executive and the legislative powers. As a consequence, the Ecuadorian president often assumed more legislative power than is the case in any other Latin American country. With "economic emergency decrees" he has strong legislative powers. The President's veto has been a powerful tool that requires a two-thirds majority in Congress within 30 days to be rejected. In addition, the President could shape the legislative agenda through his exclusive budgetary initiative right (IIG 2004, 57).

59 For instance, Gutiérrez tried to implement the Ley Topo as a law, which – beside others – dealt with the issue of fiscal decentralization. As he supposed that he would not achieve a majority in Congress, he sent the law via decree to Congress. Thereby, it would have passed after a period of 30 days, if deputies could not agree on refusing it. Nevertheless, in April 2005, Congress rejected this law. For more details, see Faust et al. (2005, 113–114).

Figure 6: Governance indicators for Latin American countries (2002)



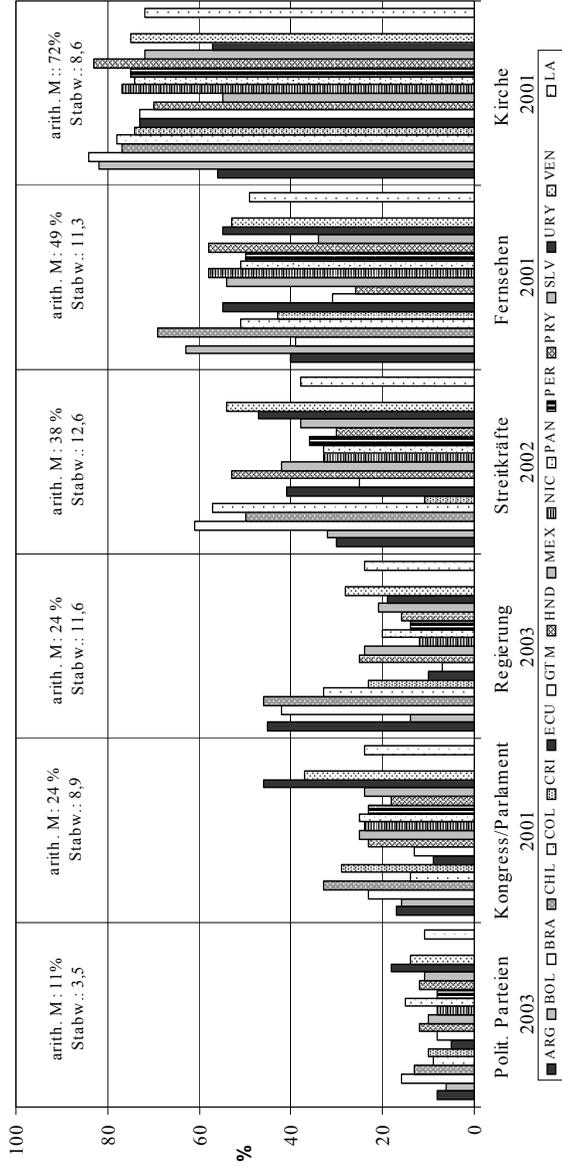
Source: Kaufmann et al. (World Bank) (2002)

2) *Lack of trust in democracy*: Political exclusion, social disparities and economic crisis have revealed a negative image of democratic performance. A low level of democratic culture has characterized Ecuadorian society. Citizens and the political elites have not sufficiently accepted democratic principles as indicated by a survey of the Latinobarómetro (2004). Between 1996 and 2004, democratic commitment has been below the Latin American average. Minimum values in 1997 and 2001 reflect the crisis of democracy in accordance with the recent revolts. Preference for democracy has also been correlated with the regional disparity of Ecuadorian society reaching 64.3 % in Quito (Sierra region) and only 42.5 % in Guayaquil (Costa region). Another illustrative example revealing a low democratic culture has been the high acceptance of the armed forces (see Figure 7), which have repeatedly intervened in the political process of the country. Although there have been fewer interventions in the last two decades, this most likely reflects tactical considerations rather than a fundamental reorientation.

Apart from the weak acceptance of democratic principles and weak formal institutions, informal institutions such as corruption and clientelism are strong. “At all levels, the Ecuadorian state is permeated by private relationships.”⁶⁰ Legislation and laws have been of relatively minor importance. As the figure above shows the corruption index of Ecuador is among the highest in Latin America. This leads to a political setting in which actors have few incentives to pursue the encompassing interests of society.

60 Confidential interview, Quito, 18th of February 2005.

Figure 7: Trust in political institutions in Latin America



Source: Lartinobarómetro 2004

The electoral system traditionally has supported populism and fostered the fragmentation of the party system. Reforms of the electoral system have not consistently contributed to strengthening the fragmented system of personalist and populist parties. While there are some positive results – for instance, the 1994 reform allowed the reelection of deputies and the 1998 reform extended the term of office for all deputies from 2 to 4 years – other changes have even aggravated the fragmentation of parties (IIG 2004, 43).

- (1) Reforms have abolished the national electoral list for deputies leaving the provinces as the only electoral circumscriptions: The total number of 100 deputies is elected in the provinces. A minimum of two deputies plus one for every 200,000 inhabitants represent each province. This procedure has further strengthened the regional profile of parties (Conaghan 1995, 220–224).
- (2) The method for the assignment of congressional seats “D’Hondt” favors small parties and is therefore highly problematic in a fragmented context.
- (3) Open lists with preferential vote contribute to the personalization of the political system and a weak cohesion of parties.
- (4) The admission of independent politicians for electoral competition has similar effects. Independent candidates are not required to be affiliated to a political party nor are the lists of independent candidates required to present candidates in a minimal number of provinces.

In conclusion, the institutional framework of Ecuador is poorly equipped to meet the challenges of personalism and clientelism, which are deeply rooted in the political system of the country. Reforms of the electoral system have neither significantly tackled the fragmentation nor the short-sighted orientation of political actors. Since most of the strategic actors who can potentially change this situation actually benefit from the status quo, institutions will probably remain unstable in the near future.

In sum, temporary, structural and institutional context factors in Ecuador have been rather unfavorable for a coherent decentralization process. The unstable political and economic situation has tended to aggravate distribution conflicts among actors and structural context factors such as regional or ethnic cleavages tend to even intensify coordination problems between actors. Thereby, coordination among actors has become even more problematic because of the existence of strong illiberal informal institutions

and accordingly the weakness of formal institutions. In such an institutional context, especially powerful and well-organized actors can push through their special interests. Thus, we expect that the context factors in Ecuador will strongly complicate the overcoming of coordination problems and distribution conflicts with regard to the decentralization process.

4.2 Advances and defects of decentralization in Ecuador

4.2.1 Historical overview

Ecuador's decentralization process has a long history⁶¹. Due to the significant regional differences, particularly between the coastal and the highland regions, decentralization has been on the political agenda since the foundation of the republic in 1830. While the coastal region, as the country's economically most dynamic area, traditionally aimed to increase its independence, the highland region sought to centralize policies in order to gain access to the coastal wealth and to secure national unity. Regional and local levels of government were already established during the 19th century and by the mid of the 20th century the country thus had achieved a comparatively high level of decentralization (Guzmán Carrasco 2000, 8).

As a consequence of the military coup in 1972, the country experienced a wave of re-centralization. The military government suspended elections on all levels of government and partly re-centralized public revenue and responsibilities. Re-centralization was part of the military's policy of national unity. The military government strengthened national planning capacities⁶² and pursued policies of national integration (e. g. harmonization, compensation). In addition, the new government sought to control the revenues from the vast oil resources, which were discovered at the end of the 1960s. As a consequence, the central government no longer relied exclusively on tax revenue and could thus "free itself from the economic veto-power of coastal business elites" (Frank 2003, 177). The new oil wealth enabled the central government to lower taxes and increase inter-governmental transfers as a means of satisfying and controlling regional

61 For a concise overview of the history of Ecuador's decentralization process, see Frank (2002).

62 It particularly increased funding for regional development agencies which implemented huge infrastructure projects (e. g. highways, airports, electricity). See Frank (2003, 163).

and local actors. Thus, the discovery of oil has changed the relationship between central and regional actors and had considerable consequences for the shape of decentralization.

Decentralization regained its significance during the transition period after the military government ended in 1979. As part of the democratization process, direct elections at the provincial and municipal level were reintroduced. However, a stable coalition of actors, which was in favor of fiscal and administrative decentralization, did not emerge during the 1980s. Hence, fiscal resources and administrative responsibilities remained comparatively centralized. This changed only slightly at the end of the 1980s under the Borja government.

Rodrigo Borja, elected national president in 1988, had a particularly strong position. His party, the Izquierda Democrática (ID), had the majority of seats in Congress as well as in most subnational legislatures. Many prefects and mayors were affiliated with the ID, and ID party members headed the subnational associations AME and CONCOPE (see Frank 2003, 210–211). On the basis of this favorable constellation of actors, the Borja government issued several decentralization projects, most of them exclusively concerned with fiscal decentralization. The most important one was probably the creation of the *Fondo Desarrollo Seccional* (FODESEC) in 1990. The fund aimed to aggregate separate intergovernmental transfers into a single one. FODESEC introduced automatic and formula-driven transfers and raised the amount of intergovernmental transfers remarkably (Carrasco 2003, 317).⁶³ However, the central government did not succeed in eliminating all other transfers. Several subnational governments, usually controlled by ID members, managed to negotiate special laws (*Leyes Especiales*) with the central government, even after FODESEC was established. These laws typically provided for additional transfers to individual provinces and thus eroded the unified transfer system created by FODESEC (see Frank 2003, 216–217).

In addition to the creation of FODESEC, Borja also issued the *Programa de Desarrollo Municipal* (PDM). The program aimed to strengthen local capacities as well as provide municipalities with additional loans for local investments. The World Bank and the Inter-American Development Bank

63 On the allocation formula of FODESEC, see Annex 2.

(IADB) supported the program with loans amounting to 300 US\$ million.⁶⁴ Although PDM unquestionably increased local capacities and its loans represented a form of decentralization, it created new problems such as overly indebted local entities.⁶⁵ PDM provided the government with the opportunity to pursue decentralization by spending external resources and without touching the interests of any of his supporters: “External credit allowed decentralizing, but postponed the costs into the future, to other governments and future generations.” (Frank 2003, 228)

The years following the Borja government were characterized by efforts by central governments to implement a general state reform. However, deconcentration and privatization rather than decentralization characterized the reform efforts (Frank 2002, 90). Under the government of Sixto Durán Ballén (1992–1996) only few decentralization reforms were initiated. The *Ley de Distrito Metropolitano de Quito* introduced new administrative responsibilities of the capital and, hence, abolished the uniformity of municipal responsibilities. Furthermore, the government also created the *Consejo de Modernización Nacional* (CONAM). Henceforth, a subdivision of CONAM was in charge of implementing and coordinating the national decentralization process (Carrasco 2003, 317). The Sixto government also planned to issue a new decentralization law, which aimed to decentralize responsibilities and strengthen provincial taxation. However, the project failed due to the opposition of various coastal governments controlled by the PSC (see Frank 2003, 241–245).

In the second half of the 1990s, a new momentum for decentralization evolved. The country experienced a sincere economic downturn. Oil prices were declining, which increased the bargaining position of the coastal region. Due to the peace accords with Peru in 1998, Ecuador no longer faced an external military threat. Thus, claims for national unity became less important. Finally, the indigenous movement had developed into an influential factor even at the national level, which pressed for increased participation and ethnic self-determination.

64 The loans were administered by the BEDE, which on-lent these resources to municipalities for local investments accompanied by large-scale training programs largely directed from top-down (Frank 2003, 227).

65 Confidential interview, Bonn 06th of January 2005.

Against this background, the decentralization process accelerated. As has been laid out in Chapter 3, decisive fiscal, administrative and political decentralization steps caused a new dynamic and shaped the actual state of decentralization.

In 1997, the central government adopted the *Ley Especial de Distribución del 15 % del Gobierno Central para los Gobiernos Seccionales*. The 15 % Law determined that by the beginning of 2001 15 % of the central government's general budget had to be allocated to the subnational level (Carrasco 2003, 318). Transfers from the 15 % Law were additional to other transfers (e. g. FODESEC). Thus, they remarkably increased the amount of intergovernmental transfers and just as the FODESEC transfers, the distribution of transfers based on the 15 % Law should expressly exclude the allocation of responsibilities. The 15 % Law primarily constituted a response to increasing pressures from local governments and was meant to substitute funds from the PDM program, which expired in 1996 (Frank 2003, 277). However, the 15 % transfers clearly exceeded the PDM ones.⁶⁶

In 1998, the new constitution, elaborated by a constitutional assembly since 1994, was at the core of the state reform process (León Trujillo 1998, 175–199). Title XI of the Constitution was exclusively concerned with the issues of decentralization and deconcentration. The constitution defined Ecuador as a decentralized and pluricultural state. It established independent rural parochial assemblies and permitted the formation of special regimes for ethnic communities (so-called *circunscripciones territoriales indígenas y afroecuatorianas*). Probably the most important innovation was the introduction of mandatory transfers of responsibilities in case of a prior application by municipalities and provinces: according to Art. 226 of the Constitution, regional and local entities could apply for the transfer of responsibilities. The central government has been obliged to transfer a responsibility, if the subnational entity has the necessary capacity to assume the proposed responsibility.⁶⁷ The Constitution further determined that transfers of responsibilities have to be accompanied by a

66 To this day, the 15 % transfers account for the lion share of all intergovernmental transfers (Frank 2003, 275).

67 However, it is the central government that decides whether a subnational entity possesses the necessary capacity. See Azre / Martínez-Vazquez (2003, 7).

corresponding transfer of resources and vice versa. Art. 226 aimed to promote administrative decentralization by also taking the diversity of individual regional and local entities into consideration (Carrasco 2003, 319).

At the end of the 1990s, the decentralization debate in Ecuador was especially influenced by claims for provincial autonomy (Cameron 2000, 6; IIG 2004, 64–65; López Guerrero 2004, 6–7).⁶⁸ In the wake of the economic crisis, several coastal provinces demanded regional autonomy. The principal features of these demands of regional autonomy were: (1) provinces should be responsible for collecting all taxes collected and afterwards devolve 50 % of revenue to the center, (2) the existence of only a single, elected authority at the intermediate level, and (3) provinces should be in charge of all sectors of government (see Frank 2003, 264). In 2000, the coastal provinces of Guayas, Los Ríos, Manabí and El Oro carried out plebiscites concerning provincial autonomy. All plebiscites turned out to be in favor of provincial autonomy (see IIG 2004, 65). The highland regions refused provincial autonomy, but due to their considerable economic resources as well as the popular support, the coastal provinces had a particularly strong bargaining position.

The Mahuad government (1998–2001) opposed the plans of provincial autonomy. It responded by different sorts of fiscal appeasement (e. g. bailouts) as well as by creating the *Comisión Nacional de Descentralización, Autonomías y Circunscripciones Territoriales*. The Commission reunited various stakeholders and had the aim to elaborate further reform steps concerning the devolution of resources and responsibilities. In 2000, the Commission issued the Plan *Nuevo Modelo de Gestión*, which outlined various reference points for further decentralization steps. For a short time, the central governments position changed, when Gustavo Noboa, assisted by the military and the indigenous movement, took over the national presidency at the beginning of 2000. The coastal-based Noboa government initially favored the autonomy claims. However, in early 2001 the military as an (informal) veto player blocked all claims for provincial autonomy because – from the perspective of the military – these claims undermined national unity.

68 For a good general overview of the development of the public debate concerning decentralization in Ecuador see Carrasco (2003, 312–13).

Still, provinces continued to play an important role in the autonomy and decentralization debate and managed to agree the *Convenio Marco de Transferencias de Competencias* with the central government in 2001. The agreement provided for the initiation of negotiations about the transfers of responsibilities in the areas of environment, agriculture, tourism and road and path networks between the respective ministries and the 22 provinces. This process promised to enhance the decentralization of responsibilities and replace the practice of one-to-one negotiations based on Art. 226 of the Constitution. However, no effective transfer of responsibilities “was either enacted or implemented by the end of 2003” (Frank 2003, 267). Most subnational governments ultimately refused to assume responsibilities.

In response to similar initiatives by other Latin American countries such as Brazil, the *Ley de Responsabilidad Fiscal* (2002) sought to limit national and subnational debt. It establishes objectives for national debt reduction, demands more fiscal transparency and provides indicators in order to enforce subnational budget constraints (Gallardo et al. 2003, 4). The adoption of the new *Ley de Régimen Municipal* by the congress in 2004 constitutes the most recent significant decentralization reform. The law substitutes the *Ley Orgánica de Régimen Municipal*, which has been in force since 1971, and clarifies the responsibilities of the municipalities. After the law had repeatedly failed to achieve a majority in Congress, negotiations facilitated by development cooperation, eventually provided the basis for congressional approval of the law (see section 5.2.2).

As this brief overview has attempted to demonstrate, a considerable amount of decentralization reforms have been issued in Ecuador over the last 25 years. Particularly since 1997, the decentralization process has gained momentum. Nevertheless, a stringent decentralization strategy or overarching political vision of decentralization can hardly be identified. Instead, the course of decentralization was frequently interrupted and is probably best described as a stop-and-go process.

Box 1: Milestones of Ecuador's decentralization process

- 1971 Ley Orgánica de Régimen Municipal**
Clarifies and standardizes the responsibilities of the municipalities.
- 1972 Military Coup**
The new military government suspends elections and recentralizes fiscal resources as well as administrative responsibilities.
- 1979 (Re-)Democratization**
The new constitution (1978/79) declares Ecuador a decentralized state with autonomous regional and local entities. It also reintroduces direct elections for the provincial and municipal councils.
- 1990 Ley de Desarrollo Seccional (Creation of FODESEC)**
Creates the Fondo de Desarrollo Seccional (FODESEC), which aggregates, standardizes and increases fiscal transfers. FODESEC also establishes new distribution criteria based on population and compensation of poor regions.
- 1990 Programa de Desarrollo Municipal (PDM)**
The program aims to strengthen local capacities as well as to provide municipalities with additional loans for local investments. The World Bank and the Inter-American Development Bank (IADB) support the program with loans amounting to 300 million US\$. The program ended in 1996.
- 1993 Ley de Distrito Metropolitano de Quito**
Introduces flexible arrangements regarding Quito's administrative responsibilities. Thus, it abolishes the uniformity of municipal responsibilities established in the Ley Orgánica de Régimen Municipal in 1971.
- 1993 Ley de la Modernización del Estado (Creation of CONAM)**
Provides for the execution of a Plan Nacional de Descentralización y Desconcentración, which aims to establish definitions, orientations, norms and procedures for the decentralization process. The plan, however, has never been fully elaborated. The law also provides for the foundation of the Consejo Nacional de Modernización (CONAM). CONAM was established in 1995 and supports the implementation of national decentralization policies.

Box 1 (continued)

- 1997 Ley Especial de Distribución del 15 % del Gobierno Central para los Gobiernos Seccionales**
Determines that gradually 15% of the general budget has to be distributed towards subnational governments. The law also determines the distribution of the funds. The provincial councils receive 30% and the municipal councils 70%. The funds are distributed according to equality (10%), population (40%), and an index of basic unsatisfied needs (50%). The law further stipulates that 90% of the transfers have to be invested, while 10% should serve general subnational expenses.
- 1997 Ley Especial de la Descentralización del Estado y Participación Nacional**
Defines the general relations and division of responsibilities between the national and the subnational level. The law identifies possible areas for decentralization and deconcentration on the basis of petitions by subnational entities.
- 1998 Constitutional Reform**
The new constitution defines Ecuador as a decentralized and pluricultural state. It regulates the territorial organization of Ecuador, creates the rural parochial assemblies and defines the dependent and autonomous agencies. Furthermore, various new responsibilities are assigned to subnational levels. The constitution also permits the decentralization and deconcentration of all governmental functions excluding six (e. g. defense and national security, foreign policy, economic and fiscal policy) and establishes the principle of petition by the provincial and municipal councils for the transfer of responsibilities. If the subnational entity has the capacity to assume the proposed responsibility, the central government is obliged to transfer it. Transfers of responsibilities have to be accompanied by a corresponding transfer of resources. In addition, four sources of subnational income are identified. Finally, the Constitution permits the formation of special regimes (régimens especiales) in ethnically homogeneous (circunscripciones territoriales indígenas y afroecuatorianas) or environmentally particularly diverse regions (e. g. Amazon region and Galápagos).
- 1998 Creation of the Consejo Nacional de Gobernadores Provinciales**
The council aims to strengthen the position of the governors and institutionalizes several meetings of the provincial governors per annum.

Box 1 (continued)

- 1999 **Autonomy Movements****
In the wake of the economic crisis, various regional entities demand their autonomy and in some provinces popular plebiscites for more autonomy are held.
- 1999 **Comisión Nacional de Descentralización, Autonomías y Circunscripciones Territoriales****
Against the background of the increasing demands for regional autonomy the government reunites national, regional, local administrations and civil society representatives in a new commission. The commission has the mandate to discuss and elaborate further decentralization steps. In late 2000, the central government substantially changes the composition of the commission and increases its influence in the commission.
- 2000 **Plan “Nuevo Modelo de Gestión”****
Issued by the Comisión Nacional de Descentralización, Autonomías y Circunscripciones Territoriales, the plan outlines various reference points for the future of the decentralization process.
- 2001 **Convenio Marco de Transferencias de Competencias****
The agreement initiates negotiations over the transfer of responsibilities in the areas of environment, agriculture, tourism and road and path networks between the competent central ministries and the 22 provinces.
- 2001 **Reglamento a la Ley de Descentralización del Estado y Participación Social****
The amendment of the 1997 decentralization law determines operative mechanisms for the transfer of responsibilities and resources towards the subnational entities.
- 2001 **Plan Nacional de Descentralización****
Issued by the Comisión Nacional de Descentralización, Autonomías Circunscripciones y Territoriales, the plan establishes norms about areas, procedures, financial resources, and time horizons of further decentralization steps.
- 2002 **Ley Orgánica de Responsabilidad, Establización y Transparencia Fiscal****
Establishes macroeconomic rules leading to increased transparency and hard budget constraints for subnational levels.

Box 1 (continued)	
2003	<p>Comisión Nacional de Descentralización y Organización Territorial</p> <p>The commission consists of representatives with various backgrounds and advises the president on (1) the implementation of the Nuevo Modelo de Gestión del Estado, (2) the Annual Decentralization Plans and (3) further fostering administrative decentralization.</p>
2004	<p>Ley de Régimen Municipal</p> <p>Supersedes the Ley Orgánica del Régimen Municipal of 1971. Reorganizes and clarifies the responsibilities of municipalities.</p>
<p>Based on IIG 2004, 67; Frank 2002, 85-93; Wiesner 2003, 120; López Guerrero 2004, 5-8.</p>	

4.2.2 The shape of the decentralization process in Ecuador

As we have seen in section 4.2.1, the decentralization process in Ecuador has shown an interesting dynamic, especially since the 1997 15 % Law and the constitutional reform of 1998. Both the *Ley de Régimen Municipal* and the *Ley de Responsabilidad Fiscal* can be seen as remarkable advances that have had an important impact on today's model of governance. Nevertheless, several shortcomings remain with regard to the political, administrative and fiscal dimension of decentralization and a nationally coherent decentralization process.

Taking stock of the actual shape of decentralization, we will analyze the advances and defects of Ecuador's decentralization process in the 1997–2005 period. We will refer to the general and specific ordering principles of decentralization elaborated in Chapter 2.1. First, we will evaluate the process by analyzing the general principle of coherence in its four forms: horizontal and vertical coherence, coherence between dimensions and coherence between policy sectors. Second, we will discuss the specific ordering principles regarding the administrative, fiscal and political dimension of decentralization.

4.2.2.1 The coherence of Ecuador's decentralization process

In general, the decentralization process in Ecuador lacks coherence regarding all four forms. As coherence represents the most important ordering principle of successful decentralization, the high level of incoherence of Ecuador's decentralization process has had a negative impact on the expected benefits of decentralization.

Horizontal Coherence: With regard to horizontal coherence, one should expect that subnational entities at the same level fulfill similar responsibilities. In Ecuador, however, a severe structural obstacle to a coherent transfer of responsibilities is rooted in the heterogeneity of subnational entities. Population size, economic power and administrative capacities differ widely among provinces, municipalities and *juntas parroquiales* (see section 4.2.1). Additionally, the optional transfer mechanism of administrative competences introduced by the 1998 Constitution has given rise to a very incoherent transfer of responsibilities (Verdesoto 2001, 43). Only consequent efforts to create capacities for rather marginalized subnational entities and strong coordination among those entities would have made it possible to overcome structural heterogeneity and institutional disincentives for horizontal coherence.

However, empirical evidence shows a strong lack of horizontal incoherence. Since 1998, 39 % of all Ecuadorian municipalities have not asked for any responsibility. At the same time, 35 % have asked for more than 5 responsibilities. In addition, there are considerable regional differences regarding demands for responsibilities: While around 41 % of the municipalities on the coast and in the Amazon region have not yet asked for responsibilities in any sector, this is true for only 29 % of all municipalities in the Sierra region. Responsibilities in more than three policy-sectors have been demanded by 2–5 % of the municipalities in the coastal and the Amazon regions, and by 14 % of the municipalities in the Sierra region. Thus, the distribution of policy competences between subnational entities is highly incoherent among subnational entities.

Vertical Coherence: Referring to vertical coherence that aims to avoid overlaps and foster transparency between different levels of government, some severe shortcomings have been identified in the Ecuadorian context. Multiple overlaps of responsibilities have existed between municipalities and provinces, between regional development organizations controlled by

the central state and subnational governments. Further overlaps have existed between the deconcentrated levels of the central government and independent subnational governments (IADB 2004). These overlaps have resulted either from informally assuming another level's responsibilities or from a legally unclear division of competences.

With regard to administrative overlaps between provinces and municipalities, it is important to note that the former have been supposed to take care of rural development while the latter have been in charge of urban development. However, the electoral regime has not followed the same logic. Instead, it has provided a strong incentive for provinces to engage themselves in urban development projects because the whole province has formed the electoral district on the basis of which prefects and provincial councils have been elected. The majority of the electorate has often been concentrated in the urban areas of the provincial capital. Any prefect seeking re-election therefore needs to build a support base in these areas. On the other hand, municipalities have not only consisted of urban centers but also of rural surroundings where part of their electorate has been living. As a consequence, conflicts between municipalities and provinces were frequent, particularly if the prefect and the mayor of the provincial capital belonged to different political parties (IIG 2004, 71).

In addition to the provincial activities in the field of rural development, regional development organizations (*Corporaciones Regionales de Desarrollo*, RDOs) were in charge of water management and, in a given case, of additional tasks in rural areas. Although they have considered themselves as autonomous agencies with regional character, they have only been deconcentrated entities and thus have been dominated by the central government. Given their notorious ineffectiveness and low levels of transparency, those entities have had only a very limited interest in accountability and interaction with decentralized state entities (Verdesoto 2001, 67). Provincial councils have demanded the transfer of responsibilities and corresponding resources, but regional development organizations – backed by the central government – have frequently argued that an “already decentralized” entity cannot be further decentralized. As regional organizations have had an aggregated budget of about the same amount as provinces, considerable overlaps between RDO and the intermediary level have continued to exist (CONAM / IADB 2003, 46).

Finally, overlapping responsibilities exist between the dependent and the independent regime at subnational levels. With the reform of the *Ley de Régimen Municipal* in 1998, overlaps have been diminished for the municipal level by formally eliminating the charge of the representative of the central state (*teniente político*). At the provincial level, the dependent governor still coexists with the independent prefect and overlaps – though to a limited degree – have remained (Andolina 2003, 748; Arze / Martínez-Vazquez 2003, 3; IIG 2004, 71).

Coherence between the dimensions of decentralization: A balanced transfer of responsibilities and resources is a necessary condition for avoiding an increase in clientelistic practices and securing the economic sustainability of the reform process. Although the 1998 Constitution recognizes this necessity,⁶⁹ the actual decentralization process has been characterized by various shortcomings concerning the transfer of resources without responsibilities, the transfer of responsibilities without resources and informal “de-facto decentralization”.

With regard to the problem of resource transfers without responsibilities, the early transfer of resources without corresponding administrative responsibilities has had severe consequences for the whole decentralization process in Ecuador (Wiesner 2003, 119; IADB 2004). In 1997, one year before the Constitution demanded the balanced transfer of responsibilities and resources, the 15 % Law was adopted by Congress. However, the law further increased the gap between administrative and fiscal decentralization because it explicitly stipulated that financial transfers should be independent of the transfer of administrative responsibilities. In addition, the law aggravated the national budget situation because 95 % of the government’s budget was already assigned to current expenditures such as debt service. The transfer of resources without competences not only has threatened the macroeconomic sustainability due to the risks for the central budget. Transfers of financial resources without the transfer of administrative competences have also supported clientelism at the subnational level because subnational governments, reluctant to increasing accountability

69 “En virtud de la descentralización, no podrá haber transferencia de competencias sin transferencia de recursos equivalentes, ni transferencia de recursos, sin la de competencias.” See Constitution 1998, Art. 226.

could have used additional resources in order to satisfy their specific clientele.⁷⁰

Additionally, the problem of transferring administrative responsibilities without financial resources has coexisted with the above-mentioned problem. As neither the central government nor subnational entities had clear information on the costs of transferring administrative competences to the subnational level, the process initiated by article 228 of the Constitution led to obscure political bargaining between different levels of government. Given the budget problems and its centralist interests, the national government often has refused to delegate further financial resources to a subnational entity that had applied for a specific administrative competence. In some cases, there has been an informal de facto transfer of administrative responsibilities, again without the transfer of financial resources. Subnational governments, willing to overcome local challenges and attempting to assure reelection have sometimes assumed responsibilities that formally have been within the responsibility of the central government. They have improved, for example, some health services with the resources at their disposal without demanding the formal transfer of these tasks or new revenues. In this context, the *Ley de Régimen Municipal* from 2004 has not addressed this incoherence between administrative and fiscal decentralization. The law declares silence by the central government as a tacit agreement when a subnational entity demands new administrative responsibilities. Thus, administrative transfers have not been linked to fiscal transfers.⁷¹

Coherence between policy sectors: Finally, the process in Ecuador has also been marked by incoherence between policy sectors. This further limitation of the decentralization process is characterized by the fact that decentralization activities have been concentrated on a few policy-sectors, while other sectors have been neglected. This is particularly true for tour-

70 The *Ley Topo* reform project, rejected in early 2005, pointed at formally excluding petroleum revenues from the current governmental revenues, which have served as a calculation base of the 15 % Law. Informally, the new base was already applied in 2005, reducing transfers by about 20 %. If these resources would have been used for accompanying the transfer of responsibilities, this approach could have fostered a more balanced process between fiscal and administrative decentralization.

71 In addition, in sectors such as environment and tourism, responsibilities have been transferred which have never been executed by the central government.

ism and environment on the one side, and health and education on the other: over two thirds of all responsibilities demanded referred to the sectors of tourism and environment until 2004, but only slightly more than one percent referred to the sectors of health and education (own calculations based on López Guerrero 2004).

In conclusion, the decentralization process in Ecuador is generally incoherent. It suffers from huge differences between entities within a level of government, from vertical overlaps of responsibilities between levels of government, from a lack of linkage between administrative and fiscal decentralization and from an extreme concentration of decentralization activities on a few policy sectors. These forms of incoherence combined represent the main defect of Ecuador's actual decentralization process.

Box 2: Incoherence between financial and administrative decentralization

Transfers to subnational entities in Ecuador have not only resulted from the 15 % law but also from additional laws and several non-law-based transfers. Furthermore, transfers of administrative competences could have altered the total amount of financial transfers. As a consequence, the total amount of transfers to a given subnational entity can differ significantly from the distribution key of the 15 % law. In order to investigate the distribution mechanism behind the total transfer sum, we have performed several OLS regressions with cluster robust standard errors to control for peculiarities of the provinces. As dependent variable we have used the logarithmized value of the average of total transfers per capita obtained by each municipality during the 2001-2004 period. We obtained these data from the Ministry of Finance. Thus, our regressions attempt to carve out, which kind of municipalities have profited over proportionally from financial transfers from the central government.

The following table presents the results of our analysis. In Model 1, we have used two independent variables: a) a municipality's population (logarithmized) and b) the Index for Unsatisfied Basic Needs (NBI), the most common poverty variable proxy in Ecuador provided by SIISE which is based on the 2001 census. As shown in the results, both variables are highly significant and explain almost over 80 % of the variance. Accordingly, less populous municipalities received over proportionally high transfers as well as poorer municipalities. In

Box 2 (continued)

Model 2 we included three dummy variables: c) a dummy-variable for municipalities located in the Costa region and d) one for those located in the Oriente region. We also included e) a dummy variable for the cities of Quito and Guayaquil. As the results demonstrate, the Oriente region has over proportionally profited from fiscal transfers as well as the major cities of Quito and Guayaquil, even if controlling for population and poverty. The latter can be interpreted as a confirmation of the “bicentralism-hypothesis”: those two cities have profited from their huge political influence.

In Models 3 and 4 we have added a measure for the degree of administrative decentralization to identify a possible connection between fiscal and administrative decentralization. For this purpose, we have coded a baseline study of the German GTZ (2004). The study identifies which administrative competences have been requested by municipalities in the 2000-2004 period.

The baseline studies differentiate between ten policy areas, in which demands for administrative decentralization have been made: tourism, environment, agriculture, social welfare, education, health, construction, road infrastructure and airports. Based on this information, we have constructed a variable that contains the number of policy areas in which a municipality has demanded administrative competences (AREAS). If fiscal decentralization were connected with administrative decentralization, we would expect a positive relationship between the number of policy areas and the fiscal transfers.

As the results of Model 3 clearly indicate, while the impact of the former variables remains, the results show no sign for a significant correlation between financial and administrative decentralization. Therefore, our quantitative analysis confirms the narrative of several interviewees as well as case study evidence with regard to the incoherence between financial and administrative decentralization. Finally, we have changed the dependent variable and focused on the change of financial transfers in the 2000-2004 period. We have run regression with the same independent variables, only adding the (logarithmized) transfers per capita at the beginning of the period (2000). When attempting to explain the change of fiscal transfers, we still do not find any significant evidence that the demand for administrative competences has had – on average – fiscal consequences for the respective municipalities (Model 4). Instead, Model 4 shows, that on average, municipalities from the coastal region as well as Quito and Guayaquil have profited from an increase of transfers in the examined period.

Box 2 (continued)				
Dependent Variable	Transfers 2001-04	Transfers 2001-04	Transfers 2001-04	Change in Transfers
	Model 1	Model 2	Model 3	Model 4
Transfers per Capita 2000				-1.379 (.155)***
Poverty NBI	.0021 (.0008)**	.0026 (.0008)***	.0025 (.0008)**	.0068 (.0023)***
Population	-.241 (.019)***	-.254 (.018)***	-.252 (.019)***	-.309 (.037)***
Costa		.0155 (.0241)	.0133 (.0244)	.1157 (.0484)**
Oriente		.0548 (.0283)*	.0543 (.0280)*	.0566 (.0818)
Quito & Guaya- quil		.5681 (.0692)***	.5700 (.0703)***	.739 (.136)***
AREAS			-.0038 (.0111)	-.0042 (.0233)
Constant	6.085 (.226)***	6.154 (.240)***	6.148 (.241)***	7.892 (.813)***
R2	.80	.84	.84	.61
F-VALUE	100.48***	199.07***	176.73***	22.74***
Observations	215	215	215	213
<p>OLS regressions with cluster robust standard errors. The table presents coefficients and robust standard errors (in parentheses), *** \rightarrow $p < 0.01$; ** \rightarrow $p < 0.05$; * \rightarrow $p < 0.1$. Stata: reg y x₁-x_n, robust cluster (clustervariable).</p>				

4.2.2.2 The administrative, fiscal and political dimension of decentralization

As we have seen, some severe shortcomings can be observed with regard to the general principle of coherence in Ecuador's decentralization process. Nevertheless, if we evaluate the specific criteria regarding the three dimensions of decentralization, we find both, advances and defects. While many defects have been closely related to the general defects mentioned earlier, the advances have been limited to a few punctual success stories without forming part of a consistent "national project".

The administrative dimension: The principle of subsidiarity has been introduced as the main ordering principle for administrative decentralization. However, in the case of Ecuador, the subsidiarity principle does not seem to be a top priority for actors who are shaping the decentralization process. Instead, we have observed a fragile constitutional backing and obvious misallocations of responsibilities.

The 1998 Constitution has only partly recognized the subsidiarity principle by excluding a few policy sectors from the decentralization process, which have to remain at the central level: national defense and security, international relations, economic policy and taxation, external debt management, as well as those explicitly excluded by international treaties (Constitution 1998, Art. 226). Besides, there have been made no further determinations which responsibilities should finally be executed by the intermediate or by the local levels. Instead, the one-by-one transfer mechanism has left the different levels of the state – central government, provincial councils, municipalities and *juntas parroquiales* – with a wide range of responsibilities they might or might not assume (Verdesoto 2001, 43).

The one-by-one transfer mechanism also has led to obvious misallocations of responsibilities. While in exceptional cases a whole sector has been transferred – e. g. the health sector in Cotacachi –, most of the demands have dealt with a very limited transfer of responsibilities (e. g. the maintenance of a school). The latter has implied that different levels of government assume the same category of responsibilities. For instance, there have been hospitals, health centers and schools administrated by the central and by local governments.

Another limitation with regard to subsidiarity has been the weak position of the intermediate level of government. In general, provinces have been

responsible for road work, environment and water management in rural areas. Although they have informally engaged themselves in urban development due to their dependence on the votes of the urban population, their responsibility has been limited to the countryside. To do so, they have had very limited resources at their disposal (see Figure 8), what has hampered an administrative decentralization according to the principle of subsidiarity.

The fiscal dimension: One of the three pillars of a sustainable decentralization process consists of a solid fiscal decentralization, including (i) transparency and legal foundation of public revenues and expenditures, (ii) hard budget constraints and (iii) a relevant degree of fiscal autonomy at the subnational level.

(i) Public revenues and expenditures need to be transparent and based on legal norms in order to secure an equal and adequate provision of resources. With regard to Ecuador, deficiencies can be stated concerning the proliferation of fiscal transfers and the accounting of real cost of expenditures.

Public revenues on the subnational level have been characterized by a proliferation of legal and discretionary transfers that resulted from particular political circumstances (Wiesner 2003, 122). In addition to the main legal transfer mechanisms – the 15 % Law, FODESEC and FONDEPRO – 17 other transfer laws exist contributing to a confusing picture of which subnational entity gets how much (Gallardo 2005, 10). This lack of transparency has grown even further with a huge amount of discretionary transfers. Guayaquil, Quito and, in particular regional, development organizations (RDOs) affiliated with the central government, have often benefited from such ad-hoc, and intransparent arrangements (CONAM / IADB 2003, 46).

Furthermore, the “real cost” problem has been a main shortcoming regarding public expenditures. Until 2005, there was no comprehensive study available which could have informed policy-makers about the standard costs in each sector. While the central government only provides a global budget without any detailed information about specific costs, appropriate accounting at the local level rarely exists. This uncertainty about the real cost of decentralization – due to the financial gap between estimated and real costs – has not only been a serious challenge for central-government

decision-makers attempting to plan a fiscally balanced decentralization of administrative competences. The resulting uncertainty has also been a considerable problem for sectional governments willing to assume new responsibilities.

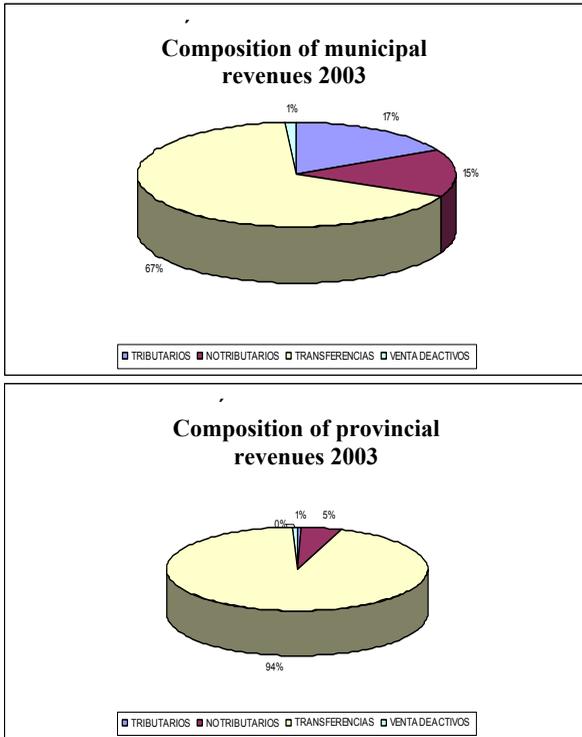
(ii) Hard budget constraints are a necessary precondition for a transfer system consistent with macroeconomic stability. They include clear rules for fiscal responsibility and access to capital markets aiming to control national and subnational indebtedness. In Ecuador, fiscal transfers without corresponding responsibilities and without criteria for efficient spending criteria have contributed to the national deficit, which was growing between 1996 and 2000. In addition, during the 1990s, discretionary transfers were often used as bailouts for public and private banks, regional development organizations and municipalities like Quito and Guayaquil (Wiesner 2003). These problems, however, have decreased in intensity since the approval of the *Ley de Responsabilidad Fiscal* in 2002. The law aims at disciplining budgetary management, limiting subnational indebtedness and providing fiscal transparency. The law has established rules and benchmarks with regard to the national debt policy. For instance, subnational entities are forced to reduce debts in case of having exceeded the legal limits. In addition, public and private banks have to face sanctions if they give loans to subnational entities, which do not meet the limits provided by the law (Gallardo et al. 2003, 4).

In order to provide transparency and a more detailed monitoring system on the fiscal situation of the state, the Ecuadorian Ministry of Economy and Finance (MEF) and the German Agency for Technical Cooperation (GTZ) elaborated a “traffic light system” for the MEF. This monitoring system introduces a number of indicators with regard to management and indebtedness at the national and subnational levels. Internet presence of the data is supposed to assure transparency and public control. However, a key problem remains because the elaborated indicators do not provide information about the final use of investments. Thus, a subnational entity might respect the borrowing limits without spending the money effectively for development related issues. Furthermore, in the absence of transparency with regard to the subnational investments, the established monitoring system might even work as a disincentive for subnational investments.

(iii) Own tax and non-tax revenues are supposed to secure minimal fiscal autonomy of subnational governments. However, in Ecuador own reve-

nues from taxes and fees have remained very low when compared to fiscal transfers. On the municipal level, own revenues accounted for only one third of total revenues in 2003, while fiscal transfers accounted for roughly two thirds. If Quito and Guayaquil are excluded, own revenues even shrink to one fourth. At the provincial level, own revenues only reached 6 % of total revenues, while fiscal transfers amounted to 94 % (see Figure 8).

Figure 8: Composition of municipal and provincial revenues



Source: GTZ

One of the main defects regarding insufficient fiscal autonomy has consisted in a low rate of tax collection (IADB 2004, 12). At the local level, tax revenues are just as high as own non-tax revenues and at the intermediary level they amount to only 1 % of total revenues. In this context, the reformed *Ley de Régimen Municipal* that passed Congress in 2004 clarifies the tax system by eliminating superfluous taxes and liberalizes tax rates. Prior to this law, the setting of tax bases and tax rates was centralized. The law now provides a minimum and a maximum for municipal taxes in order to provide local governments with a tool to promote local development (Suing Nagua 2004, 6).

The political dimension: Political decentralization has historically been the most advanced dimension in Ecuador's decentralization process. As a result, free elections at all subnational levels are widespread and advance participation mechanisms with the inclusion of civil society groups can be observed in several municipalities and provinces. Indeed, the multilevel state structure of Ecuador provides a relatively high number of direct elections. Prefects, mayors and the presidents of the *juntas parroquiales* are all elected directly just as municipal councils, rural "parochial" councils and half plus one members of the provincial councils. Urban "parochial" councils and half minus one members of the provincial councils are elected indirectly (IIG 2004, 68). Nevertheless, overlapping responsibilities between the different levels of government have tended to diminish political accountability since it is often not obvious to voters whom to make accountable for outcomes of policy-making. Regional development organizations are in charge of water management, just as provincial councils. Municipalities, provinces and regional development organizations provide rural infrastructure. Provinces engage in urban development even though this falls within the responsibility of municipalities.

With regard to civil society intervention, an interesting dynamic can be observed with regard to participative planning instruments at the local level. In 2004, approximately 35 % of the municipalities have already gathered experience with local assemblies, in which private social actors and local authorities jointly draft local development strategies. Some of these municipalities also allow for a participative public budget management (*presupuesto participativo*). While some local initiatives, such as Cotacachi (Ortiz Crespo 2004; Cameron 2000), have had a positive impact on accountability and on local development in general, 65 % of all mu-

municipalities in 2004 had no experience at all in the field of participative development instruments. Thus, in the majority of Ecuador's municipality there was no well-structured and transparent participation of civil-society in local policy-making.

To sum up, we conclude that the decentralization process in Ecuador has been primarily characterized by incoherence. All forms of coherence as a general principle of decentralization are violated. Main defects have consisted in strong differences between entities within a level of government; vertical overlaps of responsibilities between levels of government, a lack of linkage between administrative and fiscal decentralization and concentration of decentralization activities on only a few policy sectors.

Besides, the administrative, fiscal and political dimensions have suffered from a whole range of more specific defects: obvious misallocations of responsibilities disregarding the principle of subsidiarity, a weak intermediary level of governance, low fiscal autonomy on subnational levels, a lack of transparency regarding fiscal transfers and limited accountability due to administrative overlaps.

Finally, among policy-makers, we have not been able to identify more long-term strategies or visions with regard to strengthening the coherence decentralization process. Thus, according to our theoretical assumption that actors play a pivotal role in the context of decentralization, the next chapter will evaluate the interests and constellation of actors that could have led to the main defects of Ecuador's decentralization process.

4.3 An actor-centered analysis of decentralization in Ecuador

While the previous section focused on the main features of the decentralization process in Ecuador and has intended to identify its deficits, the following sections explore the causes of these deficits from an actor-centered perspective. Section 4.3.1 introduces the domestic actors relevant to the process and sketches out their general interests. Section 4.3.2 will then analyze the three main defects of decentralization in Ecuador from an actor-centered perspective and explore how the constellation of actors has influenced the emergence of these deficits. In this context, we also provide quantitative evidence on how fiscal and administrative decentralization has been effected by political parties. In sum, our analysis leads to the conclu-

sion that the fragmentation of the political system and political volatility has led to an incoherent decentralization process. So far, no relevant political actor and accordingly organization has been able or willing to organize a coherent decentralization process.

4.3.1 Actors and decentralization

As elsewhere, special interest groups in Ecuador pursue particular interests, which tend to be in dissonance with coherent decentralization. Political parties as potential organizers of the encompassing interest are unable to fulfill this role as they have failed to fulfill their function of aggregating special interests effectively into encompassing policy proposals. In addition, the military and civil society as potentially alternative organizers of the encompassing interest, have also failed to provide coherence to the decentralization process.

Particularistic Actors

In all decentralization processes, the *central government* is a key organization. The central level of government is at the forefront of the process as it is the actor who has to give up and transfer responsibilities and resources. It is important to underline that central governments are by no means monolithic actors. Within central governments there are a variety of different groups of actors whose interests might diverge widely. In Ecuador the most important actors at the central level are the presidents, Congress, CONAM, the ministries with their bureaucracy and the regional development organization, which have been politically depended on the central government.

Ecuadorian *presidents* have been operating under heavy time constraints. Their tenure is four years and – in contrast to elected official at the subnational level – there is no possibility of direct re-election. As outlined before, the administrations of recent Ecuadorian presidents have been characterized by short-term crisis management rather than by long-term policy development. The tacit threat of a coup has always been present and the day-to-day pressure of the continuing political crisis has shortened the time horizons of presidents.⁷² Lucio Gutiérrez has been only the most

72 For a discussion on the tacit threat of coups see Valenzuela 1992.

recent example in a series of elected presidents that have been unable to serve out their term. In the past 10 years, Ecuador has had eight different presidents. The Gutiérrez government, like those of his predecessors, was characterized by unstable coalitions and the constant search for political allies. While there has been no possibility for direct re-election, a certain level of continuity in the presidency might be achieved through the election of presidents belonging to the same party. In the seven elections since 1979, however, no party has been able to win the presidency through elections more than once (Pachano 2004, 76). Thus, over the past two decades, presidential leadership has been characterized by volatility and discontinuity.

As a consequence, recent presidential administrations have not sought to actively shape the decentralization process by pursuing a long-term project for a decentralized state. Their role in the process has been reactive rather than proactive. Only when dissatisfaction with the functioning of the state mounted have presidents taken action with regard to decentralization. An example for this was the creation of the *Unidad de Descentralización y Estructura de Estado* (UDyEE) within CONAM by President Mahuad in November 1999, in response to massive pressures from civil society. The administration of Lucio Gutiérrez has had no recognizable decentralization project and did not actively support the decentralization process within the current legal framework.⁷³ Rather, it has seemed to pursue concentration and tried to reverse some of the advances that had been made. Legislation relevant to the decentralization process has been driven by particularistic considerations (see section 4.3.2 for a discussion of the *Ley Topo* as an example of such particularistic considerations).

The Ecuadorian *Congress* has been characterized by an extremely high number of parties and a low number of deputies per party. For the period between 1979 and 2002 the average number of parties represented in Congress was 12.8, with an average of 6.2 deputies per party (Pachano 2004). As Congress is generally dominated by small parties with four deputies or less, it is difficult to form stable coalitions. The difficulty of forming governing coalitions has been aggravated by the fact that the president's party generally has had no majority in Congress. In the 2002 elections, for example, the PSP, the party of Lucio Gutiérrez, only obtained 4.7 % of the

73 Confidential interview, Guayaquil, 8th of March 2005.

legislative vote. Coalitions had to be formed on an ad hoc, short-term basis for specific policy projects.

With regard to decentralization, Congress has played no consistent role. With the adoption of the 15 % Law, the *Congressional Decentralization Committee* has tried to strengthen the position of subnational entities. In other cases, Congress has sought to defend centralist or regionalist interests. Due to the fragmentation of Congress and the resulting difficulty of forming coalitions, single policy projects have been passed but it has been impossible to adopt a comprehensive law that contains a coherent vision on decentralization.

The *Consejo Nacional de Modernización* (CONAM) was created in 1992 to provide inputs to the debate on state modernization. It was designed to be a technical unit under the authority of the president. Despite the potential of an agency like CONAM to act as a catalyst for state reform, it has often been unable to play the envisioned role. Firstly, CONAM is struggling with politicization and the lack of independence from the presidency. Because the head of the decentralization unit within CONAM is a political appointee, CONAM is affected by the volatility that characterizes the presidency.⁷⁴ During the Noboa administration CONAM was able to act as motor of decentralization. The president's brother was appointed head of CONAM and used his close personal connections to the presidency to increase CONAM's influence. During the Gutiérrez administration, however, CONAM was politically weakened and became unable to play a lead role in the decentralization process.⁷⁵ Secondly, CONAM's role is reduced by the lack of resources and technical capacity. One problem is that CONAM does not have its own budget.⁷⁶ As a result of these limitations, CONAM has not played a prominent role concerning the advances that have been made in the field of decentralization.

As in other countries, due to the specific interests of *ministries and their bureaucracy*, the Ecuadorian central government should not be considered as a monolithic actor. Moreover, in Ecuador, the cabinet is one of the most volatile institutions of the state. In the first 24 months of Lucio Gutiérrez'

74 Confidential interview, Quito, 4th of March 2005.

75 Confidential interview, 8th of March 2005.

76 Confidential interviews, Quito, 24th and 25th of February 2005.

government, for example, 55 ministers and secretaries passed through the cabinet. The agriculture ministry alone experienced five different ministers. Given the high volatility within the cabinet, ministers often act with a short time horizon, thus being relatively unable to craft and implement encompassing policy reforms in their respective policy field. Given the overarching nature of a decentralization process, it is thus of no surprise that ministers in the Ecuadorian context have been rather unable to design an encompassing and coherent process of how decentralization should be implemented.

Beyond ministers, ministerial bureaucracies often have acted as rather powerful players in the decentralization process. While ministers have changed frequently, the middle level bureaucracy (“*mandos medios*”) has often remained relatively stable. Actors of this group, however, are generally among those who feel most threatened by decentralization because members of bureaucracy will have to relinquish responsibilities and resources. When transferring responsibilities, bureaucrats risk losing influence or even their job by making their position superfluous. Thus, the interests of ministerial bureaucrats in Ecuador have been mostly linked to centralism and in most cases, the middle level bureaucracy has acted as a conservative force in the decentralization process, hindering the transfer of responsibilities rather than promoting it.⁷⁷ For instance, attempts to increase transparency and define the real cost of decentralization rely on the support of the ministries, which need to open their books and provide information about ministerial resources. These attempts have often been blocked by the bureaucracy. This phenomenon has been catalyzed by the presence of ministers, who neither have had the political will nor the capacity to overcome the internal opposition of the losers of decentralization within their own organization. *Regional Development Organizations* (RDOs), as directly linked to the central bureaucracy, have generally been perceived as obstacles to decentralization.⁷⁸ On the one hand, they have tied up a large amount of government resources for subnational purposes, but on the other hand, as deconcentrated organizations, they have been

77 Confidential interview, Cuenca, 11th of March 2005.

78 Confidential interview, Quito, 21st of February 2005.

used by the central government to compete with subnational governments.⁷⁹

Subnational governments are the entities which potentially could benefit most from decentralization. In Ecuador, beyond fiscal transfers, the constitution allows *provinces* and *municipalities* to demand responsibilities from the central government.⁸⁰ Especially provinces initially were among the lead actors in the debate on decentralization and the reform of the state. The coastal provinces, particularly Guayas and Manabí, with their demands for provincial autonomy pressured the central government to take up the issue. However, this catalyst role played by the provinces has vanished to some extent. Especially with regard to administrative decentralization provinces have become more reluctant to assume responsibilities. Thus, in most cases, the position of provinces in the field of decentralization is not clearly defined. The central Pichincha province, for instance, has often been reluctant to actively promote decentralization, but has sought to defend decentralization policies during the Gutiérrez presidency in order to defend its political weight against central government interference.

Municipalities have often been seen as the protagonists of decentralization (see e. g. Campbell / Fuhr 2004). In Ecuador, the extreme heterogeneity of municipalities, however, makes it difficult to identify their joint interests. Municipalities have differed in their approach to decentralization. While some municipalities have demanded a wide range of responsibilities and have acted as motors of decentralization (e. g. Cotacachi, Loja, Cuenca), other have been rather opposed to decentralization. A large group of small- and medium-sized municipalities still has had a lack of any clear vision or project on the matter.⁸¹ As most municipalities have not known how much the assumption of certain responsibilities will cost and how many, if any, resources the central government will transfer, municipalities seeking to demand responsibilities have acted under conditions of uncertainty. Fur-

79 Confidential interview, Quito, 18th of February 2005.

80 Beside provinces and municipalities rural *parroquias* constitute an additional level of subnational government. Up to now, they have not succeeded in shaping and influencing the decentralization process in any significant way. They are therefore not discussed in detail in this report.

81 Confidential, Quito, 15th of February 2005.

thermore, because there has been no transparent system of transferring resources from the center, municipalities have often competed with each other for obtaining transfers from the central government, which has further increased the difficulties in developing a coherent strategy with regard to the decentralization process.

The subnational associations AME and CONCOPE represent the municipalities and provinces, respectively. AME and CONCOPE fulfill the two-fold task of representing subnational interests at the national level and strengthening subnational governments through capacity-building and the provision of services. They are potential multipliers of best practices and knowledge. As such, subnational associations are generally expected to be pro-decentralization actors. A closer look, however, reveals a more nuanced picture. If they presented a unified front, AME and CONCOPE would have a strong position in negotiations with the central government. Until recently, however, the relationship between the two subnational associations has been conflictual and antagonistic. In the struggle for resources from the central government, they have perceived the relationship between provinces and municipalities as a zero-sum game. They have worked against each other rather than jointly. Moreover, the relationship between the two associations is imbalanced as AME is much stronger institutionally than CONCOPE. It has therefore been difficult for the associations to work together as equal partners. As CONCOPE has gained strength in recent years, the relationship between the two associations has improved significantly. However, there is still no institutionalized framework for cooperation between AME and CONCOPE.⁸²

Both AME and CONCOPE struggle with the heterogeneity of their members. Large provinces and municipalities with considerable political weight do not have to rely on representation through subnational associations. Pichincha and Guayas, for example, negotiate directly with the central government as do Quito and Guayaquil. Thus, AME as well as CONCOPE have mainly represented small- and medium-size subnational entities. An additional problem for the subnational associations has been that traditionally even small provinces and municipalities have often approached members of parliament and ministries directly. As members of parliament until recently had secret funds, the incentive was high to nego-

82 Confidential interview, Quito, 24th February 2005.

tiate directly – often behind closed doors – without the intermediation of CONCOPE or AME (Zimmermann / Jonas 2002).

AME as well as CONCOPE have been political bodies affected by the fragmentation that characterizes the political system. Divisions along party lines run through the associations and make the aggregation of members' interests even more problematic. As the president of AME, for example, changes every two years, long-term policy development within the organization has been difficult. As positions within AME and CONCOPE have been distributed based on the political constellation of actors of the day, there has been little institutional continuity.

Finally, AME and CONCOPE have been primarily engaged in demanding resources, rather than responsibilities.⁸³ Neither association so far has prioritized the development of a comprehensive decentralization project. However, in recent years both associations have gained political importance and have begun to play a prominent role in the development of legislative proposals such as the *Ley de Régimen Municipal*.

Potential Organizers of the Encompassing Interest

As discussed in Chapter 2.2, *political parties* within democratic systems have been identified as potential organizers of the encompassing interest. Parties are supposed to serve as a link between voters and the political system. Their task is to aggregate, articulate and represent the interests of societal groups and to formulate coherent policy programs that serve the encompassing interest. Moreover, they are supposed to link different levels of government and coordinate political processes.

Ecuadorian parties have fulfilled this role of organizing an encompassing interest only sporadically. Section 3.1 has shown that according to recent data, the Ecuadorian party system is among the most fragmented systems in Latin America. The system is characterized by a high number of effective parties and high volatility. In addition to fragmentation and volatility, the system has been struggling with severe regionalization. Parties have been predominantly subnational. They have retreated to local spaces and in many cases appear to have lost the aspiration of forming an organization with a national reach. They participate in the national political arena, but

83 E. g. confidential interview, Quito, 22nd of February 2005.

do not seek to organize the national political space.⁸⁴ At national elections, a slight tendency toward further regionalization has been observed (Pachano 2004).⁸⁵

The linkage between parties and special interests – illustrated by the regional distribution of party support (electoral fortresses) – reduces the ability of parties to develop and articulate independent policy proposals (Pachano 2004). The survival of parties often depends on their alliance with specific sectors of society. While parties may be able to represent regional interests quite effectively, their alliance with special interests makes it difficult for them to organize the encompassing interest of coherent decentralization. More likely, parties formulate decentralization proposals to promote the interests of specific sectors or regions.

While the regionalization of parties poses severe challenges for national governance, at the subnational level it has created opportunities for improved local governance. In some municipalities, a considerable degree of stability can be observed. In 2004 one third of all mayors (72 out of 215) were re-elected. In the previous municipal elections in 2000, under the impression of the national crisis, still one fifth of all mayors (44 out of 211) were confirmed for another term.⁸⁶ Locally, parties have therefore sometimes been able to govern effectively. The subnational identity of parties in many cases means that the parties' political programs, which are often weakly formulated at the national level, are defined more clearly with regard to the local level.⁸⁷

The Role of Civil Society and the Military

If parties fail to act as organizers of the encompassing interest, have there been other actors that have stepped in and countered the effects of party failure? In section 2.2 we identified two such organizers of the encompassing interest “of last resort”, i. e. the military and civil society.

84 Confidential interview, Quito, 16th of February 2005

85 Based on the Index of Territorial Distribution (IDT), calculated for the legislative elections between 1979 and 1998. The IDT measures the aggregated differences between the percentage every province represents of the national electorate and the percentage the respective province contributes to the total national vote of the party.

86 Data provided by the *Tribunal Supremo Electoral*.

87 Confidential interviews, Quito, 16th and 17th of February 2005.

Among Ecuadorian institutions, *the military* ranks high with regard to trust and confidence. The Constitution assigns the military a tutelary role. Particularly in situations of political unrest, such as during the massive demonstrations against President Gutiérrez, the military has acted on this mandate. Due to the weakness of other formal institutions, the military plays a key role particularly in times of political and economic crisis. Former President Gutiérrez, for example, was forced to give up and resign only after the military had withdrawn from the presidential palace. With regard to decentralization, the military's ability to act as organizer of the encompassing interest has been limited at best. Instead, the Ecuadorian military, as 'guardian' of national unity, has been a conservative force in the decentralization process. Historically, the military has been linked to the center and to centralist tendencies. The military has generally been opposed to decentralization due its connection to demands for provincial autonomy. The military has been a player, which has tended to step in if it perceives autonomy claims as going too far and as being a threat to national unity. The military has therefore been unable to act as organizer of the encompassing interest with regard to decentralization. Even though it might have a national rather than a regional perspective, its interests are connected with centralism. Moreover, the military – like other public structures – has been in a process of erosion.⁸⁸ It has lost influence and therefore has not had the potential to promote a more coherent decentralization.

The concept of *civil society* is almost always used with a positive connotation. According to most definitions, civil society constitutes all groups that do not seek political office but articulate their interests in congruence with the principles of peaceful political participation (see e. g. Merkel / Lauth 1998 or Diamond 1994). There is therefore a clear line between civil society groups and parties. In the decentralization literature, the potential of civil society has often been stressed. Particularly at the local level, an active civil society is associated with greater accountability and better governance. Is it therefore possible that civil society could have acted as organizer of the encompassing interest in Ecuador's decentralization process?

Civil society in Ecuador, as elsewhere, is no uniform actor. It contains diverse groups such as autonomy movements, business interests, unions

88 Confidential interview, Quito, 17th of February 2005.

and indigenous groups. Given this tremendous variety, it would be naïve to assume that civil society as such can formulate a coherent decentralization project. At the national level, the potential of civil society as a promoter of more coherent decentralization might lie in an alliance of the major actors. Such an alliance might be able to formulate a joint decentralization project and pursue this project on a long-term basis. An alliance of the major civil society movements would be able to exert considerable pressure on the political class and thus force parties to respond to civil society pressures.

In Ecuador, however, such an alliance of civil society seems unlikely. Like political parties, civil society at the national level has been affected by fragmentation and volatility. A stable coalition of civil society actors has been as unlikely as a stable governing coalition among political parties. As the developments prior to the ouster of President Gutiérrez demonstrated civil society mobilization – in this case the “rebellion of the *forajidos*” – has been able to exert considerable pressure on the political class. However, the protest movement did not reflect a unified governing project and was not based on joint positions regarding the challenges that the country is facing. Beyond their opposition to the governing style of Gutiérrez and – more generally – to the political class, the protest movement was diverse and essentially disunited.⁸⁹

At the local level, however, civil society has sometimes been able to contribute to a more coherent decentralization. Partly as a result of the weakening and failure of political parties, a variety of civic and social movements has emerged. Particularly at the local level these movements have become important political actors. In the decentralization process in Cuenca and Cotacachi – two success stories of municipal governance – civil society has played an important role.⁹⁰ While parties at the national level have often been disconnected from a broader spectrum of civil society groups, at the local level civil society and parties on several occasions have appeared to communicate more closely.⁹¹ Thus, at the local level, civil society groups have sometimes been able to cooperate more actively with political parties and subnational governments, respectively.

89 For details on the fall of the Gutiérrez government, see Faust et al. (2005).

90 Confidential interview, Cuenca, 11th of March 2005.

91 Confidential interview, Quito, 16th of February 2005.

One side effect of the closer linkage between parties and civil society movements at the local level is that sometimes the line between political parties and civil society has become blurred. Several local candidates have stressed their linkage to civil society, and even have denied any affiliation with established political parties. In the 2004 municipal elections almost a dozen municipalities elected candidates that had no linkage to an established political party but ran on the platform of an independent local movement (*Tribunal Supremo Electoral*).

While locally, civil society has been able to contribute to successful experiences of decentralization, at the national level it has not been able to substitute parties. Even though civil society has been able to articulate a wide variety of interests, it has generally not been able in Ecuador to provide the function of aggregating interests. Therefore, in the Ecuadorian context, the potential of civil society to organize the encompassing interest of coherent decentralization has been limited mostly to the local level.

4.3.2 Main defects of decentralization

In the following paragraphs, several aspects of incoherence will be explored and analyzed from an actor-centered perspective. Under conditions of permanent political crisis, organizing a coherent decentralization process has simply not been a priority for the majority of actors.⁹² Instead, the crisis has continuously created the need for actors to address the pressing matters of day-to-day politics. During the first months of 2005, for example, the constitutional crisis and the mounting opposition to President Gutiérrez absorbed the attention of political actors. As a result, the discourse on decentralization is more sporadic than continuous.

The focus on short-term issues has affected political parties, in particular. Parties generally maintain a certain degree of continuity within a political system, as they develop long-term strategies and plans. In Ecuador, the ability of parties to develop such long-term plans has been limited by the pressures of day to day policy making, as the following quote illustrates.

I think that our parties have turned into parliamentary clubs that only respond on a week to week basis to the agenda set by the executive. But

92 Confidential interview, Quito, 28th of February 2005; Confidential interviews, Guayaquil, 8th of March 2005; Confidential interview, Quito, 28th of February 2005.

*we do not have a national agenda to solve the structural problems of the nation and we limit ourselves to short-term analysis.*⁹³

The result of this orientation towards short-term issues has been a stop-and-go decentralization process. Instead of an encompassing vision on decentralization, a large number of particularistic projects existed. These partial projects often have sought to promote the interests of certain regions or specific sectors. Because parties have failed to fulfill their function as organizers of the encompassing interest, these particularistic projects have not been aggregated into a national project. The result has been that, depending on the constellation of actors at a certain point in time, partial projects were promoted. These partial projects often did not fit together (see Box 3) and did not add up to a coherent decentralization strategy.⁹⁴ Political parties have mostly aligned themselves with particularistic projects and have failed to aggregate interests into a national decentralization strategy. The promotion of these partial decentralization projects has led to incoherent decentralization as was reflected in a very heterogeneous political discourse.

As described in Chapter 4.2.2, the Ecuadorian decentralization process is characterized by a significant incoherence between dimensions, which is extremely high between the administrative and fiscal decentralization. This section will show that, to a high extent, the fragmentation of actors and especially the lack of *potential organizers of the encompassing interest* contributed to this decentralization defect. Our analysis will first focus on the constellation of actors and second, the way it contributed to an incoherent decentralization process.

Resources without responsibilities: the 15 % Law

To assess specific constellations of actors and its consequences, we will first refer to a concrete example: the approval process of the 15 % Law as one main feature of the incoherence between fiscal and administrative decentralization. A key element that partly produced the imbalance between fiscal and administrative decentralization is the *Ley Especial de Distribución del 15 % del Presupuesto del Gobierno Central para los Gobiernos Seccionales* (15 % Law). This established a transfer mechanism,

93 Ramiro González, Partido Izquierda Democrática, quoted in Pachano (2004, 72).

94 Confidential interview, Quito, 16th of February 2005.

Box 3: Fragmentation of political discourses on decentralization

The fragmentation of the political system has been reflected in the discourse on state reform and decentralization. There has been no consensus among political actors on what decentralization refers to and no common understanding of the concept among major actors. Several broad understandings of the concept can be distinguished.

Provincial Autonomy: The idea of provincial autonomy has been heavily influenced by the Spanish autonomous regions. The financial crisis of 1998/99, which affected the coast to a higher extent than the sierra, forced the central government to reduce transfers to the subnational level. This aggravated distribution conflicts between subnational entities and between regions. The demand for provincial autonomy gained force after the 1999 the collapse of the Guayaquil-based Banco del Progreso. At the coast, many sectors of society were affected by the banking crisis. The middle class suffered the loss of bank deposits while the coastal elite lost its financial backing. The balance of power was shifted toward the Sierra. As a result, for the coastal elite, the autonomy discourse became a survival strategy.

Initially, the provincial autonomy discourse was therefore closely connected to the coastal provinces and civil movements like Fuerza Ecuador. In the Sierra, coastal autonomy has often been perceived as an elite project. Currently, an autonomy discourse is also pursued by certain sectors within the Sierra. Sierra and Costa claims for autonomy are based on different concepts, however. While actors from the coastal region have emphasized fiscal autonomy and an autonomous tax regime, the actors from the highlands have tended to stress administrative and legal decentralization.^b

Plurinacionalidad: The demands for plurinationality were particularly influential within the decentralization debate at the end of the 1990s. This aspect of the debate is closely associated with the indigenous movement and its demand for autonomous ethnically defined territories (*circunscripciones territoriales*). In addition to the recognition of indigenous people as citizens of a plurinational state, the movement called for indigenous self-determination. The issue of plurinationality has been included in the 1998 Constitution. However, so far no circunscripciones territoriales have been created.

Decentralization as Privatization: In contrast to provincial autonomy, the decentralization as privatization discourse has perceived decentralization as a threat rather than an opportunity. Unions within the health and education sector have mostly promoted this line of discourse. The latter organizations have feared that the transfer of these policy sectors to the subnational level will result in privatization and thus, lower wages and the weakening of nationally organized unions.

Municipalismo: For the *municipalismo* movement, with its slogan “los municipios son la patria”, decentralization implies the strengthening of municipalities. The movement is mostly made up of academics, NGOs and parts of the international donor community (Frank 2003).

a Confidential Interview, Quito, 18th of February 2005.

b Confidential Interview, Guayaquil, 8th of March 2005.

which distributed national resources towards provinces and municipalities without linking them to an adequate transfer of responsibilities and thereby caused partial overweight of fiscal decentralization. But why has such a law, which has significantly contributed to an incoherent decentralization process, been approved?

The constellation of actors consisted of numerous actors with different interests and changing incentives. These actors can broadly be divided into two groups: particularistic actors and *potential organizers of the encompassing interest*. Among the particularistic actors were 1) subnational entities (provinces and municipalities), 2) subnational associations (CONCOPE and AME), 3) the central government and finally the Congressional Decentralization Committee. Among the political parties, which played a key role in the drafting as well as the approval of the law, were the coastal parties PSC and PRE. Actor's interests were vastly conflictive. The implementation of the 15 % Law has often been seen as a “major advance of subnational governments” as it corresponded to their demands of higher financial transfers.⁹⁵ Nevertheless, it was the specific setting of some stakeholders with particularistic interests that led to the approval of the 15 % Law.

In the political negotiation process, municipalities and provinces were mainly interested in increasing their financial resources through elevated central government transfers. Among them, the province Guayas and the municipality of Guayaquil adopted a key role. As Frank states “Guayas took the leading role in fiscal bargains as long as this did not lead to asymmetric decentralization at the cost of other provinces” (Frank 2003, 250). On the one hand, political leaders in Guayas were primarily inter-

95 Confidential interview, Ambato, 9th of March 2005.

ested in an increased financial transfer to Guayas and Guayaquil. On the other hand, they were constrained by smaller provinces and municipalities, which tried to impede an asymmetric transfer mechanism.⁹⁶ General demands for higher financial transfers were supported by CONCOPE at the provincial level and AME at the municipal level. Although the relationship between both associations had been rather uncoordinated and antagonistic, their claims for more resources were presented in a coordinated manner.⁹⁷ Thereby, they represented a clear opposition to the central government, which was trying to keep the financial transfers at a low level. In addition, political parties were highly involved in the process. Among them, the PSC and the PRE were greatly engaged in the drafting and approval of the process. Both parties pursued a strongly regionalist discourse in favor of Guayas and Guayaquil and supported the subregional claims for more resources. Febres Cordero, Mayor of Guayaquil since 1992 and President of the PSC, embodied the coastal quest for autonomy and regionalism.⁹⁸ The Congressional Decentralization Committee, too, stood for an anti-centralistic discourse by demanding higher resources and a stronger status of subnational entities in the decentralization process (Frank 2003, 235).

The capabilities of actors in this specific setting were very different. The central government was highly affected by political and economic instability. President Sixto Durán Ballén had no majority in Congress and was considered politically weak. His successor, Abdalá Bucaram of the PRE party stayed in office for only six months. Economic instability was caused by declining oil prices until 1997. Oil revenues of the center declined and as tax revenues became more important, the central government had to enter in negotiations with Guayaquil business groups about their tax contributions. Political leaders in Guayas took advantage of their improved

96 Smaller provinces and municipalities had a common interest in receiving more transfers from the center. They thus freerode on Guayas' bargaining efforts, but were against any decentralization effort that would provoke a stronger "biculturalismo" (Frank 2003, 242).

97 For more details, see Frank (2003, 248).

98 Febres Cordero was elected mayor of Guayaquil in 1992. His election was widely seen as a "milestone" in Guayaquil's quest for autonomy. "Guayaquil's successful development started 12 years ago with the coming into office of León Febres Cordero. The main problems that the first action plan (1992–96) addressed were waste (and related hygienic problems), lack of infrastructure/roads and an excessive number (8000) of municipal, mainly illegal, 'employees'." Confidential interview, Guayaquil, 7th of March 2005.

bargaining position and tried to influence the decentralization debate (Frank 2003, 239). In addition, the central government experienced high pressure from below. Municipalities agreed in their claims for more resources and AME and CONCOPE appeared to well coordinate their efforts.

The PSC party had privileged bargaining position. Between 1993 and 1997, the two coastal parties PSC and PRE dominated key arenas where decentralization policies were elaborated. They presided AME, CONCOPE, the Congressional Decentralization Committee, Congress and, in 1996 and 1997, the National Government (Frank 2003, 238).⁹⁹

The 15 % Law was finally enacted in October 1997. It emanated from the Decentralization Committee and reflected the main interests of PSC leaders to considerably increase subnational finances. In conclusion, the implementation of the 15 % Law can be seen as a result of high pressure from subnational entities and of the dominant role of the PSC. Both aspects reflect strong particularistic interests and the lack of an *organizer of the encompassing interest*. AME and CONCOPE coordinated, but were clearly pursuing particularistic interests which favored their members. Thereby, they did not work in favor of a coherent decentralization process. The PSC party pursued regional discourses and acted rather as a regional than a national party. Within the drafting and approval process of the 15 % Law it became obvious that “the PSC has a local decentralization discourse in Guayaquil but not at the national level.”¹⁰⁰

In 2004, an attempt to reform the situation created by the 15% Law again illustrates the problematic constellation of actors. The *Ley Topo* project aimed to include the reform of more than 19 laws and thereby implied constitutional changes. Although the law included changes, which might have provided a more coherent decentralization process, it represented once again an initiative with clearly particularistic interests. The law was drafted in 2005 by the Ministry of Finance. It aimed to regulate some of

99 The PSC party as well as the PRE party has a strong regionalist discourse with a focus on Guayaquil. Nevertheless, they represent opposition parties which would not necessarily agree about decentralization issues. In this specific case, their interest of elevated transfers to subnational entities corresponded. For more details, see Frank (2003, 235–36).

100 Confidential Interview, Quito, 16th of February 2005.

the imbalances, which had been caused by the 15 % Law and accordingly the redistribution of national revenues to subnational entities. It planned to link part of fiscal transfers to the transfer of responsibilities. The *Ley Topo* was greatly supported by the Ecuadorian government. Nevertheless, in April 2005 it was rejected by Congress.

Above all, the Ecuadorian president was a strong advocate of the law as it would have implemented a transfer mechanism weakening the regional strongholds of the opposition. Especially the two most important provinces, Pichincha and Guayas, governed by the opposition would have been the losers of the reform, while provinces with a significant amount of rural population would have benefited from its increased fiscal transfers. Among the different provinces, there was no coherent position. While potential winners of the reform tried to obtain support in Congress, the losers tried to oppose the law. In fact, actors were fragmented and neither provinces nor municipalities were able to form coalitions. Finally, deputies agreed in rejecting the law, but did not find an alternative solution to adjust the incoherence between dimensions.

The transfer of responsibilities without resources

The Ecuadorian Constitution preserves that the transfer of responsibilities should go along with a transfer of resources. However, this article has not been applied in reality. The *Ley de Régimen Municipal*, which was enacted in 2004, tried to strengthen the position of municipalities by supplementing Art 226. Although Art 226 as well as the *Ley de Régimen Municipal* stipulate that the transfer of responsibilities has to be linked to a transfer of resources, these regulations have not been implemented.

The constellation of actors plays a significant role in explaining why this incoherence has expanded. This constellation is dominated by two groups of actors: First, subnational entities such as provinces and municipalities and their respective associations and second, the central government and its ministries (above all, the ministry of finance).¹⁰¹ From an actor-centered perspective, diverging, but sometimes intertwined explanations for this incoherent transfer process exist:

101 Confidential interview, Quito, 12th of April 2005.

- (1) The central government and its respective ministries have been responsible for the transfer of responsibilities and resources. Nevertheless, it can be observed that a transfer of responsibilities is – in many cases – not accompanied by a transfer of resources.¹⁰² Tacit agreements have worsened this situation. Legally, responsibilities have to be transferred within a certain period, but as the central government does not respond officially to the demand, it also does not respond to the request for financial resources. The interest to block subnational demands can be explained as follows: first, as the central government itself is confronted with a tight budget situation, its interest is to guarantee its own income situation and impede loose budget constraints for subnational entities. Second, there is no information about the real cost of responsibilities. As there are no calculations about the necessary resources per responsibility, the central government often transfers only small and insufficient financial amounts or does not transfer anything at all.¹⁰³ In sum, subnational entities often refer to the causes of this unbalanced transfer process as a problem of “*Poca voluntad, poca calidad, y pocos recursos.*”¹⁰⁴ Thereby, they have considered the lack of political will and few financial resources a characteristic of the central government and its respective ministries.
- (2) Additionally, subnational entities themselves have experienced several difficulties within their own organization. A main feature has been their lack of administrative capacity. Many subnational entities do not count on sufficient financial or human resources to execute a transparent accountancy. So, neither subnational entities nor the central government knows exactly how much resources a municipality already receives.¹⁰⁵ All in all, the process appears to be a vicious circle. The municipalities do not know how much certain responsibilities cost and the center does not help them with resources.¹⁰⁶

Thus, the incoherent process has been caused by significant distribution problems between the central government and subnational entities. While the central government has tried to secure its own revenues, subnational entities have not been strong enough to push their demands for higher

102 For empirical evidence, see Box 4.

103 Confidential interview, Quito, 23rd of February 2005.

104 Confidential interviews, Cuenca, 11th of March 2005.

105 Confidential interview, 15th of February 2005.

106 Confidential interview, Quito, 25th of February 2005.

financial transfers. Thereby, neither the central government nor subnational entities have organized the encompassing interest of a coherent transfer process. The role of parties within this process has been questionable. There is no clear evidence that the role of the central government has changed during the legislature of different presidents. However, we can show that party affiliation of governments at the local level has had a significant impact on fiscal and administrative decentralization.

Political parties and decentralization: evidence from a quantitative exercise

As pointed out earlier in this report, there has been no significant correlation between financial transfers and administrative decentralization in Ecuador. In order to investigate how political parties have influenced this gap between fiscal and administrative decentralization, we have used the variance of local government party affiliations. Our regression analysis focused upon two questions, both directed towards exploring whether party affiliation of the local government has had an effect on administrative and fiscal decentralization.

First, we have expanded our quantitative analysis on fiscal transfers presented in Chapter 4.2.2.1. There we have found that transfers to municipalities have not been influenced by demands of administrative responsibilities. Our regression analysis presented in Table 6 additionally explores whether local governments affiliated to specific political parties have profited significantly from fiscal transfers. Our narrative analysis has suggested that traditional parties from the coastal regions have been especially interested in fiscal transfers and could have been supported by the central government. As such, one can expect that traditional and clientelistic parties such as the PRE and the PSC should have overproportionally profited from fiscal transfers. To test this hypothesis, again, we have performed several OLS regressions with cluster robust standard errors to control for peculiarities of the provinces. Once more, the dependent variable consisted of the logarithmized value of the average of total transfers per capita obtained by each municipality during the 2001–2004 period.

Our baseline model (1) consisted of several independent variables: a) a municipality's population (logarithmized), b) the Unsatisfied Basic Needs Index (UBNI) as a measure of a municipality's degree of poverty, c) the already explained variable measuring the number of policy areas, where

Table 6: Political parties and fiscal transfers in Ecuador, 2001–2004			
Dependent Variable: Transfers 2000–04	Model 1	Model 2	Model 3
Population	–.2518*** (.0198)	–.2508*** (.0193)	–.2508*** (.0186)
Poverty NBI	.0025*** (.0009)	.0024*** (.0008)	.0024*** (.0008)
AREAS	–.0035 (.0108)	–.0005 (.1098)	–.0004 (.0113)
Oriente	.0551* (.0292)	.0696** (.0294)	.0672** (.0291)
Costa	.0124 (.0246)	–.0121 (.0254)	.0170 (.0271)
Quito & Guayaquil	.5660*** (.0741)	.5435*** (.0712)	.5532*** (.0698)
Mayor 1996 = 2000	–.0101 (.0262)	–.0199 (.0286)	–.0235 (.0275)
PRE		.0527** (.0199)	.0390* (.0196)
PSC		.0574*** (.0124)	.0429*** (.0136)
Pachakutik			–.0471 (.0296)
ID			–.0360 (.0421)
DPUDC			–.0420 (.0268)
Constant	6.1467*** (.2434)	6.1318*** (.2318)	6.1487*** (.2267)
R2	.837	.843	.845
F-VALUE	159.42***	141.69***	183.05***
Observations	215	215	215
OLS regressions with cluster robust standard errors. The table presents coefficients and robust standard errors (in parentheses), *** \rightarrow $p < 0.01$; ** \rightarrow $p < 0.05$; * \rightarrow $p < 0.1$.			
Stata: reg y x ₁ –x _n , robust cluster (cluster variable).			

the local government demanded administrative competences from the center, d) dummy variables for identifying municipalities in the Oriente and the Costa Region, e) dummy variables for the cities of Quito and Guayaquil. Additionally, we included a dummy variable, identifying the municipalities whose mayors were reelected in the local elections of 2000 in order to control for political continuity at the local level. As this baseline model is almost identical to those presented in Chapter 4.2.2.1, the results remain almost identical and provide no new information.

However, the relevance of party politics becomes visible in Model 2 and Model 3, which include the variance of local governments' party affiliation. In Model 2 we have added two dummy variables identifying whether a municipality was governed by a mayor from the PRE or the PSC. The results show that even if controlling for the regional location of a municipality, a mayor's affiliation to one of these two parties had a significant and positive impact on the amount of fiscal resources transferred by the center.

In Model three, we added three more dummy variables: 1) for municipalities governed by the social democratic party ID, 2) for municipalities governed by the DPUDC, a coalition of moderate conservative parties and for those governed by mayors affiliated to the indigenous movement of Pachakutik. Thus, Model 3 includes the most important political parties at the local level. The results demonstrate that only the PSC and the PRE variables have a significant and positive impact on the dependent variable. Thus, the amount of fiscal transfers directed to a given municipality in the analyzed period not only depended on economic and demographic issues or on the negotiation capacities of its mayor. It was also dependent on the specific party affiliation of the local government, thus demonstrating the role of party politics in Ecuador's decentralization process.

Second, we performed a quantitative analysis in order to identify whether specific factors at the local level had a significant impact on municipalities' behavior with regard to administrative decentralization. More specifically, we tried to carve out some of the factors that influenced the varying behaviors with regard to municipalities' demand for administrative competences according to Article 226 of the Ecuadorian constitution. Why did some of the municipalities in Ecuador demonstrate certain activities with regard to demanding administrative competences while the majority remained rather passive?

For this purpose, we used a slightly modified variable for measuring the interests of municipalities with regard to demanding administrative competences. In the former analysis our variable AREAS included all of the ten policy areas identified by the GTZ study. This procedure was plausible since we were interested in a potential impact of administrative decentralization on fiscal transfers. However, when attempting to measure a municipality's interest in demanding administrative competences, it was necessary to exclude the policy sectors of tourism and environment. In both sectors, the respective sector ministries coordinated and pushed decentralization efforts and negotiated package-deals with local governments. Therefore, if a municipality has demanded policy competences in one of these sectors, such a demand did not necessarily represent the municipality's interest in demanding a policy competence. The demand could have been also the result of a package deal.¹⁰⁷ Thus, our dependent variable excludes these two sectors and potentially ranges from 0 to a maximum of 8.

In our baseline model, we used different structural features of a given municipality as independent variables. We included a municipality's population (logarithmized) and the respective Unsatisfied Basic Needs Index (UBNI) in order to see whether the size and the poverty of a given municipality had a significant effect on its activities with regard to administrative decentralization. We also included dummy variables for the highland region because it had been argued that demanding responsibilities from the center was a typical highland phenomenon. Furthermore, we controlled for the average amount of total resources (per capita) available at the municipal level, including transfers and own revenues. Finally, we included the change in transfers for 2000–2004 the period. Thus, by the inclusion of the latter two variables we attempted to test the hypothesis that relatively high

107 The Ministry of Environment signed 68 agreements with local governments while the Ministry of Tourism negotiated transfers with 42 local governments (GTZ 2004, 15). The difference between the total number of demands and the number of demands excluding environment and tourism is substantial. When counting all demands, including those in the areas of environment and tourism, almost two thirds of the 220 municipalities have demanded at least one administrative competence. Excluding these two areas only 74 municipalities have been active in the administrative decentralization process. Out of these 74 municipalities, only 21 % have applied for responsibilities in more than one policy area and slightly less than 7 % have filed demands in more than two policy areas.

respectively increasing fiscal resources might have provoked incentives for demanding administrative competences at the local level.

Technically, we could not rely on standard OLS regressions. Instead we used a model of censored regressions, the Tobit-regression, named after the noble laureate James Tobin. Employing this procedure was necessary because our dependent variable is censored: a municipality could not have demanded administrative competences in less than zero and more than eight policy sectors. If many observations are positioned at such a bottom and/or top line, using the common OLS regression model poses the danger of reporting inadequate standard errors, which leads to a misinterpretation of the coefficients.

The results of our baseline model (1) in Table 7 reveal several interesting observations. First, relatively poor municipalities were significantly less engaged in administrative decentralization. Second, relatively populous municipalities were significantly more engaged in administrative decentralization. Thus, structural factors such as a municipality's size and poverty had a direct and significant impact on its government's behavior with regard to administrative decentralization. Third, fiscal aspects had no significant impact on the demand activities of a given municipality, which again reflect the absent linkage between fiscal and administrative decentralization during the period of investigation. Fourth, the dummy variable for municipalities located in the highland is also positively and significantly with our variable of administrative decentralization. Thus, the highlands indeed have been a regional stronghold for administrative decentralization.

In an expanded model (2) we tried to reveal whether political factors at the municipal level had any significant impact on a municipality's behavior regarding the demand for administrative competences. For this purpose we included several variables.

First, we included the percentage of the local voting population, which voted for the winner of the 2000 municipal elections. This variable provides information about the popular support of the local government. We hypothesize that local governments with broader constituencies will be more concerned about guaranteeing the provision of public goods and therefore will be more active in administrative decentralization. Second, we included a variable on political continuity at the local level. This dummy

Table 7: Explaining subnational variance with regard to administrative decentralization		
	Model 1	Model 2
Poverty NBI	-0.0307*** (0.0113)	-0.0334*** (0.0110)
Population	0.3564** (0.1727)	0.3755** (0.1652)
Change in Transfer	0.4341 (0.3176)	0.2001 (0.2987)
Total Resources (per cap)	0.4677 (0.6304)	0.2228 (0.6087)
Sierra	0.9923*** (0.2804)	0.6886** (0.2794)
Percentage of Voters		0.0357** (0.0171)
Mayor 1996 = 2000		0.2692 (0.3158)
Pachakutik		1.0483** (0.4526)
PRE		-0.9851** (0.4563)
PSC		-0.7482** (0.3749)
ID		-1.2263** (0.6211)
DPUDC		0.1630 (0.4090)
Constant	-4.7486 (4.5160)	-4.0225 (4.2891)
Pseudo R2	0.0794	0.1341
LR CHI2 (5)	36.67***	
LR CHI2 (12)		61.70***
N	214	212
Tobit regressions, marginal effects at the mean (z-values in parenthesis). Significance: *** z < 0.01, ** z < 0.05, * z < 0.1; Stata: tobit y x ₁ -x _n		

variable distinguishes between the municipalities whose mayors were re-elected in the 2000 municipal elections and the rest. Here, one could argue that this form of political continuity at the local level encouraged local governments to demand responsibilities. Finally, as in Table 6, we included the same dummy variables for a local government's party affiliation.

If the narrative evidence presented before is correct, then we could expect rather traditional parties to be relatively reluctant with regard to administrative decentralization. Parties such as the PSC and PRE are said to have been highly populist, clientelistic and rather disconnected from civil society. As such, these parties would have been interested in obtaining financial resources but not in administrative competences because the latter would limit their capacity to discretionally distribute privileges to narrow interest groups. In contrast, one would expect municipal governments based on the support of a broader, civil society based constituency to be more pro-active in the field of administrative decentralization. This should be valid especially for those municipal governments affiliated to the indigenous movement. Of local origin, and characterized by inclusive relations with civil society groups, one should expect municipal governments affiliated to Pachakutik to be active in administrative decentralization.

The results of Model 2 not only confirm the findings of Model 1. They also show that most of the assumptions about the impact of political factors are based on solid empirical ground. First, our measure of political support for local governments has a positive and significant impact on the demand for policy responsibilities. The governments that had a relatively broader voter basis were more likely to demand responsibilities. Second, party affiliation also had a significant impact on administrative decentralization. Local governments affiliated to traditional parties like the PSC, PRE and ID were significantly less likely to demand policy responsibilities. In contrast, local governments affiliated to the indigenous movement were significantly more likely to be active in administrative decentralization. Thus, there is evidence that local governments with stronger links to their constituency and to local civil-society were more inclined to demand competences. Instead, traditional parties with clientelistic and hierarchical structures such as the PSC and PRE gave less importance to administrative decentralization. Again, these findings show which political parties have influenced the shape of decentralization in Ecuador. Moreover, taken to-

gether, the results of Table 6 and 7, our results show that the constellation of political parties has had a negative impact on the coherence between fiscal and administrative decentralization. Finally, our variable for local stability is not significantly correlated to administrative decentralization demands. Accordingly, in the period under investigation, whether a local government was re-elected or not had no significant impact on its activities with regard to administrative decentralization.

Yet, even if all specifications in Table 7 are highly significant, one has to note that the overall explanatory power of all models remains very low. Only about 15 % of the variance within our dependent variables is explained by the variables integrated in our specifications. Thus, even if some of the factors above do help to explain the variance of demanding competences among municipalities, a huge percentage of the variance remains unexplained. This supports the assumption that the demand for competences in Ecuador has been highly volatile and often connected with personal and temporary circumstances and that party politics and structural factors have played only a limited, however, sometimes significant role.

Interpreting horizontal and policy incoherence in Ecuador's decentralization process

As demonstrated, the decentralization in Ecuador has also been characterized by a horizontal incoherence – incoherence among different subnational entities at one level of state. Horizontal incoherence exists if administrative, fiscal or political decentralization vary greatly between different subnational entities. For instance, horizontal incoherence appears – all else being equal – if one municipality executes many more competencies than another.

One main characteristic of the local level in Ecuador is a high level of heterogeneity among municipalities with regard to their size and socio-economic development. Beyond political factors, our regression analysis has shown that such heterogeneity is problematic with regard to horizontal coherence. Municipalities with higher levels of development generally find it easier to demand and obtain responsibilities and resources from the center. As the demanding process is technically complicated, municipalities with a better institutional environment are able to manage the applica-

tion standards without significant problems.¹⁰⁸ For instance, institutions are more developed in the Sierra, while many municipalities in the coastal region lack institutional capacities to apply for responsibilities.¹⁰⁹ Additionally, municipalities with an elevated economic performance generally have a better bargaining position. They possess stronger political weight and are therefore able to push through their interest.¹¹⁰ Another cause of horizontal incoherence, which applies to the majority of municipalities, is their lack of a clear decentralization strategy. While there have been some progressive municipal governments¹¹¹, there have been a vast amount of municipalities in which “long-term planning did not exist.”¹¹² Apart from these two factors, a further important reason for horizontal incoherence is the existence of divergent and sometimes conflictive interests. As there have been no legal framework determining clear responsibilities for each municipality, municipal governments themselves have decided which responsibilities to apply for. Thus, decentralization has had an optional character and therefore has led to a process with no common strategy on the municipal level.¹¹³

With regard to AME, A key challenge for AME is to contribute to horizontal coherence by coordinating municipalities. Although AME has become an important actor of decentralization since 1997,¹¹⁴ coordination among municipalities is still weak and a common decentralization strategy is missing. Thereby, AME’s impact on coordination among municipalities is limited because of the strong fragmentation of municipalities as well as their diverging interests. These are reflected in a high number of veto players as well as in AME’s internal fragmentation and volatility. As the

108 Confidential interview, Quito, 12th of April 2005.

109 Confidential interview, Quito, 15th of February 2005.

110 Confidential interviews, Guayaquil, 9th of March 2005.

111 According to a high number of interviews, Cotacachi, Cuenca, Lojas and Guayaquil are considered examples for those progressive subnational governments.

112 Confidential interview, 1st of March 2005. For more details, see Verdesoto Custode (2001, 82).

113 Confidential interview, Quito, 16th of March 2005.

114 Since the modification of its statutes in 1992, AME has been able to improve its bargaining position with regard to the central government. Its role in the approval of the 15% Law in 1997 has shown that it has become an important player in the decentralization process (Verdesoto Custode 2001, 84).

number of municipalities increased significantly within the last decade,¹¹⁵ the number of members within AME also grew considerably. Due to the increase of municipalities, particularistic interests became stronger and AME had to deal with an increased number of players and veto players which complicated its coordination efforts. Politically and economically stronger municipalities prefer to coordinate among themselves as they expect this coordination to be more effective. Consequently, they appear as potential veto players of a coherent coordination process among all municipalities and complicate common decentralization strategies.¹¹⁶ Apart from this fragmentation among its members, AME also has had to deal with internal fragmentation and volatility. “AME is a political body that is very unstable because its leadership changes every two years.”¹¹⁷ Consequently, AME has been facing problems to establish a long-term decentralization strategy as its political leadership frequently altered. Thereby, presidents rather try to implement the decentralization discourse of their respective political party than to follow a long-term strategy. Consequently, political parties provoke an additional fragmentation of AME and hinder a coordinated process among municipalities. In sum, horizontal incoherence arises from a lack of coordination among subnational entities. In the case of municipalities, this lack of coordination is caused by the existence of diverging interests and a strong heterogeneity among municipalities. These specific difficulties exist on the municipal level, but also correspond to the provincial level as provinces and their respective association CONCOPE are confronted with similar problems.

The 1998 Constitution establishes that all policy sectors, except for five such as for example national security and external relations, can be decentralized. In a coherent decentralization process, one would expect policy sectors to advance somewhat equally. In Ecuador, however, this is not the case. Vast discrepancies between sectors could be observed. The difference between policy sectors becomes most pronounced if health and education are compared with environment and tourism.

115 Within the 1990s, approximately 47 new municipalities were created (Verdesoto Custode 2001, 80).

116 Confidential interview, Quito, 18th of February 2005.

117 Confidential interview, 28th of February 2005.

Box 4: Partial attempts to overcome problems of incoherence

Although several attempts have been made by some subnational governments to partially overcome different forms of incoherence, those attempts have mostly been isolated and ultimately failed to produce significant advances.

1) *The Group of 8 (G-8)*: Formally named “Association of autonomous sectional governments from the Central Region”, the G-8 was founded in 2001. It encompasses subnational governments from 8 provinces from the Costa, Sierra and Oriente, namely the prefects and the capital mayors of each member province. The G-8 represents the most important cross-provincial attempt of policy-coordination, which has developed a minimum of institutionalization. The driving force behind its creation has been to counter the bi-centralism of Quito and Guayaquil by focusing on the so-called central region, which crosscuts the territorial division of the traditional regions. In its meetings, G-8 members discuss different aspects of provincial development and develop activities which aim at fostering the common goal of developing a region, able to compete with Quito and Guayaquil. In reality, more down-scaled information exchange and coordination within the G-8 are intended to increase the bargaining power of each member vis-à-vis the central government with regard to specific (infrastructure) projects. Therefore, the Group has not tackled decentralization issues beyond measures of information exchange. It has rather focused on pressing the central government to execute promised projects respectively to distribute additional funds for specific infrastructure projects. Furthermore, the political volatility and heterogeneity within group members has hampered any further institutionalization. Different party affiliations of member governments have affected its capacity for collective action. Finally, the reluctance of several members to demand administrative responsibilities because of the financial risks involved in such action, have impeded more serious activities with regard to decentralization. Until mid-2005, there was no clear strategy that effectively dealt with the major aspects of decentralization’s incoherence.

2) *The Convenio Marco*: One of the most important attempts at promoting decentralization at the provincial level has been the *Convenio Marco* of 2001. In a joint effort, all provinces demanded competences in four sectors (Vialidad, Agricultura, Turismo, Ambiente). Although the *Convenio* represented an attempt to reduce horizontal incoherence among the provinces, it should not be interpreted as a strategic measure to counter incoherence between policy sectors, because the decision to demand these sectors has been taken on an ad hoc

basis and was not deduced from policy-oriented considerations. In general, the issue of organizing collective action of the provinces and the initial willingness of the central government to promote the joint demand for competences has been a reaction to the autonomy movements. While the provincial governments perceived an opportunity to increase their level of importance within the Ecuadorian state structure, the presidency (Noboa) and CONAM were willing to permit a certain degree of decentralization in order to counter more radical forms of autonomous movements. Therefore, the preparation of a unified demand seemed to be in the interest of both provincial and central governments. Finally, the process failed to produce any substantial results, because CONCOPE as a central actor within the *Convenio* committed the tactical error of not officially submitting the unified demands to the respective ministries – the bureaucratic entities that would have lost most if the process were to be continued. An ex-post analysis also suggests that the low level of technical involvement of most provincial governments and the exclusion of the municipalities' association AME did not promote substantial ownership at the provincial and municipal level. Ultimately, this procedure has reduced provincial government's commitment to engage in further activities to push through the *Convenio* – once they became aware of the real consequences of decentralization in terms of administrative and financial responsibility.

Some crucial issues of this sceptical overview are closely linked to our general arguments. In none of the described attempts have political parties played a crucial role as organizers of the encompassing interest – neither as a force that could bind a limited amount of subnational actors together nor as a force that could foster these attempts from the centre. Instead, even the relatively advanced attempts have been characterized by institutional volatility and programmatic weaknesses. When the usual distribution conflicts have emerged in the course of more concrete actions, there has been a lack of programmatic vision and long-term oriented forces. Thus, the centrifugal forces of these conflicts were not countered, thereby reducing possibilities of collective action. Nevertheless, these attempts should not be downplayed too much. During the 2003–2005 period, the central government functioned as the most serious barrier for further decentralization.

This discrepancy between sectors can be explained by the characteristics of the policy sectors and the resulting constellation of actors. Both health and education are resource-intensive sectors. A large number of employees is required in order to provide the nationwide services of public health care and education. The high level of human resources in these sectors means that decentralization will affect the interests of many people. The potential for opposition as well as the capacity to organize effective resistance is therefore high.

While generally the labor movement in Ecuador has been weakened, the teachers' and health workers' unions still have been very powerful players. As these unions were organized nationally, they feared that decentralization would weaken their bargaining position. If the sectors were decentralized, workers in these sectors might have become municipal employees. Contracts would no longer be negotiated nationally but locally. This would increase transaction costs for the unions and would, in their view, most likely weaken their capacity for collective action (Sola 2004). Therefore, unions have often characterized decentralization as a "divide-and-rule" tactic employed by the central government to weaken unions. Additionally, unionists have argued that decentralization only paves the way for the privatization of public services. They have fiercely criticized the lack of capacity at the local level and have argued that the decentralization of health care and education would lead to a deterioration of service provision because municipalities are not equipped to administer these responsibilities successfully.

Within the sector of health and education, unions have therefore been powerful veto-players. Any municipality seeking to assume responsibilities in the areas of health and education has had to be willing to confront fierce opposition from unions. The respective ministries also had to overcome union resistance. The power of union opposition within these sectors can be illustrated by the events that occurred when the municipality of Cotacachi demanded responsibilities in the field of public health. In the summer of 2003, as negotiations between the ministry and Cotacachi entered the final stage, the health workers' union initiated a nationwide strike.¹¹⁸ In the months that followed, the relationship between the unions

118 El Comercio, 18 June 2003.

and the ministry deteriorated. Over the course of less than six months, two minister of health resigned from their posts.¹¹⁹

While union opposition to decentralization in the health sector has been fierce, the ministries' bureaucracy generally has also been adverse to decentralization. The bureaucracy of the health ministry has been notorious for its uncooperative stance when handling decentralization demands (Sola 2004). Ministers who seek to advance decentralization would thus have to overcome the resistance of unions as well as opposition within their own ministry. Most ministers have been neither able nor willing to face this challenge. The result has been that in the health sector, deconcentration is pursued rather than decentralization. Even though the ministry has created spaces for the participation of local governments, it retains control over the process (Sola 2004).¹²⁰

Because they fear the confrontation with unions, many municipalities have been reluctant to demand responsibilities in the areas of health and education. The tourism sector, on the other hand, is attractive because it allows municipalities to generate revenues relatively easily. Responsibilities in the field of environment are often demanded because of pressure from citizens. Particularly farmers are affected by environmental problems such as deforestation and soil erosion. The salience of these problems might therefore drive municipalities to demand responsibilities in this policy sector.

As outlined above, both tourism and environment are sectors of relatively low resource intensity. As municipalities do not know how many resources the central government will transfer for the execution of responsibilities, they prefer to demand 'cheap' responsibilities, thus reducing the risk of having to bear a heavy financial burden.¹²¹

Whilst in the sectors of environment and tourism there has been pressure for decentralization from below, the respective ministries have also been

119 El Comercio, 17 December 2003; El Comercio, 15 January 2005.

120 Differences can also be observed within sectors, depending on the constellation of actors. Cuenca, for example, has demanded and received responsibilities in the area of preventive health care. To demand responsibilities in the area of curative health care is much more difficult, however, as it is in this area that unions are particularly strong. Confidential interview, Cuenca, 11th of March 2005.

121 Confidential interview, Quito, 12th of April 2005.

more open for decentralization efforts. There has been more willingness to decentralize responsibilities on the part of the central government in these sectors. In July 2001, for example, the Ministry of Tourism signed a “*convenio de transferencia de las competencias de turismo*” with 36 municipalities (Ojeda 2002, 31). This agreement was an initiative of the ministry rather than the result of subnational pressure.

The readiness of the central government to transfer responsibilities is closely connected to the characteristics of tourism and environment. Firstly, the number of public employees in these areas is much lower and therefore vested interests are not as strong. Secondly, as mentioned above, these sectors are not as resource intensive, i. e. the transfer of responsibilities in these sectors, even if accompanied by the transfer of resources, does not imply the surrender of a significant amount of central government resources. Thirdly, in many cases responsibilities that are transferred are “*competencias fantasmas*”. They are tasks that have previously not been carried out by the central government at all.¹²² Thus, the central government is effectively not transferring responsibilities but creating new ones. Fourthly, as a result of the general characteristics of these sectors, there are no strong unions which might hinder decentralization efforts. Decentralization in these sectors is therefore easier.

It might be argued that the incoherent decentralization of policy sectors is not a problem at all, but rather a desirable situation. Ideally, municipalities would begin with the execution of ‘easier’ responsibilities, such as tourism, and then move on to the assumption of more complicated tasks such as education and curative health care. The discussion above, however, illustrates that in Ecuador this is not the case. There is no strategy or vision that integrates multiple sectors, i. e. no planned advancement from easy sectors to more complicated sectors. As political parties do not aggregate the differing interests, no long-term multi-sector strategy for decentralization exists.

122 Confidential interview, Ambato, 9th of March 2005.

5 Development cooperation and decentralization in Ecuador

In Chapter 2, we have argued that in a fragmented setting, development cooperation needs to focus on promoting vertical and horizontal coordination, on promoting continuity and stability of the decentralization process and, finally, on closely coordinating donor activities. This chapter analyzes how bilateral and multilateral agencies have handled these challenges in Ecuador. We find that most development agencies in Ecuador have not had an explicit concept to deal with the effects of political fragmentation. However, donors have actually undertaken a variety of efforts that implicitly aim to tackle the problem. Thus, the case of Ecuador offers a number of lessons in terms of coordinating decentralization processes, in terms of providing continuity of the decentralization process and with regard to donor coordination. Our findings suggest, however, that donors need to pay more attention to the core challenges resulting from political fragmentation.

5.1 Coordinating decentralization

Due to the lack of organizers of the encompassing interest, decentralization in Ecuador often takes place in an isolated manner at and within the central, provincial and municipal level. It is thus essential for development agencies to contribute to a closer dialogue and more effective coordination between and within the different layers of government. As stated in Chapter 2.3, international assistance can seek to address these structural shortcomings by improving vertical and horizontal coordination in two ways: by strengthening crucial domestic actors and by directly pursuing linking activities.

5.1.1 Strengthening coordination capacities

A number of players in the Ecuadorian decentralization process have had the organizational mandate to coordinate decentralization activities horizontally (at one level of governance) and vertically (between levels of governance). As such, these actors seem to be attractive counterparts for development agencies, which attempt to promote coherence of the decentralization process.

With regard to *horizontal linkers*, a considerable number of program activities in the area of decentralization have focused on CONAJUPARE and, to a greater extent, on AME and CONCOPE. For most bilateral and multilateral donors, AME and CONCOPE have been important counterparts, who have received various forms of support.¹²³

Donor activities have differed in terms of their nature and objectives. In addition to capacity building measures at the national level, some activities have aimed to foster the capacities of coordinating associations in a particular geographic context. The Spanish development agency AECI, for example, has supported AME with regard to *32 gobiernos alternativos*: local governments, which have been led primarily by indigenous groups, closely linked to local civil society. Yet, relatively few donor activities specifically have sought to improve the capacities in terms of their mutual interaction or their communication with the central government. For example, ARD3D – a consulting company that implements programs funded by USAID – together with CARE has been undertaking an e-government program in order to facilitate communication between AME, CONCOPE, CONAJUPARE, CONAM and the Ministry of Finance. IADB was planning to establish forums for dialogue and cooperation where institutions such as AME and CONCOPE can present and discuss their standpoints in a less formal way.¹²⁴ Donors have attempted to intensify their cooperation with AME and CONCOPE and their capacity building efforts. Planned activities included cooperation on the national level and/or pilot activities via AME and CONCOPE with specific municipal or provincial councils.¹²⁵

In their efforts to foster the capacities of actors to coordinate activities and thus to contribute to a more coherent decentralization process, donors have been facing a number of challenges connected with their counterparts (instability, organizational weakness, politicization) and to the ultimate

123 Noteworthy, these associations were chosen as counterparts only in few cases already in the beginning of a donor's presence in Ecuador. Instead, donors often started their interventions at one level of governance. UNDP, for instance, has reported that it has aimed to strengthen AME and CONCOPE when realizing the limited impact of its earlier and more locally focused interventions (Confidential interview, Quito, 4th of March 2005).

124 Confidential interview, Quito, 18th of March 2005.

125 Roundtable Governance/Decentralization (2004): Solicitudes de Apoyo Presentadas a la Cooperación Internacional, Quito.

impact of their activities (sustainability, impartiality). According to several development agencies, the instability and politicization of institutions such as AME and CONCOPE poses a serious challenge. The high turnover of staff makes capacity building particularly difficult.¹²⁶ Any change of government has created a new bargaining situation and thus ultimately has affected the cooperation by donors with particular actors and their political heads.¹²⁷ An additional problem has been the organizational weakness of some actors in terms of their financial and human resources. CONCOPE, in particular, argued that its annual budget does not correspond to its mandate and scope of activities.

Strengthening subnational associations also has posed the risk of becoming a partial actor in the decentralization process. As noted in earlier chapters, AME and CONCOPE have disagreed on a number of fundamental issues, particularly in terms of the division of labor between the municipal and the provincial level. Therefore, although the cooperation between AME and CONCOPE may have improved in recent years,¹²⁸ each actor still has been pursuing a specific agenda. Consequently, donors who have enhanced the capacities of one association to act as a coordinating body do not automatically increase the coherence of the decentralization process as a whole.

With regard to *vertical linkers*, political parties play a crucial role with regard to coordinating decentralization efforts. Unfortunately, political parties in Ecuador fulfill this role only to a very limited extent. In comparison to particularistic actors, political parties have played a less prominent role as counterparts of bilateral and multilateral donors. Civil society, as has been noted in earlier chapters, can only partially substitute parties but has often been receiving various kinds of international support. However, in terms of coordinating the decentralization process, its impact has been very limited.

In comparison to other countries, the cooperation of political foundations with Ecuadorian political parties in the field of good governance and de-

126 Confidential interview, Quito, 22nd of February 2005.

127 Confidential interview, Quito, 18th of March 2005.

128 Confidential interview, Quito, 23rd of February 2005.

centralization is limited in scope.¹²⁹ Multilateral as well as most bilateral donors cooperate with political parties only indirectly, i. e. through the support for specific communities, municipalities and/or provinces. GTZ is currently planning to take a new step. The agency is planning to provide capacity building measures directly to PRIAN, a populist political party, and other political parties regarding their decentralization concepts and activities (see Box 5). Other political parties also appear to be interested in receiving international support for their decentralization activities. The PSC, for instance, has contacted GTZ and asked for technical assistance in regard to decentralization efforts in the environmental sector in Guayas province.

A number of donors have cooperated with civil society groups. In the area of decentralization, however, these projects were rare and tended to have a very specific focus. In order to support municipalities that have been governed by *gobiernos alternativos* USAID has been cooperating with the NGO *Fundación Esquel*. GTZ has worked with the NGO *Contrato Social por la Educación* in the education sector. A joint COSUDE/GTZ program sought to strengthen universities and their role as capacity builders in the area of decentralization.¹³⁰ The unions as important actors who oppose decentralization efforts, particularly in the health and education sector, have had no major contact with development agencies in the field of decentralization and there were few attempts to enter into a dialogue and openly discuss decentralization with them.¹³¹

129 An evaluation of good governance related programs of German development cooperation, for instance, notes that close cooperation with political parties – primarily undertaken by German political foundations – has had positive effects in terms of a more coherent process of political reform (Kurtenbach / Weiland 2003). In Ecuador, the same political foundations are cautious to cooperate closely with political parties. The Hanns-Seidel-Foundation, for instance, has not been collaborating with any party for longer time period.

130 It is important to note that in a number of cases the cooperation with civil groups has been a substitute for the collaboration with governmental actors that was envisaged in the first place. For instance, GTZ intensified its links to *Contrato Social por la Educación* after the relationship with the Ministry of Education had become problematic.

131 GTZ reports that, on one occasion, GTZ staff had the opportunity to fruitfully discuss the concept of decentralization with representatives of the health workers union. Confidential interview, Guayaquil, 9th of March 2005.

Box 5: Providing support to the decentralization unit of PRIAN

The once envisaged cooperation between GTZ and PRIAN (Partido Renovador Institucional Acción Nacional) illustrates both the potential and the risks of supporting the decentralization efforts of political parties in Ecuador.

Álvaro Noboa, who owns several enterprises and is probably the country's wealthiest businessman, founded PRIAN in 2002. PRIAN has had a nationwide success in the 2004 elections where it has won 19 municipalities in both, the Sierra and the Costa and one provincial council. The party has a center-right, populist profile. The party's attractiveness mainly derives from the fact that it appears as a new, somewhat unspoiled alternative to the traditional parties. In addition, it heavily relies on the popularity of Álvaro Noboa, who was second in the 2004 presidential elections. PRIAN has identified decentralization as a key issue for the party's future development. The party seeks to foster local development and create local success stories that shall provide the basis for future, nationwide electoral success.^a Therefore, the newly elected political representatives have signed a memorandum according to which they will demand responsibilities from the central state in a coordinated manner.

Given this background, in 2005 a "technical unit" was set up by a former journalist, vice-presidential hopeful and PSC congresswoman. The unit's role was to identify areas where local PRIAN governments most urgently needed support and, second, to seek for technical assistance from development cooperation. In this context, PRIAN contacted GTZ, which, in principle, agreed to provide assistance. This cooperation could have triggered a process tackling one of the main structural problems of decentralization in Ecuador: the lack of interest by political parties in approaching decentralization from a more programmatic perspective.^b At the same time, however, the party's lack of programmatic profile and its purely tactical understanding of decentralization raised serious doubts on the long-term prospects of PRIAN's technical unit and the party's decentralization efforts. One expert on Ecuadorian political parties thus commented that PRIAN's aim to strengthen its municipalities did not necessarily require the transfer of responsibilities. Financial support may also achieve this goal and would have nothing to do with decentralization.^c

a Confidential interview, Guayaquil, 9th of March 2005

b Comments made at a GTZ-GDI workshop, Quito, 21st February 2005

c Confidential interview, Quito, 21st of February 2005

In sum, the primary challenges for development cooperation in working with political parties and civil society groups in Ecuador were linked to the structural weakness of these actors. German political foundations, for instance, whose mandate is to support democratic parties argue that the weaknesses of parties in Ecuador have not, by and large, allowed foundations to fulfill their mandate. A number of donors doubt the reliability of political parties as counterparts for decentralization efforts. Furthermore, donors have been facing the challenge of undermining their impartiality when cooperating with political parties. With the exception of political foundations, donors were cautious not to appear as partial players. USAID, for instance, has been careful to work with a broad range of political groups. Since the agency has worked with municipalities that are governed by the right-wing PSC and with others under the control of the left-wing MPD “no one can claim we are biased”.¹³² Likewise, GTZ stresses that they have been working with municipalities and not with political groups in the first place. The Swiss Agency COSUDE has not cooperated with political parties due to their understanding of impartiality. Finally, cooperation with civil society groups has hardly focused on the decentralization process as a whole. Thus, it has not been the aim of such projects to contribute to a more coherent decentralization process or a better coordination of different levels of governance.

Donor activities in Ecuador that have aimed to strengthen potential coordinators of the decentralization process have been showing both advances and shortcomings. In terms of advances, an increasing *process orientation* has been reflected by the cooperation with horizontal linkers, particularly with organizations such as AME and CONCOPE. This set of activities has often replaced a more isolated and local project focus. In this sense, a number of attempts to strengthen particularistic actors explicitly or – more often – implicitly address the lack of horizontal coordination. Likewise, *program approaches* have played an important role. Capacity building of coordinating actors has been one project activity within a broader set of interventions. In that sense, donors increasingly have been seeking to achieve synergetic effects and did not aim to strengthen coordinating institutions in an isolated, project-based manner.

132 Confidential interview, Quito, 3rd of March 2005.

In general, however, the Ecuadorian experience illustrated two main limitations of attempts at coordinating decentralization via domestic actors. First, capacity-building measures by and large turned out to become a victim of, rather than a remedy for the fragmentation and structural weakness of domestic actors. This type of intervention requires a certain stability of actors, a condition that was generally not met in Ecuador. Thus, although a number of interventions have produced positive results, this approach cannot be the backbone of donors' decentralization activities in the fragmented environment of Ecuador. The second limitation refers to the principle of impartiality, which – from the perspective of a number of donors – conflicts with the support for political parties. Differences between organizational mandates become particularly evident when it comes to the cooperation with political parties. Hence, it will be problematic for donors to agree on a coordinated strategy in this area.

5.1.2 Development cooperation as a coordinator of decentralization

In addition to capacity building to strengthen domestic coordinating institutions, donors have sought to directly provide linkages between and within municipal, provincial and central levels. In terms of activities that aim to improve coordination between levels of government, donors have to decide what activities they pursue on what level of governance (portfolio) and they need to link isolated successful cases to the whole process of decentralization.

Donor portfolio: Decentralization vs. local governance

In our interviews, most donors have argued that it is necessary to be active at different levels of government. ARD3D, for instance, has stressed the importance of both bottom-up and top-down support.¹³³ GTZ has argued that causes and solutions of problems in the field of decentralization are only rarely found at the same level of government. Thus, “*without inputs at one or even two additional levels, many problems cannot be addressed in a reasonable manner.*”¹³⁴ It follows, that projects at the local level need

133 Confidential interview, Quito, 17th of March 2005.

134 GTZ (1999): Sub-Projekte als Steuerungsinstrumente der TZ-Beiträge. Internal GTZ paper, Quito.

to be accompanied by changes at the regional and/or central level. Likewise, interventions at the central level require additional consultancy at the intermediate and/or local level in order to illustrate the concrete local effects of central measures. In terms of donor activities as a whole, however, such a multi-level focus was not the dominant approach of donors in Ecuador.

The main focus of donors has been on cooperation with *municipalities*. Some of these activities particularly aimed at influencing the decentralization process; others have had a stronger focus on local governance and local development. UNDP has worked with eight municipalities in different provinces and has argued that its comparative advantage and traditional focus has been the local level.¹³⁵ Nevertheless, it has widened its focus and activities have tended to include more levels of government. Most bilateral donors have put emphasis on working with the municipal level. ARD3D has worked with 15 municipalities across the country in order to initiate successful local administration models. The agency supported nine municipalities in the sectors of agriculture, health and tourism. SNV has worked with municipalities in Loja province and was also cooperating with the municipalities of Cuenca and Riobamba. CTB/BTC has focused on one municipality in Imbabura province and has been working with Quito and the municipality of Esmeraldas. COSUDE also has concentrated on the support for municipalities and sought to combine efforts with other donor agencies. German financial cooperation, KfW, has been working with 17 municipalities to foster municipal development. DED has been present in a number of municipalities across the country in order to foster local governance and environmental protection. Decentralization has been an issue in all of these program components. For instance, in DED's perspective, the municipal level has been the crucial area of intervention because this level needs to offer those public services that actually determine people's quality of life (water, waste removal etc.).¹³⁶

135 Confidential interview, Quito, 4th of March 2005.

136 Confidential interview, Quito, 28th of February 2005. In addition to working with individual municipalities, donors' interventions increasingly included cooperation with associations of several municipalities (*mancomunidades*). The *mancomunidad* of the St. Elena peninsula in Guayas province, for instance, received support from various donors in its efforts to demand and implement administrative responsibilities.

In contrast, donors have put less emphasis on working with *provincial authorities*. There have been some capacity building projects undertaken with CONCOPE and some activities that directly provided support to specific provinces in the decentralization process. For example, one GTZ program has supported provincial efforts in Tungurahua province in the environment sector. Likewise, AECI has helped to establish a provincial development agency in the province of Imbabura and has initiated a similar project in Manabi province. Relatively few donors have been undertaking projects with *central ministries* in the area of decentralization. The Ministry of Finance, for instance, has been an important counterpart for GTZ's activities in the field of fiscal decentralization. IADB and World Bank have been supporting the Ministry of Public Works and Infrastructure for activities in 19 provinces.¹³⁷ Yet, the bulk of donor activities have focused on cooperation with municipalities, while central ministries and the provincial level received less attention. Frank (2003, 317) even concludes that

“since the late 1980’s, donors have strengthened the municipal level at the cost of the intermediate level [...]. The intermediate level has been systematically excluded [from] these efforts”.

Furthermore, most activities on the municipal level followed a local development and/or local governance logic and thus did not specifically aimed at fostering the decentralization process as a whole. The case of Cotacachi illustrates this focus on municipalities, local governance and local development (see Box 6).

137 In addition, a number of donors were providing support to central ministries with a specific geographic emphasis. DED was cooperating with the Ministry of the Environment with regard to two provinces and a number of national parks, respectively. The *Corporación Andina de Fomento* (CAF)¹³⁷ was preparing to support the Ministry of Public Works and Infrastructure in its national road works plan (*“plan vial nacional”*) in 10 provinces. ARD3D was also intervening at the central level whenever this was required in order to foster the transfer of responsibilities demanded by its counterpart municipalities.

Box 6: The case of Cotacachi

The municipality of Cotacachi in Imbabura province has been a success story in many aspects. It has served as a model for successful local development and the effective provision of public services. It also has served as a showcase for improving local democracy and participation; it has been an example of the indigenous movement's potential and has appeared as an island of political stability in a crisis-stricken country. First and foremost, the predominantly mestizo and indigenous canton has become a national and international reference for the local participatory mechanisms that were established under the mayor Auki Tituaña (Pachakutik).^a Regarding decentralization, Cotacachi, has been a pioneer, too. The municipality has been very active in terms of demanding responsibilities. For instance, Cotacachi has been the first municipality in Ecuador to demand responsibilities in the public health sector.

Cotacachi as a “good performer” at the local level has thus become the ideal project area for a broad range of donor activities including decentralization support, local governance, local economic development and poverty reduction as well as activities that seek to foster democracy and the political weight of the indigenous movement. As a result, Cotacachi has also become a success model as a recipient of international assistance. From its overall municipal budget, about 55 % (3.6 million US\$) are contributions from governmental and non-governmental donors.^b

Concerning its role as a counterpart of bilateral and multilateral donors, the success of Cotacachi has become somewhat ambiguous. On the one hand, the municipality continues to play a prominent and visible role in the national decentralization process so that choosing Cotacachi as a pilot promises to produce results that impact on the national process. In addition, donors can assume that their money will be spent relatively efficiently in Cotacachi. In most cases, the municipality mobilizes own resources in order to co-fund externally sponsored projects. On the other hand, given the growing dependence of Cotacachi on external resources, the sustainability of the success raises serious doubts. Moreover, Cotacachi has been criticized as a “propagandist case”^c where most donors have sought to be present while other cases – where needs might be greater but project success might not be guaranteed – have been left aside.

a For details see Ortiz Crespo (2004)

b See <http://www.municipium.cl/> (Experiencias, Cotacachi)

c Interview with Mario Unda / Ciudad, Quito, 15 February 2005

Promoting decentralization and promoting local governance are not the same type of interventions. Although decentralization plays a certain role in the latter kind of activities, the specific approach and the objective differ. SNV, for instance, has a two-fold focus in Ecuador, which consists of promoting local governance/transparency and local economic development. A SNV representative describes the portfolio's relationship to decentralization as follows:

“We focus on local governance and try to bring decentralization down to earth, to make it effective. Improving local governance will have an effective impact at the level closest to poverty.”¹³⁸

SNV's approach thus illustrates that, from a local governance or local development perspective, a functioning decentralization process is a means to an end, but no end in itself. Analyzing the defects of decentralization and shaping cooperation activities accordingly is not part of this set of interventions. Both activities have distinct instruments and distinct objectives.¹³⁹ Therefore, as an INECI official has summarized, “in many cases, projects carry the label ‘decentralization’ when, in fact, they are something else”.¹⁴⁰

In terms of deciding which set of activities takes place on what level of governance, development agencies in Ecuador evidently face the challenge of effectively carrying out projects with all government layers. On the one hand, interventions at different levels are the prerequisite for having a broader impact as problems can hardly be solved at one level alone. On the other hand, working with municipalities promises to achieve the most immediate results. However, what has been mentioned with regard to other Ecuadorian counterparts has been, in general, also valid for municipal governments. Volatility of local governments and a high dependence on individual political leaders has created problems for donor activities on the local level, too, though to a different degree.

138 Confidential interview, Quito, 12th of April 2005.

139 Another example is KfW's “Municipal Development Program” that seeks to strengthen the capacities of 17 small and medium-sized municipalities primarily in terms of sanitary infrastructure and citizen participation. The program thus clearly aims to improve local conditions while horizontal or vertical knowledge transfers are not explicitly part of the program design. However, in a program presentation, fostering the decentralization process appears as the overall objective of this intervention.

140 Confidential interview, Quito, 28th of February 2005.

One challenge for donors has been to create only isolated effects without impact on the decentralization process as a whole. Dealing with this risk requires to effectively link interventions horizontally and, moreover, vertically. Thus, when asked about the main challenge of development cooperation in Ecuador, one UNDP representative said that

*“Working on three levels is the main challenge. Whenever we are working on the local level we have to keep in mind how to multiply these experiences on a more aggregated level or how to apply them in other municipalities.”*¹⁴¹

Linking local interventions to the process of decentralization

As noted in Chapter 2.3 the dissemination of local pilot experience has been a well-known problem in development cooperation. In Ecuador, too, most donor agencies have been aware of this challenge. However, concrete activities that specifically address this problem were rare. In addition, there has been a lack of concepts that help to link specific cases to the broader process of decentralization.

One important aspect concerns the selection of local pilot projects. ARD3D, for instance, has stressed that local pilot projects only make sense if they already play a key role in a broader context. The demand for public health responsibilities by Cotacachi has been, according to ARD3D, one example for a local process that has had a national relevance.¹⁴² In addition to selecting municipalities as cases, donors also have perceived their support for specific sectors as pilot activities. An IADB representative, for instance, argued that exploiting successful cases is crucial in Ecuador and that, in this regard, tourism has to be considered as an important pilot sector.¹⁴³

Some efforts have been made to disseminate local best practices horizontally, e. g. among municipalities. One example is the *premio MPS* (subnational best practice award; *MPS – Mejores Prácticas Seccionales*). This award has been organized by the Central Bank, UNDP, USAID, GTZ, AME, CONCOPE and CONESUP (*Consejo Nacional de Educación Supe-*

141 Confidential interview, Quito, 4th of March 2005.

142 Confidential interview, Quito, 17th of March 2005.

143 Confidential interview, Quito, 18th of March 2005.

rior).¹⁴⁴ Other examples refer to efforts that seek to establish links between municipalities. However, this form of activity has been problematic because the donor could easily become the main force behind these efforts. Thus, COSUDE argued that, in terms of spreading local experiences horizontally, donors should only provide a limited input in order to foster knowledge management between municipalities. In the province of Azuay, COSUDE has helped to organize visits of a municipal delegation in another, more successful municipality in order to initiate learning processes.¹⁴⁵

However, beyond such shallow attempts, most donor activities at the local level have not been accompanied systematically with efforts to link these local experiences to a broader context. Linking local interventions to a broader decentralization process has been facing two major challenges: first, the lack of interest on the part of central authorities and second, the lack of incentives on the part of local elites. Due to the lack of linkages between local interventions and the national decentralization process, local decentralization projects in Ecuador run the risk of producing local positive results at best. Thus, the vertical dissemination of local success stories has been all but an automatic process. As for the horizontal dissemination of local best practices, the lack of incentives of local elites has been a major obstacle. Successful municipal governments do not necessarily have had an interest in inviting others to follow their example. Most experiences in Ecuador showed that many local elites had no provincial or national ambitions and considered themselves accountable only to the local electorate. In addition, the dissemination of best practices has created fears, that dissemination might ultimately increase the number of competitors when it comes to the allocation of donor activities and funds. As a consequence there have been very limited incentives to actively invest time and resources to disseminate best practices.

144 Prizes have been awarded in five categories: institutional improvement (*mejoramiento institucional*), decentralization, transparency, improvement of public services (water/sanitation/waste), planning and citizen participation. In 2004, the municipality of Loreto in Orellana province was awarded the decentralization prize for pioneering public health services (“intercultural health network – *red de salud intercultural*”).

145 Confidential interview, Quito, 4th of March 2005.

Development Cooperation as a Coordinator of Decentralization – Lessons Learned

The bulk of activities in the area of decentralization in Ecuador focused on local projects. Most donor activities have not specifically aimed to link their local activities to the national decentralization process. However, supporting subnational entities is, in itself, no contribution to a more coherent decentralization process. The result has been a patchwork character of rather isolated projects at the local and subnational level because the coordination of decentralization has not been a focus of the international donor community in Ecuador. Many donor representatives are aware of this bias. It has often been mentioned that provinces should play the crucial coordinating role at the intermediate level and should thus receive more support from donor agencies, which “always think of municipalities”.¹⁴⁶ One IADB representative has stressed that the focus on municipalities must not lead to an ignorance of the process as a whole¹⁴⁷ and the Country Strategy Paper of COSUDE (2004, 10) explicitly describes the shortcomings of the focus on local initiatives as follows:

“The richness of local development initiatives did not pay off in favor of the national decentralization process, not only due to their operational geographic dispersion but also because of their particular characteristics in reaction to local problems. This weakens possibilities to duplicate and generalize their experiences in other contexts. In this sense, the ongoing local development initiatives have not been able to make themselves heard by other levels of government (provincial, national).”

Given the above-identified weakness, donors nevertheless have justified their local focus in different ways. One argument refers to the credibility effect of local pilot activities. This means that a donor cannot intervene at a higher level of governance without having gained concrete experience on the local level. BTC/CTB, for instance, argued that the project scope needs to be expanded over time and that the agency will start working on the provincial level in years to come.¹⁴⁸ Thus, local level activities have to be interpreted as a first phase of process orientation. A second argument was that local projects are closer to the people and produce the most direct

146 Confidential interview, Quito, 15th of February 2005.

147 Confidential interview, Quito, 18th of March 2005.

148 Confidential interview, 7th of March 2005.

results. The Millennium Development Goal debate and the poverty reduction focus play a prominent role in this regard. In a way, the case of Ecuador has shown that the poverty reduction focus can produce tensions with the principle of process orientation because municipalities with the poorest populations are not necessarily the most appropriate pilot counterparts for initiating dissemination of decentralization efforts.

Finally, the argument that has most frequently been mentioned by donors does not refer to a specific analysis of the Ecuadorian situation but mainly derived from the respective organizational mandate and tradition. Development agencies have mainly justified their focus on local projects primarily by saying that their traditional focus and comparative advantage lies at the local level. Thus, the local activities did not have a decentralization process focus but instead were linked to a logic of local governance, local participation and local development. Nevertheless, this is problematic when projects with a clearly local focus have pretended to impact on the decentralization process.

In sum, the bulk of local donor activities were not explicitly linked to the broader decentralization process. At the same time, most donor activities at least implicitly tended to assume that bottom-up transfers will be more likely and more effective than top-down spill-over effects. Therefore, most activities have been undertaken with good performing entities at the sub-national level. While this focus on success stories is at least ambivalent, it has major advantage from the perspective of development agencies: the likely achievement of project objectives in a given timeframe.

5.2 Promoting continuity to the decentralization process

In Chapter 2.3, we have argued that decentralization in fragmented settings is characterized by discontinuity. In addition to coordination inputs, development cooperation thus needs to address this lack of continuity. As one Pachakutik representative has put it, development cooperation “should foster the decentralization issue so that it stays on the political agenda. Up to now, there is no coherent process in the entire country”.¹⁴⁹ In principle, donors can contribute to a more stable and continuous decentralization process in two ways: first, by sustaining the “engines of reform” (Campbell /

149 Confidential interview, Quito, 28th of February 2005.

Fuhr 2004a), i. e. by strengthening those actors that are the driving forces of decentralization. Second, they can contribute through directly intervening in the process in order to overcome deadlocks.

5.2.1 Strengthening motors of decentralization

In order to overcome obstacles within the decentralization process, donors often attempted to strengthen the role of national governmental actors. In terms of having a broader impact, this set of actors seems to be the most promising counterpart. This type of activities pursues quite far-reaching and ambitious objectives. The largest project in this context has been a cooperation of IADB with CONAM, which sought to develop “a legislative and institutional framework for decentralization” and gave priority to “better governance and the quest for mechanisms to overcome political and regional fragmentation”.¹⁵⁰ For a number of donor activities, CONAM appeared as the natural counterpart for interventions that attempted to provide continuity to the decentralization process. ARD3D, for instance, carried out several projects in cooperation with CONAM, one focusing on strengthening CONAM’s decentralization unit.

On the subnational level, donors attempted to use windows of opportunity to support initiatives of national relevance. One example is the G 8-initiative that has been supported by GTZ in Tungurahua province. In general, however, still a number of donors argue that municipalities are the crucial motors of decentralization. Non-governmental actors have not appeared to be appropriate partners for donor interventions that attempted to promote continuity of the decentralization process, above all because of the non-existence of a nationwide civic organization focusing on decentralization. Instead, the respective agenda of NGOs was either geographically (e. g. *Fuerza Ecuador*) or thematically limited (e. g. *Fundación Esquel, Contrato Social por la Educación*).

From a donor perspective, the main problem in sustaining motors of decentralization has been the fact that actors rarely fulfill the role of a driving force in the long run. Due to the frequent change of constellations of actors, some organizations have ceased to be “engines of reform” while others have become more active. Given this volatility, it has been difficult

150 IADB (2004): Decentralization Support Program (EC-0204).

for donors to identify actors who were willing and able to provide continuity to the decentralization process. Due its high volatility, this challenge particularly concerned the national level. One very illustrative case for the changing role of organizations has been CONAM, identified by a number of donor activities as being a motor of decentralization. According to the former head of CONAM's decentralization unit, Felix González-Rubio, for example, CONAM's role during the Gutiérrez government "has been minimized", primarily as a result of the central government's lack of interest in decentralization.¹⁵¹ Thus, it has been of limited surprise, that the IADB reduced its cooperation with CONAM after the change of government.¹⁵² Beyond, it has also been difficult to work with specific ministries in order to promote continuity of decentralization in a given sector. Again, the main reason for this has been the unpredictability of policy changes respectively staff volatility in the ministries.¹⁵³

The experience of development cooperation in Ecuador over the past years illustrates the difficulty of identifying organizations in a fragmented polity that effectively contribute to a more continuous decentralization process. Organizations such as CONAM or central ministries have ceased to act as "engines of reform" due to political changes, while others, like CONCOPE or AME, have (periodically) gained political weight.

In general, the strategy to promote continuity via the cooperation with domestic motors of decentralization has limited potential in the fragmented setting of Ecuador. In its effort to promote continuity via domestic actors, development coordination faces a two-fold challenge. On the one hand, it needs to be flexible in terms of its counterpart selection so that it can react on frequent political changes. In the words of the COSUDE representative, due to these frequent political changes, "decentralization projects in Ecuador cannot be designed in detail and planned in the long run".¹⁵⁴ On the other hand, a highly flexible approach, although more ef-

151 Interview, Guayaquil, 8th of March 2005.

152 Confidential interviews, Guayaquil, 8th of March 2005 and, Quito, 18th of March 2005.

153 One example is the Ministry of Education as a counterpart of GTZ activities. In August 2004, few days before the planned start of a transparency project, due to political changes and staff turnover within the Ministry other bureaucrats were put in charge of the project. The new staff was opposed to the project and cancelled it immediately. Confidential interview, Quito, 22nd of February 2005.

154 Interview with Roger Denzer/COSUDE, Quito, 4 March 2005.

fective in some aspects, potentially undermines the objective to promote continuity.

5.2.2 Development cooperation as a motor of decentralization

As noted in Chapter 2.3, donors can aim to promote continuity by acting as a motivating force of decentralization. However, it is important to note, that donors can only temporarily take this function and that in the medium and long-run, the process of decentralization has to be driven by domestic actors. Two sets of activities are particularly important in this regard: honest brokerage and the provision of information and transparency.

Development cooperation as an honest broker

Concerning decentralization in Ecuador, development agencies have sometimes acted as honest brokers, particularly with regard to legislative initiatives, which presented major steps forward in the country's decentralization process. Nearly all of these laws have gone through a difficult process of majority building and implementation. The main legislative initiatives in this regard are: the Convenio Marco de Transferencias de Competencias (2001), the Ley de Responsabilidad Fiscal (2002) and the Ley de Régimen Municipal (2004).

The *Convenio Marco de Transferencias de Competencias*, although not implemented in the end, was a very promising initiative since it organized unified demands of responsibilities at a large scale. The Convenio basically aimed to strengthen the provincial level and faced some resistance from AME. Development cooperation and GTZ in particular, played an active role as a mediator and provided technical assistance. Compared to the Ley de Responsabilidad Fiscal and the Ley de Régimen Municipal, the technical part was more important (drafting of the text in cooperation with CONCOPE and CONAM, capacity building/training for CONCOPE and CONAM staff and for provincial councils and mayors). In addition, GTZ facilitated the negotiations in particular by analyzing the consequences of demands and transfers of responsibilities.¹⁵⁵ In the end, 17 unified provin-

155 Interview with Alexandra Pérez, José Suing Nagua and Mario Piñero, Quito, 15 March 2005.

cial demands for the transfer of responsibilities in four sectors were signed.

With regard to the *Ley de Responsabilidad Fiscal*, multilateral and bilateral donors played an important role. IADB and the IMF provided a crucial input in the beginning of the process in so far as both organizations established the passing of such a law as one condition for their aid package during the banking crisis. Development cooperation acted as an honest broker at the point when the process reached a deadlock. Since IADB and IMF continued to exert pressure, the actors involved decided to invite GTZ to act as a mediator. In the following three months, a consensus was reached on all critical points and the law could finally be introduced into Congress.¹⁵⁶ Hence, development cooperation effectively mediated between opponents and thus helped to overcome a deadlock.

Because GTZ had played a mediating role concerning the *Ley de Responsabilidad Fiscal*, the Decentralization Commission of Congress invited the agency to play a similar role with regard to the *Ley de Régimen Municipal*. Two earlier initiatives with a similar goal – the *Ley Orgánica del Régimen – Seccional* and the *Ley Orgánica de Régimen Municipal* – had failed in the 1990s (Suing Nagua 2004, 1–6). During the second reading in Congress, the reform of the *Ley de Régimen Municipal* was rejected. At that time, the Commission contacted GTZ. In addition, ARD3D was cooperating with AME and organized a consulting committee including representatives from national and subnational key players, deputies and consultants. The aim was to keep the project on top of the agenda.¹⁵⁷ The work of GTZ broadly consisted of two sets of activities: technical assistance and honest brokerage. Technical assistance was provided by revising the draft to take criticisms into account. According to GTZ, however, these critical comments resulted from a lack of knowledge and did not reflect true opposition to the legal content.¹⁵⁸ Nevertheless, the drafting and redrafting of the text did not provide a breakthrough. In June 2004, donors thus agreed to invite 95 mayors and inform them about the details of the law. This effort was jointly financed by several donors. This event created the dynamic needed to overcome the deadlock in Congress. The mayors exerted pres-

156 Confidential interview, Quito, 31st March 2005.

157 Confidential interview, Quito, 17th of March 2005.

158 Confidential interviews, Quito, 15th of March 2005.

sure on the President of Congress and on the deputies of their respective provinces to introduce and approve the law. As a result the law was adopted after four years of intensive debates. Thus, on this occasion, donors effectively helped to push through an important step in the country's decentralization process by bringing domestic key players together.

Nevertheless, honest brokerage by donors faces three primary challenges: (i) high level presence, (ii) (im)partiality and (iii) the need for follow-up mechanisms.

(i) High level presence. Honest brokerage requires the rapid identifying of windows of opportunities. The Ecuadorian case shows that identifying and seizing these opportunities depends on established contacts and prior experience on the national level. GTZ, for instance, would not have been able to mediate the processes of the Ley de Responsabilidad Fiscal and the Ley de Régimen Municipal without its earlier work and contacts to the Ministry of Finance and Congress. In addition, high profile interventions are not necessarily compatible with a number of organizational mandates and traditions.

(ii) (Im)partiality. Honest brokerage, as noted in Chapter 2.3, in practice tends to question the term "honest". Put differently, high profile interventions and an active role in national bargaining processes may ultimately entail that donors take sides and become active players of the game. Concerning the Ley de Régimen Municipal, for instance, GTZ and ARD3D cooperated with opposing sides (Congress and AME respectively). Their course of action was thus also influenced by the negotiating behavior of the agencies' respective counterparts. This example illustrates that honest brokerage does not take place in a vacuum. Even as a mediator, donors cooperate with domestic actors and are closer to one actor than to the other(s). Hence, entirely impartial and "honest" brokerage may hardly be realized in practice.

(iii) Need for follow-up mechanisms. The case of the Convenio Marco, which ultimately did not become effective due to CONCOPE's inactivity, shows that brokerage does not necessarily produce sustainable results. Even when brokerage activities result in the effective adoption of a law, assistance is needed to accompany their implementation.

Development cooperation as a driving force of transparency

Some donor activities seek to spread information about decentralization, mainly about legal and fiscal aspects. ARD3D, for instance, organized a forum for local leaders where it informed them about concrete aspects of decentralization, particularly in the sectors of education, health and tourism. The focus was on ARD3D's 15 counterpart municipalities. GTZ provides another example in this regard. In April 2000, the National Decentralization Commission adopted a comprehensive plan for fiscal, political and administrative decentralization (*Modelo de Gestión*). In order to foster the national debate, GTZ suggested the distribution of 8,000 copies of this document in the country.¹⁵⁹

A further focus of donor projects is to enhance transparency in the area of fiscal decentralization. Enhancing transparency is the main objective of GTZ's cooperation with the Ministry of Finance. Concerning the implementation of the Ley de Responsabilidad Fiscal, for instance, a joint World Bank/GTZ project aimed to enhance the transparency of the central government's expenditures and revenues. GTZ, in cooperation with the Ministry of Finance and IADB, also set up an internet-based system that gathered information about the fiscal situation of subnational entities. This project aimed at achieving two goals: firstly, this form of transparency is expected to create incentives for more competition between different governmental entities and secondly, the aim is to implement and push through the regulations included in the Ley de Responsabilidad Fiscal (see section 4.2.3).¹⁶⁰

Donors who aimed at enhancing transparency in order to foster the general decentralization process have dealt with a number of challenges, mainly related to the political will of organizations to provide relevant informa-

159 GTZ (2002): *Dezentralisierung und 'Provinzautonomie'* in Ecuador. Erfahrungen über den Prozess der Dezentralisierung aus der Sicht der GTZ-Beratung. Internal GTZ paper, Quito, 4.

160 Confidential interviews, Quito, 22nd of February and 31st of March 2005. One major problem, as noted in earlier chapters, is the unknown real cost of decentralizing responsibilities. Some donor activities have aimed to overcome this shortcoming. In the context of the Convenio Marco, for instance, GTZ analyzed the fiscal consequences of decentralizing specific responsibilities. Donors who focus at the local, such as the DED, also seek to assess the real cost of public services in order to facilitate the decentralization of responsibilities.

tion. More specifically, donors report that they face two sets of problems. The first problem is the provision of information which is at the same time helpful for technocrats and understandable for third parties. In most cases, transparency projects need to fulfill both objectives. GTZ's activities within the Ministry of Finance, for example, seek to provide information for both insiders and outsiders.¹⁶¹

Secondly, donors have little influence on the final use of the information they provide. In other words, being the driving force of transparency in a way implies the risk of acting independently from domestic actors. Hence, in their efforts to promote decentralization through information and transparency, donors may ultimately develop more ownership than their domestic counterparts.

Development cooperation as a motivator of decentralization – Lessons learned

The term 'change agents' has gained in popularity in development discourse in recent years. Strengthening these 'change agents' is thus described as the most promising approach for donors. Donor experience in Ecuador has shown that this approach works only to a very limited extent.

Acting as a crucial motivator of decentralization has proven to be promising as well as the most demanding mode of intervention. Honest brokerage in the context of crucial legislative initiatives, in particular, has essentially contributed to a more continuous decentralization process and has helped overcome deadlocks. The Ley de Responsabilidad Fiscal and the Ley de Régimen Municipal are most frequently named as the major advances and successes of national decentralization efforts. Multilateral and bilateral donors have played a decisive role in all of these initiatives. It is a major task of donors in Ecuador to closely observe the decentralization process. Honest brokerage requires, first and foremost, the identifying and seizing of windows of opportunity. In the words of one GTZ official, "*if you do not play with political cycles and opportunities, you take part in nothing*".¹⁶²

161 Confidential interview, Quito, 22nd February 2005.

162 Confidential interview, Quito, 15th March 2005.

If donors need to temporarily act as motors of decentralization, they have to accept certain risks. So, in some cases, the outcome of an activity might not always be predictable. In addition, some ways of involvement might turn out be erroneous. Projects will not always lead to a more continuous decentralization process. Finally, it will hardly be possible to act as an entirely impartial and – in this sense – ‘honest’ broker of other actors’ interests. Honest brokerage requires a high profile presence; donors thus have to be careful not to ultimately become an additional national actor. These risks and shortcomings need to be taken into account, but the Ecuadorian case illustrates that the potential of high profile brokerage outweighs the implied risks.

Providing information and enhancing transparency has also produced valuable results and plays an important role as an accompanying activity. By helping to provide a global picture of the decentralization process and by filling specific information gaps, donors have effectively promoted continuity. However, the mere provision of information runs the risk of having limited effect. Hence, transparency related activities can be a supplement, but not a substitute to more direct interventions.

5.3 Donor coordination¹⁶³

In order to counter the effects of excessive fragmentation, such as a lack of coordination and volatility, development cooperation itself must act in a coordinated and coherent way. Otherwise, donors are likely to compound the problems of fragmentation (see chapter 2.3). Representatives of the province of Azuay, for example, stated that

*“...the participation of a whole variety of external agencies in the decentralization process further increases the incoherence of the process. Every agency wants to sell its own model. ... We have sometimes three plans of development in one municipality, varying according to the respective donors.”*¹⁶⁴

According to one IADB representative, recipients of aid in Ecuador are often confronted with “totally contradictory incentives and conditionali-

163 Statements made by interviewees regarding the issue of donor coordination are personal views and do not represent the opinion of the respective organization.

164 Confidential interviews, Cuenca, 11th of March 2005.

ties.”¹⁶⁵ These statements illustrate only two examples for possible negative effects of lacking donor coordination. Under such circumstances, external interventions are likely to contribute rather than to overcome the incoherence of the Ecuadorian decentralization process.

As argued in Chapter 2.3, donors might increase the intensity of coordination in two ways: they might strengthen a coherent demand and aim to align their activities accordingly or aid agencies could seek to offer a coherent supply by more intensely coordinating their own efforts. The case of Ecuador provides a number of best practices as well as shortcomings in these regards.

5.3.1 Strengthening a coherent demand

Various Ecuadorian institutions have played a role regarding the coordination of international assistance. The Consejo Asesor de la Cooperación Internacional (CASI) represents various actors such as the Ministry of Foreign Affairs¹⁶⁶, the National Planning Secretariat (SENPLADES), the Ministry of Finance (MEF) and other line ministries. CASI has been responsible for the elaboration of national policies regarding all external assistance excluding loans. The Instituto Ecuatoriano de Cooperación Internacional (INECI), founded in 2000, in a way served as a secretariat of CASI and has been responsible for the coordination and supervision of all non-repayable foreign assistance.¹⁶⁷ As in most other developing countries, the coordination and supervision of external loans is assigned to the MEF (see Arcos Cabrera 2001, 113).

Donors have sought to strengthen a coherent demand in various ways. INECI was supported by a German expatriate who worked as a member of INECI’s staff.¹⁶⁸ Some other aid agencies are currently also considering to

165 Confidential interview, Quito, 18th of March 2005.

166 The Ministry of Foreign Affairs presides CASI.

167 See Decreto Ejecutivo de Gustavo Noboa Bejarano (Presidente Constitucional de la Republica) no. 611, in: Registro Oficial, no. 134, 3 de Agosto del 2000, pp. 3 et seq.

168 This expert was responsible for general coordination among donors in Ecuador. More specifically, he participated in the thematic donor tables and aimed to coordinate their activities with national processes.

support INECI in the future.¹⁶⁹ In 2002, INECI, together with AECI, COSUDE and USAID, initiated several thematic donor tables.¹⁷⁰ The tables were primarily designed as instruments to strengthen coordination among donors as well as between donors and national counterparts. Since their initiation every table has expanded its own agenda and scope of cooperation (see Oetzel 2005). Most donors have participated at the tables and regarded them as an important instrument of coordination. On the Ecuadorian side, INECI has participated at all tables. Other national institutions have participated at some tables and in the context of specific thematic issues. Decentralization issues have been treated at the governance table and its sub-table for decentralization.¹⁷¹ GTZ was coordinating both tables.¹⁷²

Besides INECI, a variety of other institutions such as CONAM, MEF, SENPLADES, subnational associations as well as some non-governmental institutions occasionally might also have served as sources of a coherent demand and coordination for external interventions. Donors frequently have cooperated with some of these organizations, but this support did usually not have a strategic focus on the strengthening of a coherent demand. An interesting organization has been the “Observatorio de la Cooperación Internacional”, which was established by the ecumenical churches and issues critical reports on donor activities in Ecuador.

The main challenge for donors to align their assistance with national strategies has been the fact that a coherent demand in the field of decen-

169 Belgium has proposed a project to strengthen the Ecuadorian system of aid coordination by financing assistance for training activities and increased information (e. g. creation of a databank) as well as by providing technical assistance for capacity building of national institutions. During the last government negotiations, Spain also agreed to provide funds for the support of INECI.

170 Currently, six thematic tables exist and some tables have sub-tables.

171 The sub-table decentralization was recently abolished and re-integrated in the governance table.

172 The donor tables have been, occasionally, helpful for strengthening a coherent demand. For example, a year ago participants of the poverty table agreed to collaborate together with the Ecuadorian government in the elaboration of a poverty reduction strategy. This strengthened the topic politically and helped that the topic is now treated by the President (Confidential interview, Quito, 3rd of March 2005). From a different point of view, however, this initiative is purely donor-driven and lacks any essential - i. e. more than rhetoric - backing from Ecuadorian institutions.

tralization has simply not been existent in Ecuador. Various interviewees from external aid agencies complained about the lack of a coherent decentralization plan or strategy, which would serve as a point of reference for donor activities.¹⁷³ In addition, decentralization was not a priority topic for the government.¹⁷⁴ Consequently, external assistance in this area has been supply driven rather than demand driven.¹⁷⁵ Although there has been quite a long tradition of attempts to coordinate external activities by the Ecuadorian government (see Arcos Cabrera 2001, 109–115), the Ecuadorian government has, according to some interviewees, just begun to take the role as a coordinator of external assistance more seriously.¹⁷⁶ However, given the fragmented polity in Ecuador, the failure of articulating a coherent demand with regard to external assistance has been of little surprise.

The latter issue has also been reflected in the institutional design and division of labor concerning the cooperation with donors. The latter “has not brought about a definition of a state policy which provides orientation for development cooperation” (Arcos Cabrera 2001, 114). Ecuadorian coordination of external assistance was obstructed by overlapping responsibilities between CASI, SENPLADES, INECI, MEF and other institutions. CASI, which had the responsibility to coordinate the various national actors concerned with external assistance, did not fulfill its tasks. As a consequence INECI, SENPLADES and MEF were seeking to establish a *Comité de Coordinación Interinstitucional*. The creation of the latter committee was considered as a rather pragmatic solution, since it aimed to overcome the vacuum created by the ineffectiveness of CASI without changing the legal basis of the institutions involved. The foundation of the latter committee was an attempt to harmonize some administrative procedures. It also aimed to improve the coordination of national organizations with regard to government negotiations and coordination with donors.¹⁷⁷ A further proposition to strengthen a coherent demand has been to assemble high-ranking government officials and donors for a joint strategy discussion once a year.

173 Confidential interviews, Quito, 16th and 17th of March 2005, see also Oetzel (2005, 6).

174 Confidential interviews, Quito, 3rd of March and 28th of February 2005, Guayaquil, 08th of March 2005.

175 Confidential interview, Quito, 25th of February 2005.

176 Confidential interviews, Quito, 17th of March 2005 and 28th of February 2005.

177 Confidential interview, Quito, 15th of April 2005.

Besides these weaknesses stemming from the general institutional architecture, individual organizations were confronted with severe constraints. So far, INECI has been the most active and successful actor in terms of coordinating external interventions (e. g. by initiating the thematic donor tables). However, INECI was not strong enough to assume the role as a coordinator of external assistance in a more comprehensive manner.¹⁷⁸ INECI was politically weak and primarily represented the Ministry of Foreign Affairs, but not the ministries directly involved in the decentralization process. As a consequence, INECI lacked the ability to formulate a joint strategy. In addition, INECI has been highly politicized. Members of staff were often assigned due to their political affiliations and INECI has been facing the same institutional constraints concerning continuity as other governmental organizations. For instance, only a few days after the most recent change of government from Gutiérrez to Palacio, the head of INECI as well as several members of staff were replaced. Finally, INECI suffered from understaffing, since the institute had only 9 permanent employees. Thus, Arcos Cabrera (2001, 115) concluded that

“... the responsibilities of INECI do not correspond to its institutional basis that is not well developed, technically and politically weak, and highly concentrated – in terms of decision-making power – in the Ministry of Foreign Affairs. Such an institutional design has a high probability to fail.”

Some thematic donor tables, which in principle should have constituted the main forum of coordination between national and external organizations, suffered from the absence of important national counterparts.¹⁷⁹ As a consequence, various tables have been exclusive donor tables rather than real cooperation instruments between the Ecuadorian government and external aid agencies. The governance table has been a case in point. Apart from INECI, national organizations did not participate continuously at the table.¹⁸⁰ However, the participation of national institutions and high-level

178 Confidential interviews, Cuenca, 11th of March and Quito, 07th of March 2005.

179 Confidential interviews, Quito, 23rd of February, 03rd and 04th of March 2005, Cuenca, 11th of March 2005.

180 Some of our interviewees disagreed about the reasons for the absence of national organizations at the governance table. One interviewee asserted that they are only sporadically invited to attend the meetings. In his opinion, this appears to result from a general skepticism of donors regarding national institutions due to their instability and high

government officials appears to be a crucial precondition for the success of such tables.¹⁸¹ In addition, some interviewees from subnational institutions criticized the exclusion of subnational organizations from the table.¹⁸² Others stressed the importance of including subnational institutions in joint cooperation mechanisms in order to integrate subnational approaches into national cooperation strategies with donors, especially with regard to decentralization.¹⁸³

Finally, particularly interviewees from national institutions complained about the difficulties to coordinate donors due to the unwillingness to respond to national demands and the own instability of donors. One ex-CONAM official has pointed out that donors themselves have constantly changed their approaches to assist decentralization.¹⁸⁴ Other interviewees have claimed that due to their constant change of staff, activities of aid agencies have also been characterized by short-term horizons.¹⁸⁵ In addition, donors often were reluctant to respond to national demands in the field of decentralization. For example, except for the IADB to some extent, donors did not use the Plan Nacional de Descentralización as a point of reference for their activities. According to some interviewees, donors, and in particular the multilateral organizations, were rather interested in selling their own models of assistance than to respond to national demands.¹⁸⁶ With regard to the German development cooperation, the involvement of the Ecuadorian government in the development of the Sector Strategy Paper (SSP) for state modernization was unsatisfactory. The Sector Strategy Paper was negotiated with the Ecuadorian government and should have served as a common basis for German assistance. In practice, the Sector Strategy Paper, however, did not represent the main working basis for cooperation with national counterparts.

level of politicization (Confidential interviews, Quito, 28th of February and 15th of April 2005). According to another interviewee, national organizations are invited, but lack the interest to attend the meetings (Confidential interviews, Quito, 04th of March 2005).

181 Confidential interviews, Quito, 28th of February 2005.

182 Confidential interviews, Cuenca, 11th of March 2005.

183 Confidential interviews, Quito, 23rd of February 15th of March and 28th of February 2005.

184 Confidential interview, Quito, 15th of February 2005.

185 Confidential interviews, Quito, 17th of February and 25th of February 2005.

186 Confidential interviews Quito, 15th of February and 08th of March 2005.

In sum, a strategic alignment of donors with the partner country, as demanded by the Paris Declaration (2005), did not take place in the field of decentralization in Ecuador. External aid agencies have explained this lack of alignment by the instability of national institutions and the corresponding lack of a coherent demand. However, discussions about how to handle this situation hardly take place at the governance tables and the donor community was as fragmented as the Ecuadorian polity.

In order to foster the dialogue and cooperation between national counterparts and donors, national counterparts should participate at the governance table. In particular, the experiences of the poverty table, but also of the sub-table Galápagos have shown that the involvement of national institutions and high-ranking officials is a precondition for the formulation of joint strategies and their implementation. Hence, donors should act flexible with regard to the participation of national organizations. If subnational issues are treated or subnational organizations are interested in specific issues, they should also be selectively invited to the table in order to ensure that their concerns or strategies are integrated into national cooperation strategies with donors. In addition, the coordination of individual tables by a tandem of one national and one external institution, as currently debated, would foster the role of the tables as instruments of cooperation between national and external institutions.

5.3.2 Strengthening a coherent supply

In 2005, nine aid agencies were explicitly assisting the decentralization process in Ecuador.¹⁸⁷ According to some interviewees, coordination among donors was, compared to other countries in the region, already quite advanced¹⁸⁸ and the level of coordination was improving due to the

187 These have been ARD3D, BTC, CAF, COSUDE, DED, GTZ, IADB, KfW and UNDP. Some other agencies, such as AECI, SNV, and the European Commission, do pursue projects or programs on the subnational level, which might also indirectly affect the decentralization process. However, since these projects are not focused on decentralization and on shaping the decentralization process as a whole, they can hardly be termed decentralization projects.

188 Confidential interviews, Quito, 07th and 17th of March 2005. Other interviewees (Quito, 04th of March 2005), however, stressed that - compared to other countries (e. g. Mozambique and Nicaragua) - the level of donor coordination is relatively low in Ecuador.

establishment of the donor table.¹⁸⁹ The donor tables have been the main platforms for coordination and most aid agencies active in the field of decentralization attended the meetings. The tables primarily have served as forums for information exchange. In 2004, the decentralization sub-table produced, for instance, an overview about all activities in the area of decentralization of external aid agencies. Some interviewees mentioned that the tables also served as an instrument to discuss general topics, to increase complementarity, and sometimes even to elaborate joint projects.¹⁹⁰

Apart from information exchange, a whole variety of other informal coordination and cooperation activities among donors has existed in Ecuador. Various donors explicitly sought to complement the activities of others. According to one USAID representative, USAID aimed to complement the projects of other donors both geographically and in terms of the nature of activities.¹⁹¹ The World Bank has abstained from assistance in the field of decentralization due to the wide range of decentralization assistance provided by IADB.¹⁹² Moreover, aid agencies often have cooperated on an ad-hoc basis. For instance, in order to exert pressure on the Ecuadorian government to adopt the *Ley de Responsabilidad Fiscal*, GTZ, together with CONAM, introduced the law to the IMF. As a consequence, the IMF made the adoption of the law to a precondition for the provision of further grants, which provided one main incentive for the Ecuadorian government to pass the law eventually.¹⁹³ A further example of ad-hoc coordination was the cooperation among donors regarding the adoption of the *Ley Reformatoria de Régimen Municipal*.¹⁹⁴

In addition, a variety of formal cooperation mechanisms such as joint projects and programs exist in the field of decentralization. COSUDE, for instance, has frequently sought to cooperate with other agencies. Nearly 30 % of COSUDE's projects in Ecuador were co-financed by other donors, above all by GTZ, IADB, and SNV.¹⁹⁵ IADB has been closely coop-

189 Confidential interviews, Quito, 03rd and 04th of March 2005.

190 Confidential interviews, Quito, 04th and 07th of March 2005.

191 Confidential interviews, Quito, 03rd of March 2005.

192 Confidential interviews, Quito, 16th of March 2005.

193 Confidential interviews, Quito, 21st of February 2005.

194 See section 5.2.

195 Confidential interview, Quito, 04th of 2005.

erating with GTZ, ARD3D and World Bank in individual components of its decentralization support program (see IADB 2004; Roundtable Governance/Decentralization 2004). Both IADB and GTZ also worked together with MEF, in order to increase transparency of subnational expenditures as well in the context of a decentralization project in the education sector.¹⁹⁶ IADB and World Bank were considering their participation in a project with KfW and the Banco del Estado. This project also has served as an example of intensified cooperation among several German aid agencies (DED, GTZ, KfW, and InWEnt). German aid agencies have also been cooperating in a variety of other projects (see Roundtable Governance/Decentralization 2004). In addition, GTZ and UNICEF were planning joint activities in the education sector.¹⁹⁷ SNV and AECI were collaborating in USAID's *Proyecto Frontera del Sur*, while ARD3D has been cooperating with GTZ in a follow-up project to the reform law of the *Ley de Regimen Municipal* and with GTZ and UNDP in the *premio MPS* project (see Roundtable Governance/Decentralization 2004).

In addition to cooperation between different donors, various donors were currently aiming to improve internal coherence and cooperation. In 2003, the UN launched a project to increase intra-UN coordination in Ecuador.¹⁹⁸ As a consequence, UN agencies have increased joint consultations, the harmonization of counterparts as well its cooperation with other agencies (e. g. UNDP with HABITAT and UNCT). Further goals included joint working groups as well as joint projects.¹⁹⁹ Belgium has also recently started a process of strengthening internal coherence and coordination. This process has aimed to overcome the lack of coordination among Belgian aid agencies and the dispersion of approaches prior to 2000 (see DGCD 2002, 20, 24) Germany has been seeking to increase the coordination and coherence of its aid agencies by regular consultations on state modernization, a joint sector strategy paper as well as by developing common impact indicators in this field (see Box 7).

196 Confidential interviews, Quito, 22nd of February 2005.

197 Workshop GTZ / UNICEF, Quito, 25 February 2005.

198 This project should also serve as a pilot for general coordination of UN agencies within one country.

199 Confidential interview, Quito, 04th of March 2005.

Box 7: Coordination efforts of German aid agencies

On the one hand, German development cooperation has played a positive role with regard to the promotion of a coherent demand by supporting INECI with a specialist and due to the active participation of most German agencies at donor tables. Except for the support for INECI, however, a targeted effort of German agencies to strengthen a coherent demand and the ability of the Ecuadorian government to coordinate external assistance can hardly be found. A relatively weak Sector Strategy Paper (SSP) was not used as a joint planning instrument. Joint follow-up processes between agencies of both governments and increased information exchange with regard to the preparation of sector strategy papers seem to be necessary in order to include Ecuadorian government agencies in the strategic planning process.

Regarding the coordination with other donors, German aid agencies have played a positive role insofar as the GTZ has been coordinating the governance tables. In addition, German agencies occasionally have cooperated with other donors. However, German agencies have been not more interested in intensifying donor coordination than other donors. German agencies also failed to initiate a close dialogue among donors and national institutions about a national modernization strategy at the governance table as envisaged in the SSP.

Aside from the coordination with other donors, a variety of instruments seeks to coordinate the different German aid agencies. The German embassy has organized regular meetings of all German aid workers in Ecuador (“German Table”). Agencies concerned with activities in the field of state modernization also have met regularly within the “Modern Group”. The SSP has also served as a reference point for German assistance in the field of state modernization. In order to improve the coherence of German assistance, members of the Modern Group are currently developing joint impact indicators based on the SSP. Finally, a sector coordinator has recently assigned to coordinate the activities of German agencies related to state modernization. In addition to these instruments, German aid agencies have attempted to cooperate in various projects.

Thus, on the one hand, intra-German coordination has been more advanced than coordination among agencies from various countries. However, on the other hand, the overall level of coordination between German agencies still was relatively low taking into account that one speaks of assistance from one country only. Coordination at the German table, for instance, generally did not exceed information exchange. This also seems to be the case, even though to a lesser extent, within the Modern Group. One critical participant described the Modern

Box 7 (continued)

Group as a forum without criticism and criticized the lack of joint planning, evaluation or even controversial discussions, which reflects the overall fragmentation of the German aid system. According to several interviewees there was no consensus about the focus on provinces or municipalities among German aid agencies. Furthermore, the activities of political foundations were only rarely included in general strategies, even if several German foundations have been actively engaged in the promotion of decentralization in Ecuador. More generally, the SSP did not constitute a common basis for assistance in the field of state modernization in practice. This also resulted from weaknesses of the SSP, which was too static and did not reflect the fragmented political system of the partner country.

The fairly low level of strategic coordination among German agencies can be attributed to several reasons. The high number of German aid agencies provokes fragmentation, which has made coordination more difficult. Competition and conflicts among German agencies further complicate coordination. Our interviews with German aid agencies have generally reflected a high degree of disputes over responsibilities as well as mistrust among German aid agencies. Finally, the shortage of staff and resources within the German Ministry for Development Cooperation (BMZ) has been problematic because it has reduced the ministries capacity to provide strategic guidance and at to monitor the behavior of competing agencies.

Thus, the level of information exchange is already quite advanced in Ecuador and some cooperation has been taking place on an ad hoc basis. However, information exchange is likely to produce a limited impact only. According to several interviewees, this also appeared to be the case in Ecuador.²⁰⁰ In addition, information exchange seems all but perfect in Ecuador. The overview of donor activities in the area of decentralization, compiled at the donor table decentralization in 2004, was still rather general. More specific information about donor activities did not exist at that time. Participants of the governance tables have also failed to initiate a follow-up process concerning an overview of donor activities in the field of decentralization. There was also no critical discussion with regard to each others projects and with regard to the negative effects of donor frag-

200 Confidential interviews, Quito, 17th of March and 28th of February 2005.

mentation.²⁰¹ Furthermore, some interviewees mentioned that the tables suffered from the absence or only sporadic participation by some important donors such as World Bank, the EU and the IADB.²⁰²

The main problem, however, was that coordination only rarely has exceeded information exchange. For instance, many interviewees complained about the lack of a real policy dialogue at the governance tables.²⁰³ Different approaches to decentralization or more comprehensive strategies seem not to be discussed in depth among donors. Thus, the tables have failed to produce a common vision of decentralization. Instead, matters of detail appear to determine the agenda.²⁰⁴ One representative of COSUDE therefore characterized the function of the tables rather as a network than a forum for the definition of common strategies.²⁰⁵ In addition to the general lack of a real policy dialogue, more advanced forms of cooperation among donors such as joint projects have had only a very temporary character.²⁰⁶ Even though we have listed quite a few joint projects above, the number of joint projects in relation to the overall activities of development cooperation in the field of decentralization has been fairly small (see Roundtable Governance/Decentralization 2004). So far, joint projects still were the exception rather than the rule and joint programs do not exist at all in the field of decentralization. Finally, some interviewees remarked confidentially that there still were several areas of overlapping activities. Donors have often concentrated on particular local entities (e. g. Cotacachi) or institutions (e. g. AME, CONCOPE) without prior coordination of their activities. Subnational associations, in particular, appeared to be confronted with a variety of approaches.

The low level of advanced forms of coordination can be attributed to several reasons. First, donors appeared to have diverging ideas of decentrali-

201 Confidential interview, Quito, 15th of April 2005.

202 Confidential interview, Quito, 04th of March 2005.

203 Confidential interviews, Quito, 03rd of March 2005, 04th of March and 28th of February 2005.

204 Confidential interviews Quito, 03rd of March 2005, 04th of March and 28th of February 2005.

205 Confidential interview, Quito, 04th of March 2005.

206 Confidential interviews Quito, 03rd and 18th of March 2005.

zation.²⁰⁷ The lack of a common normative approach can be partly explained by the absence of a Ecuadorian decentralization plan as well as by low incentives of donors to coordinate their activities, but also by the nature of the topic itself. One World Bank representative argued that disagreements about decentralization did exist in most countries, including donor countries. He therefore concluded that the difficulties concerning donor coordination do not always result from a lack of intention, but rather due to the topic and its pitfalls itself.²⁰⁸ Second, different approaches and inflexible procedures further complicate coordination. One interviewee remarked that there has been no streamlining among aid agencies procedures and bureaucratic requirements. Conflicts among technical and financial assistance make coordination more difficult.²⁰⁹ Moreover, ongoing projects have often left little room for coordination.²¹⁰ Third, aid agencies compete among each other for financial resources, good local personnel and prestige. Interviewees indicated that there is obvious jealousy among agencies. In addition, cooperation among donors also depended to a high degree on personal contacts and thus became a very personalized issue not backed by a consistent institutional setup. Fourth, some donors hesitated to increase coordination due to increased transaction costs. According to a World Bank representative, the World Bank did not participate at the governance table since its number of staff in Ecuador is limited and participation at the table would produce too many transaction costs.²¹¹ Finally, some interviewees stated confidentially that specific national interests have impeded coordination occasionally.

Often, the above-mentioned constraints to intensifying coordination also applied to the internal coherence and coordination of individual donor countries, whose aid system have been characterized by a rather fragmented setting. The coordination of German aid agencies provides an illustrative example in this regard.

207 Confidential interviews Quito, 25th of February and 16th of March 2005.

208 Confidential interview Quito, 16th of March 2005.

209 Confidential interviews Quito, 03rd of March and 25th of February 2005.

210 Confidential interview, Quito, 28th of February and 03rd of March and 04th of March 2005.

211 Confidential interview, Quito, 16th of March 2005.

In sum, the level of coordination that was less advanced has been the harmonization of goals and normative approaches with regard to the decentralization process. However, particularly the development of a common idea of the process appears to be crucial to countering the incoherence of Ecuador's decentralization process. Furthermore, the harmonization of goals and approaches has been not only necessary to avoid contradictory efforts, but has been also a precondition for intensified donor coordination itself. According to one interviewee, the formulation of a common vision and joint approaches has been more difficult in the field of governance than in other fields, since "governance is a fairly diffuse topic."²¹² Although this might be true to some extent, this cannot generally explain the lack of a strategically oriented dialogue about common aims and approaches. Incidentally, the lack of such a dialogue has come along with numerous complaints about the lack of a real policy dialogue. Hence, donors have not made a serious attempt to critically discuss their individual approaches and develop a common idea of the decentralization process.

6 Conclusions and recommendations

From an empirical perspective, this study was concerned with two major questions: (1) What have been the main causes for the defects of Ecuador's decentralization process? (2) Given these causes, what has been the response of development cooperation to support Ecuador's decentralization process? To answer these questions, we have not focused on particular sectors or specific regions, but were concerned with the overall decentralization process and have analyzed this process from an aggregated "bird's eye" perspective. Furthermore, this study also aimed at achieving some more general insights about the political economy of decentralization in fragmented polities respectively the strategies donor agencies have to adopt in such political contexts.

From an analytical perspective, we have argued that coherence is a basic ordering principle for successful decentralization processes. Our concept of coherence, however, does not imply that successful decentralization has to be necessarily "symmetric". If conceptually justified, a differentiated

212 Confidential interview, Quito, 28th of February 2005.

allocation of political, fiscal and administrative capacities among different levels of government and between different policy sectors does not contradict the principle of coherence. Therefore, the term coherence first and foremost relates to a “programmatic” coherence of the overall decentralization process. Furthermore, decentralization processes are, almost by definition, characterized by advances in specific areas and deadlocks in others, and incoherence is therefore part of each decentralization process. However, coherence should not be violated in a permanent, systematic manner.

Given this background, we have distinguished four types of coherence: (1) coherence between policy sectors; (2) coherence between the three dimensions of fiscal, administrative and political decentralization; (3) vertical coherence between different levels of government; and (4) horizontal coherence between subnational entities at one level of government.

Our empirical findings have shown that – despite some advances regarding the various dimensions of decentralization – Ecuador’s decentralization process as a whole has been characterized by the frequent and systematic violation of all coherence criteria. Without any conceptual justification, some sectors such as tourism and environment have been (formally) decentralized, while other sectors such as education and health have remained highly centralized. In addition, transfers of responsibilities were mostly not accompanied by a corresponding transfer of fiscal resources and vice versa. Furthermore, substantial overlaps of responsibilities have existed between the central government and subnational governments. Finally, certain public services are offered by some municipalities and not by others even if these municipalities share structural similarities such as size and level of poverty. As a consequence, Ecuador’s decentralization process has been extremely incoherent and, thus, highly defective.²¹³

From a political economy perspective, decentralization processes by definition go along with coordination problems and distribution conflicts – decentralization comes along with serious collective action problems. Politically relevant actors – their interests, capacities and constellation – largely determine in how far these challenges can be overcome. The interests and the constellation of politically relevant actors therefore strongly

213 We have also shown that a number of specific ordering principles such as subsidiarity, fiscal autonomy and participation are frequently violated in Ecuador.

influence how a decentralization process is organized and in how far incoherence can be kept at a tolerable level. Political parties are of special importance in this regard. Because, ideally, they seek to be elected at all levels of government, in a competitive environment at least large political parties have the incentive to aggregate interests of different sectors of society, levels of government and policy sectors. Therefore, they are most likely to act as organizers of the encompassing interest and to play a crucial role in terms of drafting and implementing a comprehensive decentralization process that keeps incoherence within certain limits.²¹⁴ If however, the party system shows strong signs of fragmentation, political parties will rather act as special interest groups unable to provide coherence to the decentralization process.

Our empirical findings support this analytical claim. Regression analysis including empirical evidence from almost all Latin American countries has shown an inverse-U relation between the level of political fragmentation and the course of the decentralization process. Thus, in Latin America, decentralization processes have been negatively affected by fragmented polities and especially by fragmented party systems. Beyond this cross-country evidence, this study has taken a closer look at how political fragmentation affected the course of decentralization in Ecuador.

At least until 2005, Ecuador's political system has been highly fragmented due to a high number of veto-players as well as due to a high degree of volatility at all levels of government. In terms of volatility and number of effective parties, Ecuador was among the most fragmented party systems in Latin America. Thus, political parties, which, in principal, should be able to aggregate special interests into a national project, did not exist in Ecuador. Instead, political parties mostly represented narrow regional or specific sector interests and were characterized by personalism and clientelism.

As a consequence, the ability of parties to overcome the coordination problems and distribution conflicts inherent to decentralization has been very limited. They generally did not succeed in linking the different levels of government and in developing national policy projects. Consequently, political parties did not fulfill their role as organizers of encompassing

214 In addition to political parties, other actors such as civil society and the military might also play an important role regarding state reform and decentralization.

societal interests and were not able to formulate long-term projects of state reform and decentralization. Other potential organizers of such an encompassing interest like civil society or the military were also unable to fill the vacuum left by the political parties. Thus, particularistic interests have determined the shape of decentralization in Ecuador. In addition, a variety of temporary, structural and institutional context factors such as macro-economic instability, regional cleavages and the electoral system have compounded coordination problems and distribution conflicts.

Thus, our analysis has clearly revealed that decentralization is highly political and that the constellation of actors is of key importance for the outcome of the process. The case studies presented, concerning the emergence of the four types of incoherence have shown that special rather than encompassing interests have prevailed in Ecuador. Quantitative exercises, based on a large data set containing information on characteristics of municipalities, largely support the result of our qualitative findings. The fragmentation of Ecuador's political system and in particular the lack of organizers of the encompassing interest has led to the high degree of incoherence that we observe. Particularistic actors such as the central government, subnational governments, subnational associations, bureaucracies and unions behave as predicted by our theory and pursue their special interests with regard to decentralization. At the same time, political parties could not fulfill their role as organizers of the encompassing interest. They have been unable to elaborate and implement comprehensive policy plans to foster a coherent decentralization process. This has contributed to different forms of incoherence.

Given the specific challenges of fragmented polities with regard to state modernization and decentralization, development assistance has to adopt its strategies to such a specific context. In order to overcome the particular constraints for successful decentralization processes in a fragmented political system, development cooperation needs to adjust its strategies and develop specific concepts for supporting decentralization in fragmented polities. In particular, donor agencies face three main challenges, to which they need to respond accordingly.

- (1) In order to overcome the lack of horizontal and vertical coordination, which severely contributes to the incoherence of the decentralization process, aid agencies need to support the sporadic attempts of coordination among domestic actors.

- (2) Due to the high degree of political volatility, which converts decentralization processes into stop-and-go-processes characterized by deadlocks and sporadic advances, aid agencies should attempt to promote the continuity of the decentralization process.
- (3) Because donor fragmentation is likely to deepen political fragmentation on the partner side respectively compound the incoherence of the decentralization process, donor coordination has to be a top priority in fragmented political settings.

In addition, we have analytically distinguished two different strategies for aid agencies to deal with these challenges. The first strategy (*counterpart focus*) is the somewhat traditional approach, which aims to work closely with individual domestic counterparts. It seeks to strengthen ‘change agents’ in order to promote coordination and continuity. In terms of donor coordination this strategy means to strengthen counterpart structures (demand side). So far, most agencies have preferred this approach because a close cooperation with individual domestic counterparts promises the realization of the ownership principle and tends to advance single donor projects. However, while this strategy is likely to be successful in stable political systems, in fragmented political systems the concentration on the cooperation with particular counterparts can easily result problematic because of two reasons. First, due to the volatility and instability of the system, actors, especially on the national level, change frequently. Second, even if donors are able to work with a political actor on a long-term basis, in a fragmented setting this actor is unlikely to represent a stable majority.

As a consequence, we have proposed a complementary strategy to assist state reform processes in fragmented political systems (*donor focus*). This strategy requires a more active role of development cooperation and puts emphasis on organizing a coherent decentralization process. Thus, given the conditions of extreme political fragmentation, donors might at least temporarily be forced to act as coordinators of decentralization themselves. In terms of donor coordination this strategy implies a more active role of the donor community (supply side). This complementary strategy, however, does by no means imply that donors should aim to push through their own models, but rather that they should seek to help aggregate domestic interests and promote coherence of the process.

Our empirical findings have shown that donors occasionally aim to coordinate domestic actors, promote the continuity of the process, and coordi-

nate their assistance. However, most donors lack specific concepts that allow them to effectively deal with the three core challenges of the fragmented context in Ecuador. We have analyzed donor experiences and various lessons can be learnt with regard to the 1) coordination of the decentralization process, 2) its continuity and with regard to 3) donor coordination.

Ad 1) With regard to the coordination of the decentralization process, interventions that have sought to strengthen capacities of domestic coordinating bodies, by and large, turned out to become a victim of, rather than a remedy for fragmentation. This type of intervention requires a certain stability and existing capacity of actors, a condition that has been hardly ever met in Ecuador. Although a number of interventions have produced positive results, this approach cannot be the main backbone of donors' decentralization activities in the fragmented environment of Ecuador. Furthermore, donor agencies have hardly fulfilled the role of coordinator of the decentralization process in Ecuador. The bulk of donor activities has still been focused on local projects that are not explicitly linked to the overall decentralization process. Most projects have failed to disseminate best local practices horizontally or vertically. As a result, most local advances have remained isolated and did not effectively foster a more coherent national decentralization process.

Ad 2) With regard to the continuity of the decentralization process, the strategy to strengthen motors of decentralization has also had a very limited potential in the fragmented setting of Ecuador. It has been difficult to identify organizations that effectively contributed to a more continuous decentralization process. In addition, donors have sought to be more flexible in terms of their counterpart selection so that they could react to frequent political changes. This flexibility, however, potentially has undermined the objective to promote continuity. Acting as a motor of decentralization itself has proven to be the most promising as well as the most demanding mode of intervention. Organizing a dialogue between key players and mediating between differing opinions (honest brokerage) in several occasions has essentially contributed to a more continuous decentralization process and has helped to overcome deadlocks. Thereby, donors have helped to promote a number of crucial legislative initiatives.

Ad 3) With regard to donor coordination, there has only been little progress. The coordination of donors by Ecuadorian institutions and a strate-

gic alignment of donors and the partner country have not taken place in the context of decentralization in Ecuador. Aid agencies have explained this lack of alignment by the instability of national institutions and the corresponding lack of a coherent demand. However, discussions about how to handle this situation hardly has taken place at donor coordination tables. In addition, donors themselves have had difficulties in responding to a coherent demand side since their activities have been also often characterized by short-term considerations and they have tended to be unwilling to lose autonomy. Thus, donor coordination hardly exceeds the level of information exchange. Although some joint initiatives have existed, there has been no systematic harmonization of goals and approaches. In particular, a political and strategic dialogue among donors was lacking. Various factors such as diverging normative approaches, inflexible procedures, aid agency competition, increased transaction costs, and national interests of donors explain this lack of more strategic forms of coordination. As a consequence, one major reason that donors have had only limited success in supporting the coordination and the continuity of the Ecuadorian decentralization process has consisted in the development communities' own weakness, namely its own level of institutional fragmentation.

Given these conclusions, one can deduce some *general recommendations* for aid agencies, which attempt to provide support for decentralization processes in fragmented settings:

Most importantly, even though coherent decentralization has been severely hampered by the fragmented nature of Ecuador's political system, we recommend continuing donor support for decentralization. This recommendation is based on the observation that decentralization is a cross cutting issue, which forms an essential part of all areas of state reform and that defective decentralization in the long run will produce negative externalities for other major development issues (e. g. environmental policies, improving the education system and health sector reform). Furthermore, as Ecuador's fragmented setting most domestic counterparts have served as long-term oriented 'change agents' only to a limited extent, donors should intensify their efforts to promote coordination and continuity of decentralization as well as to increase donor coordination. In general, aid agencies should pursue the following general principles, when attempting to promote decentralization reforms in fragmented political settings:

- (4) First, in order to adjust strategies to frequently changing environments and to benefit from windows of opportunity aid agencies need a high degree of flexibility and openness with regard to the choice of counterparts and modes of intervention.
- (5) Second, assistance must operate process-orientated and seek to link various levels of government. Otherwise it is likely to fail to have a significant impact on the overall decentralization process.
- (6) Third, a continuous political mapping and a close observation of the decentralization process promises to help identify windows of opportunity and avoid the pitfalls of frequently changing actor constellations to some extent.

Beyond these general principles, donor activities in a fragmented polity have to be aware, that by only substituting the shortage of domestic organizers of the encompassing interests, the sustainability of reforms will not be achieved. In the long run, sustainability cannot be reached without the emergence of domestic actors, especially parties, capable of organizing the encompassing interest. *Still, in the short and medium term a more active role can be a "first best" strategy in a "third best" environment.* In addition, there are good reasons to believe that this kind of process organization can create incentives for actors to engage in more encompassing and long-term activities.

- (7) In order to provide coordination, aid agencies should operate at all levels of government and aim to link these levels of government as part of their assistance strategies. Subnational associations, in the Ecuadorian case AME and CONCOPE should be strengthened as horizontal linkers in order to strengthen collective action capacities at the subnational levels. Moreover, aid agencies should also intensify their cooperation with political parties by providing information and assistance for those parties interested in strengthening decentralization policies. For identifying windows of opportunity, aid agencies should support the search for areas of consensus among counterparts (e. g. joint workshops, open discussions). Dissemination strategies of local or sector best practices need to be a central part of project and program designs and new concepts for dissemination strategies need to be developed.
- (8) Aid agencies should intensify their efforts to act as *honest brokers* in order to initiate and mediate the dialogue among domestic actors and to strengthen legislative initiatives as well as other forms of

vertical and horizontal coordination among domestic actors. For that purpose, aid agencies need qualified local staff with a high degree of technical and political expertise. Furthermore, aid agencies should provide follow-up measures and closely accompany implementation processes resulting from honest brokerage. Aid agencies should provide information (e. g. about benefits and costs of decentralizing responsibilities) and foster the dialogue about decentralization with and among important veto-players. Cooperation agreements with national counterparts should include safeguard clauses and provide for arbitration mechanisms in the case of exceptional changes (e. g. change of administrations).

- (9) Finally, aid agencies should attempt to strengthen the functions of donor tables for strategic policy dialogue with the Ecuadorian government. Donor tables should not only function as a mechanism for information exchange but rather be focused on elaborating joint strategies with the partner government. Donor tables on state modernization respectively decentralization should be moderated by a tandem of a national institution and one aid agency and should be guided by management of objectives. The Ecuadorian counterpart at the donor table should receive increased technical and financial assistance in order to strengthen his alignment function. Finally, aid agencies should initiate a strategic policy dialogue that treats the issue of the aid community's fragmentation and aims to harmonize objectives and approaches.

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- “100 sindicalistas frenan el plan descentralizador” in: *El Comercio*, June 18th, 2003
- “Se inició el paro de los trabajadores de la Salud” in: *El Comercio*, December 17th, 2003
- “La salud pública vuelve a la normalidad tras levantamiento del paro” in: *El Comercio*, June 18th, 2003
- “Lucio Gutiérrez cumple hoy dos años en el poder” in: *El Comercio*, January 15th, 2005

List of Interviewees

Interviewee	Organization	Function
Acurio Páez, David	Provincial Council of Azuay	Director Technical Secretary of Planning
Albornoz, Vicente	CORDES	Director
Almeida, María Dolores	GTZ PROMODE	Consultant
Armijos, Oscar	GTZ (PROMODE Guayaquil)	Consultant
Bonilla, Adrian	FLACSO	Professor
Bott, Laura	UNDP	Official of Governance Program
Burbano, Felipe	FLACSO	Professor
Burgwal, Gerrit	DED	Coordinator of the Local Development Program
Bustamante, Agosto	Junta de Gobierno, Tungurahua	Civil Society Representative
Carrión, Fernando	FLACSO	Professor and Ex-Director
Carvajal, Edgar	IADB	Consultant
Constante Espinoza, Bayardo	Municipality Cevallos / Municipal Association of the Province of Tungurahua	Mayor, President of the Municipal Association of the Province of Tungurahua
Corbos, Miguel	Municipality of Guayaquil	Director of Institutional Development Section
Cordero, Fernando	Nueva Ciudad	Ex-Mayor Cuenca
Correa, Rodrigo	Playas (PRIAN)	Mayor
Denzer, Roger	COSUDE	Coordinator Ecuador Office
Donoso, Rafael	GTZ PROMODE	Consultant
Espinoza, Betty	FLACSO	Professor

Estrada, Rafael	Provincial Council of Guayas	Vice-Prefect
Ferrufino Quiroga, Katja	Provincial Council of Azuay	Local Governance and Organizational Development
Gaete, Yolanda	GTZ-PROMODE	Consultant
Gallardo, Gloria	PRIAN	Coordinator of Technical Unit
Gallardo, Verónica	GTZ PROMODE	Consultant
Garcés, Ana	ARD3D	Technical Coordinator
García, Manuel	AECI	Director
Gonzalez-Rubio, Felix		Consultant, formerly director of the decentralization unit of CONAM (2000-2002)
Gussenhoven, Sjef	SNV	Director SNV Ecuador
Gutiérrez Vallejos, Emma	BTC	Program Officer
Hernandez, Virgilio	PACHAKUTIK	Consultant (Ex-Vice-Director)
Hurtado Borbúa, Alex	ECORAE	Director
Jacomé, Monica	GTZ	Consultant of PROMACH
Lara, Alberto	Corpo Ambato	Technical Engineer
Larrea, Ana Maria	IEE	Investigator
Madera Velásquez, Ing. Juan Carlos	Municipality of Guayaquil	Coordinator of Social Planning
Molina Flores, Mauricio	Corpo Ambato	General Secretary
Moore, Thomas	USAID	Consultant Democracy and Governance
Moreno, Ruth	Municipality of Guayaquil	Former member of Congress
Moreta, Carlos	MITA	President

Naranjo Lalama, Ing. Fernando	Provincial Council of Tungurahua	Prefect
Oetzel, Ralf	INECI/CIM	Consultant
Ojeda, Laudario	Seguridad Cívica	
Olsen Pons, Lorens	AME / Bucay (PSC)	President / Mayor
Onofre Doylet, Arq. Manuel	Provincial Council of Guayas	Director of Planning
Ospina, Pablo	IEE	Investigator
Pachano, Simon	FLACSO	Professor
Paz Martinez, Dr. Ing. Javier	Provincial Council of Guayas	Director of Concession Unity
Pérez, Alexandra	GTZ PROMODE	Consultant
Piedra, William	GTZ PROMODE	Consultant
Rivadenayera, Heckel	Provincial Council of Napo	Vice-Prefect of Napo
Rivera, Héctor A.	ARD3D	Project Director Decentralization Democratic Local Government
Rosero Ortiz, Wladimir	CONCOPE	Planning Consultant
Rothfritz, Helga	KAS	KAS Representative in Ecuador
Salazar, Pablo	FLACSO	Professor
Schlegl, Armin	HSS	Representative of Hanns Seidel Foundation in Ecuador
Sinchiguano Llumiluisa, Héctor		Ex-Mayor of Tena
Somensatto, Eduardo	World Bank	Country Director
Soria Paredes, Luis Alberto	Municipality of Archidona	Mayor

Suing Nagua, José	GTZ	Consultant
Tello, Eudoxia	KfW	KfW Representative in Ecuador
Torres Lara, Jaime	FLACMA	Executive Director
Torres Maldonado, Angel	AME	
Unda, Mario	CIUDAD	Investigator
Varela, Ing. Washington	Municipality of Tena	Mayor
Vega, Gustavo	Municipal Council of Cuenca / Ciudad Nueva	Councilor
Vega, Macarena	ARD3D	Coordinator of the Decentralization Component
Wirsig, Waldemar	GTZ	Principal Consultant PROMACH
Zimmermann, Janos J.	GTZ PROMODE	Director

List of Meetings

Meeting	Organization	Date
Round Table on Governance	FLACSO	15 Feb. 2005
Project Presentation	GTZ	15 Feb. 2005
Project Presentation	FLACSO	17 Feb. 2005
Workshop on development cooperation and decentralization	GTZ-PROMODE	21 Feb. 2005
Workshop on Fiscal Decentralization	GTZ-PROMODE	22 Feb. 2005
Round Table on Possibilities of Cooperation	GTZ-PROMODE and UNICEF	25 Feb. 2005
Round Table German Development Cooperation in Ecuador	German Embassy, German and EU aid agencies	07 March 2005
Workshop on Ley de Régimen Municipal and Convenio VATA	GTZ-PROMODE	15 March 2005
Meeting	G9 Group	23 March 2005
Meeting	Modern Group (German aid agencies)	18 March 2005
Presentation of Research Results	FLACSO	25 April 2005
Presentation of Research Results	Modern Group	25 April 2005
Presentation of Research Results	IADB, Washington, DC	27 April 2005
Presentation of Research Results	World Bank, Washington, DC	29 April 2005

Annex

Annex 1: Distribution of Main Intergovernmental Transfer Systems

Distribution of FODESEC

2 % of current revenue of central government (100 %)	2 %	Municipalities ranked as provincial capitals: – 25 % Quito Municipality – 25 % Guayaquil Municipality – 50 % All other Municipalities		
	98 %	20 % Provincial Councils	70 % Current Spending 30 % Investment	Distribution: – 60 % Population – 20 % Territorial Extension – 20 % "Basic unsatisfied needs"
		5 % Emergencies	Municipalities and Provincial Councils	
		75 % Municipalities	60 % Municipalities 40 % "Fondo de Inversión Municipal" (Banco del Estado)	Distribution: – 60 % Population – 30 % "Basic unsatisfied needs" – 10 % Administrative efficiency – Subsidies for projects – Incentives for savings – Credit
Source: Arze / Martin-Vazquez (2003, 27); Frank (2003, 379)				

Distributional Criteria of the “15 % Law” (1997)	
Source	15 % of Current Revenue of Central Government
Scheduled Increase of Transfers	1997: 3 % 1998: 7 % 1999: 9 % 2000: 11 % 2001: 15 %
Distribution Criteria per Level of Government	70 % Municipalities 30 % Provincial Councils
Distributional Criteria for Municipalities	10 % In equal shares 40 % Population 50 % “Basic unsatisfied needs”
Distributional Criteria for Provincial Councils	10 % Territorial extension 40 % Population 50 % “Basic unsatisfied needs”
Source: Frank (2003, 388)	

Resumen en Español

DESCENTRALIZACIÓN Y LA COOPERACIÓN INTERNACIONAL EN EL ECUADOR

Este artículo es un resumen del reporte en lengua castellana. El reporte surgió de un proyecto de investigación del Instituto Alemán de Desarrollo. Bajo este contexto, los autores han realizado un estudio de campo en el Ecuador desde febrero hasta mayo del año 2005. En la investigación se ha evaluado literatura secundaria, informes políticos, datos estadísticos y se han conducido más de 60 entrevistas con expertos en temas de descentralización y temas de la cooperación internacional.

I. INTRODUCCIÓN

Junto con los procesos de democratización y liberalización económica, los procesos de descentralización han marcado el cambio del Estado en América Latina durante las últimas décadas. Al comienzo del nuevo siglo, pese a los indudables avances, muchos de los procesos están, sin embargo, caracterizados por defectos significativos.

Dados los efectos positivos de una descentralización adecuada por un lado, y las dificultades que enfrenta la implementación de dichas reformas por el otro lado, la cooperación internacional en muchas ocasiones ha enfocado sus esfuerzos en procesos de descentralización. Pero aunque muchos recursos de los donantes hayan sido dirigidos a esta área, la politización de dichos procesos como también los déficits de la cooperación internacional misma han creado enormes problemas acerca del uso eficiente de estos recursos.

Dentro de este contexto, se tratará de analizar el proceso de descentralización y el rol de la cooperación internacional en el Ecuador en el período 1997-2005. Trataremos de demostrar que apesar de un proceso descentralizador en el Ecuador durante la última década, este proceso ha sido lento y caracterizado por la falta de una visión coherente y de largo plazo por parte de los actores involucrados. Esto se ha manifestado en dos defectos principales: Primero, un proceso desequilibrado provocado por la desconexión de la descentralización administrativa y la descentralización fiscal. Segundo, un proceso incoherente con respecto a la coordinación

vertical (entre diferentes niveles de gobierno) y, a la coordinación horizontal tanto al nivel cantonal como al nivel provincial.

Estos defectos y varios problemas específicos dentro de la dimensión administrativa y fiscal han sido causados principalmente por la fragmentación política del país, que se caracteriza primordialmente por un sistema de partidos atomizados y regionalizados. Debido al alto peso de intereses particulares y regionales, los partidos políticos en el Ecuador no han asumido el papel de organizaciones que agregan los intereses de amplios sectores de la sociedad y formulan programas y estrategias, amplias y coherentes. Esto ha impedido que los partidos disminuyan los problemas de coordinación y los conflictos distributivos endógenos de la descentralización. Además, la alta volatilidad a nivel nacional no ha permitido que se hayan elaborado estrategias de mediano y largo plazo.

En este contexto, la cooperación internacional ha tenido grandes dificultades de encontrar contrapartes a nivel nacional, con las cuales se pueda mantener una relación fructífera y de largo plazo. Como alternativa, muchas veces ha concentrado sus esfuerzos al nivel local. Sin embargo, aunque este enfoque a lo local puede causar un cierto mejoramiento a nivel local, caben dudas si esta estrategia puede ayudar a que se supere la incoherencia del proceso de la descentralización como defecto principal. Además, una coordinación deficiente y la rivalidad muchas veces existente entre las diferentes organizaciones de la cooperación pueden aún agravar la inconsistencia del proceso. Por esto, para llegar a una cooperación efectiva y eficiente la cooperación internacional debe tratar de 1) fortalecer la coordinación dentro del proceso de la descentralización 2) promover la continuidad del proceso y tercero 3) mejorar la coordinación entre los donantes para llegar a un fortalecimiento del proceso y para mejorar la coordinación entre los actores políticos.

II. MARCO ANALÍTICO

Desde los años setenta ha surgido un debate intenso sobre los principios a los que debe seguir un proceso de descentralización para lograr tanto un mejor desempeño socioeconómico como una elevada legitimación democrática. Los principales argumentos a favor de la descentralización han sido (Shah / Thompson 2002, 4):

- 1) que un Estado más cercano a la ciudadanía reduce el potencial discrecional de toma de decisiones por el lado de actores estatales,
- 2) que recursos propios y autonomía administrativa, por parte de gobiernos subnacionales, les permite adresar adecuadamente las necesidades de los ciudadanos
- 3) que competencias administrativas junto con recursos propios provoca un proceso competitivo y innovador entre las entidades subnacionales.

Ahora bien; un Estado descentralizado que produce estos resultados positivos debe concordar con el principio de subsidiaridad. Esto significa, que deben ser descentralizadas solamente aquellas áreas, que puedan ser manejadas de mejor manera por los gobiernos subnacionales (Schilling 1995). Para esto, las áreas en las cuales el gobierno nacional puede producir mejores resultados con respecto a bienes colectivos no deben ser descentralizadas como por ejemplo la seguridad externa, la garantía de un mercado común interno y el conjunto de políticas macroeconómicas. Apesar del principio de subsidiaridad, un Estado exitosamente descentralizado debe tomar en cuenta la coherencia del proceso en lo vertical (diferentes niveles de estado) como en lo horizontal (en un nivel de estado) y el equilibrio entre la dimensión política, administrativa y fiscal de la descentralización.¹

Existente un ramo normativo con principios ordenadores que funcionan como un norte para alcanzar un proceso exitoso de descentralización, resulta la pregunta sobre la brecha entre lo normativo y la heterogeneidad empírica. Dedicándonos a esta pregunta, recurrimos a los conceptos de la Nueva Economía Política (NPE) que se enfoca en la relación entre actores estratégicos e instituciones – las reglas formales e informales del juego político (North 1986). Un aspecto clave, dentro de estos conceptos, es que las transformaciones institucionales tienden a producir efectos redistributivos y así producen conflictos de distribución entre los actores involucra-

1 La dimensión política debe garantizar la legitimidad democrática de los gobiernos subnacionales. La dimensión administrativa debe definir claramente las competencias de los diferentes niveles del Estado siguiendo el principio de subsidiaridad. La dimensión fiscal debe ortogar ciertas competencias fiscales de generar ingresos propios para los gobiernos subnacionales y a la vez, debe garantizar desde una perspectiva solidaria un mínimo de recursos financieros por vía de transferencias, y pone límites al endeudamiento subnacional.

dos que se dividen en ganadores y perdedores de las reformas. Desde una perspectiva individual, sería racional para los actores involucrados tratar de influir en dichos procesos de acuerdo con sus intereses particulares aunque esto podrá influir de manera negativa el interés colectivo (Olson 1965; Weingast 1997, 248–49). Desde esta perspectiva, procesos de descentralización pueden ser interpretados como reformas institucionales que implican dificultades de acercar los intereses particulares de actores involucrados al interés colectivo de una “buena” descentralización. Sin embargo, dado que conflictos distributivos y problemas de coordinación son endógenos de cualquier proceso de descentralización, resulta la cuestión, ¿bajo qué condiciones estos desafíos se reducen o aumentan?

Factores contextuales: Factores contextuales se constituyen por *aspectos estructurales* como, por ejemplo, la heterogeneidad existente en los diferentes niveles subnacionales. Si encontramos una gran heterogeneidad al nivel subnacional, se complicará la coordinación a nivel subnacional, ya que esta heterogeneidad implicará también una heterogeneidad de intereses por parte de las entidades subnacionales. Aparte, factores contextuales también se constituyen por *características más bien coyunturales* como, por ejemplo, crisis económicas o inestabilidad política. Bajo estas circunstancias, los actores tienden a descontar posibles ganancias en el futuro a favor de intereses particulares de corto plazo y raras veces van a dedicarse a coordinarse y implementar estrategias cooperativas de largo plazo (Axelrod 1984).

Constelación de actores: Mientras reconocemos las dificultades de conflictos distributivos y problemas de coordinación como también la influencia importante de factores contextuales, destacamos también, que *actores con potencial de organizar el interés colectivo* son claves para reformas institucionales exitosas. Estos *actores con potencial de organizar el interés colectivo* se caracterizan por el hecho, de que sus intereses particulares pueden ser congruentes con el interés colectivo (Olson 1997, 49). En procesos de descentralización, ni los gobiernos subnacionales ni el gobierno central cumplen esta característica, ya que la descentralización afecta tan fuerte a sus intereses particulares, que tienden a ser incapaces de formular estrategias que van más allá de una perspectiva particular de un dado nivel de estado. A su vez, las organizaciones intermediarias entre el Estado y la sociedad y principalmente los partidos políticos *pueden tomar este rol bajo ciertas circunstancias*. Si los partidos políticos cumplen con

su función primordial de agregar intereses y formular como también – si forman parte del gobierno – implementar programas políticos, que reconocen un espectro amplio de intereses de la sociedad. Sin embargo, partidos políticos solamente estarán capaces de formular programas amplios, si ellos se basan en un electorado amplio. Partidos, cuyos votos principalmente provienen de ciertos grupos pequeños con intereses muy particulares solamente representarán un muy limitado espectro de intereses de la sociedad. Por esto, en democracias con sistemas de partidos muy fragmentados con muchos partidos pequeños, las estrategias de los partidos representarán más bien solamente intereses particulares de grupos pequeños (Olson 1965).

Consecuentemente, partidos en sistemas fragmentados no estarán capaces de actuar como organizadores del interés colectivo. Más concretamente, partidos en sistemas fragmentados tendrán muchas dificultades de agregar los intereses conflictivos de los actores sectorales, regionales y de diferentes niveles del Estado a un programa coherente y amplio de descentralización. A lo igual, solamente una sociedad civil ampliamente organizada y representativa puede aumentar la presión a los partidos para que agreguen más intereses en sus programas. Sin embargo, la sociedad civil no puede sustituir a los partidos políticos a nivel nacional, porque las organizaciones de la sociedad civil muchas veces también representan intereses particulares orientados en asuntos específicos.

III. EL PROCESO DE DESCENTRALIZACIÓN EN EL ECUADOR

El período de investigación de este estudio (1997–2005) abriga una actividad elevada de descentralización en el Ecuador tanto por parte de los actores internos como por parte de la cooperación internacional. Pero a pesar de que había varios avances considerables en este período – como la Ley de Responsabilidad Fiscal o la reforma a la Ley de Régimen Municipal – el proceso de la descentralización en Ecuador ocurrió de una manera incoherente y desequilibrada. En cuanto a nuestro interés principal de explicar las limitaciones que los procesos de descentralización han tenido en sistemas políticos altamente fragmentados y volátiles, y de averiguar las opciones de la cooperación internacional para llevar adelante a estos procesos, el caso de Ecuador parece particularmente interesante por dos razones: (i) Por un lado, el contexto político está caracterizado por una extrema fragmentación tanto del sistema político como de los actores

políticos. (ii) Por el otro lado, el proceso de descentralización ha mostrado una dinámica interesante en los últimos años contando con una amplia rama de intervenciones de diversas agencias de la cooperación internacional.

Tanto el sistema político como los actores en el Ecuador, especialmente los partidos políticos, están altamente fragmentados. El regionalismo divide el país en los planos económico, político y cultural. Las tres principales regiones – costa, sierra y oriente – tienen contextos estructurales tan diversos que parece muy difícil de agregar intereses y de orientarlos hacia bienes colectivos de carácter nacional. Además, la multiétnicidad del país contribuye a la fragmentación estructural y a la diversidad de intereses. Este hecho ha adquirido importancia desde que el movimiento indígena ha ganado peso político, en los años 90. Aparte, la existencia de una multitud de intereses divergentes está intensificada por la estructura del Estado. Las entidades subnacionales – en total 22 provincias, 219 municipios y numerosas juntas parroquiales – están caracterizadas por su gran heterogeneidad. Se distinguen altamente en cuanto a su población, su territorio, sus recursos y su capacidad administrativa. Como consecuencia, su peso político y la capacidad de organizar sus intereses, varían mucho.

Con respecto a los partidos, el sistema político del Ecuador se compone de un alto número de partidos y demás actores políticos y es extremadamente volátil. En comparación con otros países latinoamericanos, Ecuador es uno de los más fragmentados con respecto al sistema de partidos. Así, en el Ecuador los actores involucrados que podrían servir como organizadores del interés colectivo – especialmente los partidos políticos – no asumen el papel previsto. El sistema de partidos está altamente fragmentado y los partidos políticos están, en gran medida, caracterizados por su perfil subnacional (Pachano 2004). Muchas veces, su vinculación clientelista con intereses particulares regionales o sectoriales les impide de cumplir con su función de agregar intereses y de generar un proyecto colectivo. Aparte del regionalismo, factores institucionales como el sistema electoral y el clientelismo todavía profundizan esta tendencia hacia la fragmentación. Además, la doble crisis económica y política que vivió el país en los años pasados contribuyó decisivamente a la alta volatilidad de actores políticos intensificando políticas a corto plazo y conflictos de distribución (vea por ejemplo Wiesner 2003, 21–22).

Esta combinación de factores contextuales y de la constelación de actores han tenido un impacto fuerte sobre la dinámica de la descentralización. Debido, parcialmente, a la insatisfacción con el funcionamiento del sistema de partidos, surgió una gran cantidad de movimientos sociales; muchas veces con base regional o local. Entre ellos destaca el movimiento indígena. Mientras la sociedad civil, a veces ha logrado influir la política local y contribuir a una mejor gestión local; a nivel nacional está también afectada por la fragmentación (Ortiz 2004). Por eso carece de una visión amplia, coherente y de largo plazo y tampoco asume el papel de un organizador del interés colectivo al nivel nacional. Por causa de la falta de un organizador del interés colectivo al nivel nacional y apesar de ciertos avances, el proceso de descentralización se caracteriza por resultados deficitarios, como se puede notar en la tabla siguiente. Si recurrimos a los criterios para un Estado exitosamente descentralizado elaborados en el capítulo 2, se puede notar, que con respecto a los dos criterios generales los defectos más graves de la descentralización en el Ecuador han sido la *incoherencia* y el *desequilibrio* del proceso.

La fuente principal del alto grado de *incoherencia* constituye el mecanismo de transferencia de responsabilidades y de recursos ‘uno por uno’ como está establecido por el artículo 226 de la Constitución de 1998. Este mecanismo determina que el gobierno central tendrá que transferir una competencia siempre cuando un gobierno subnacional la pida y tenga capacidad para asumirla.² Aunque un instrumento tan flexible puede responder mejor a la heterogeneidad del Estado, contribuye enormemente a fomentar la *incoherencia* del proceso. Actualmente el 39 % de los municipios todavía no ha pedido ninguna competencia, cuando al mismo tiempo el 35 % ha pedido más de cinco.³ Aunque había intentos de promover coherencia como puede ilustrar el Convenio Marco de Transferencias de Competencias u el del 2001 u el intento de coordinación entre ciertas provincias (Grupo de los Ocho G-8), estos intentos no han podido superar la *incoherencia* del proceso.

El *desequilibrio* se destaca, sobre todo, en la relación entre la descentralización fiscal y la administrativa. El aumento de las transferencias fiscales hacia los gobiernos seccionales a partir de 1997 inició una dinámica donde

2 Excluyendo a seis competencias que no se pueden solicitar.

3 Calculaciones propias basadas en López Guerrero (2004).

la descentralización de recursos precedió la transferencia de responsabilidades (Frank 2003; Carrasco 2003, 318). Esto se debe principalmente a dos tendencias diferentes. Por un lado, la Ley del 15 % del 1997 establece que se transfieran el 15 % de los ingresos corrientes del gobierno central hacia los gobiernos subnacionales, sin atarlos a la transferencia de competencias. Por el otro lado, también existen transferencias de competencias que no cuentan con una transferencia de recursos correspondientes (Wiesner 2003, 119). En este contexto, la Ley de Responsabilidad Fiscal ha aumentado la transparencia fiscal, lo que ayudaría a conectar de mejor manera la descentralización fiscal con la administrativa en el futuro.

Si los dos mayores defectos de la descentralización son la incoherencia y el desequilibrio entre la dimensión administrativa y fiscal, ¿cuáles han sido las *causas de estos defectos*? En este contexto, la falta de una visión nacional y de largo plazo de los actores involucrados, es un aspecto esencial.

La falta de una visión nacional y de largo plazo generalmente se puede explicar como consecuencia de la volatilidad y del número elevado de actores que no actúan de forma coordinada. En vez de una visión colectiva de descentralización existe una variedad de proyectos particularistas con una visión parcial y, en este sentido, limitada de la descentralización (ejemplos son los discursos politizados sobre el municipalismo, la autonomía, la plurinacionalidad o la privatización). Estos proyectos parciales, muchas veces, promueven el interés de ciertas regiones (p. ej. demandas de autonomía), de ciertos sectores específicos (p. ej. sector de la salud) o de ciertos niveles de Estado (p. ej. municipios). Por la falta de partidos que asuman el papel de organizador del interés colectivo, estos proyectos parciales no se agregan a un proyecto nacional. Dependiendo de la constelación y de la capacidad de negociación de actores, en cada momento se promueven ciertos proyectos parciales. Aparte, la volatilidad del sistema político y la continua inestabilidad política que vive el país contribuyen a que los actores estén incentivados muchas veces por consideraciones de corto plazo. Como resultado, no persiguen una visión nacional y de largo plazo, las cuales son indispensables con respecto a los procesos de descentralización.

Criterios ordenadores	Avances	Defectos
<p>Coherencia</p> <p>Equilibrio</p>	<p>Intentos de coordinación esporádica a nivel vertical como a nivel horizontal (coordinación entre provincias: Convenio Marco 2001, G 8; coordinación entre provincia y municipios: Tungurahua)</p>	<p>Descentralización administrativa opcional lleva a incoherencia del proceso (Art. 226, mecanismo de transferencia uno por uno)</p> <p>Falta de consenso sobre lo que es un Estado descentralizado (discursos altamente politizados con conceptos diferentes de la descentralización)</p> <p>Dimensión administrativa y dimensión fiscal desconectadas (Ley del 15 % distribuye recursos sin competencias; no hay correlación entre las transferencias financieras totales y las transferencias de competencias)</p>
<p>Dimensión Administrativa</p> <p>Subsidiaridad</p> <p>Competencias claras/transparencia</p>	<p>Posibilidad de Solicitar Competencias (Art. 226)</p> <p>Reforma de la Ley de Régimen Municipal (2004)</p> <p>Reducción de la importancia del Régimen Dependiente (Gobernadores, Tenientes Políticos, Jefes Políticos)</p> <p>Debate sobre el rol de las Organizaciones (corporaciones) de Desarrollo Regional</p>	<p>Escasa descentralización administrativa (En el período 1999-2004, 36 % de los municipios no han solicitado ninguna competencia administrativa, excluyendo las áreas de turismo y medio ambiente más del 66% de los municipios no han solicitado competencias).</p> <p>No hay un concepto que defina claramente las responsabilidades administrativas de cada nivel de Estado.</p> <p>Múltiples sobreposiciones de competencias administrativas (entre los niveles autónomos, el régimen dependiente y autónomo, provincias y ODRs)</p> <p>Falta de transparencia</p> <p>Nivel intermedio débil e indefinido</p>

<p>Dimensión Fiscal Transparencia fiscal Impedir endeudamiento y discrecionalidad Autonomía fiscal mínima</p>	<p>Aumento de los recursos financieros para los gobiernos subnacionales (Ley del 15 % y otras leyes) Limitaciones para el endeudamiento subnacional y aumento de transparencia (Ley de Responsabilidad Fiscal, Sistema de Alerta y de transparencia sobre ingresos propios, transferencia y gastos a nivel subnacional) Reducción de posibilidades discrecionales de transferencias (Ley del 15 %) Posibilidades de definir políticas tributarias a nivel subnacional (Reforma de la le de Régimen Municipal)</p>	<p>La proliferación de transferencias disminuye la transparencia fiscal (Ley del 15 %, FODESEC, FONDEPRO y 17 leyes adicionales) Numerosas transferencias discrecionales contribuyen al endeudamiento y a la discrecionalidad No hay información adecuada sobre los costos reales de las competencias El ratio ingresos propios / transferencias fiscales es muy bajo (a nivel municipal: 1/3 con y 1/4 sin Quito y Guayaquil; a nivel provincial: 1/15)</p>
<p>Dimensión Política Elecciones libres Participación</p>	<p>Elecciones democráticas a nivel subnacional Aumento parcial de participación ciudadana a nivel subnacional (gobiernos alternativos, 35 % de los municipios tienen experiencia con planificación y/o presupuesto participativo, etc.)</p>	<p>Superposiciones disminuyen la rendición de cuentas Muchos municipios no tienen experiencia de participación La brecha entre la descentralización administrativa y fiscal abre potenciales para el clientelismo político</p>

Esta ausencia de visión nacional contribuye a la incoherencia vertical (entre diferentes niveles de Estado) y horizontal (en un nivel de Estado) del proceso. La segunda forma está, en gran parte, causada por la heterogeneidad estructural de municipios y provincias; la cual produce intereses divergentes y capacidades de negociación diversas. En un contexto de fragmentación, regionalismo y heterogeneidad, el proceso opcional de solicitar competencias (artículo 226) agrava la incoherencia entre los gobiernos subnacionales. La heterogeneidad, a nivel subnacional, aumenta la fragmentación de las asociaciones correspondientes, o sea de la asociación de las municipalidades AME y de la asociación de las provincias CONCOPE. La posición particular de las municipalidades de Quito y de Guayaquil dentro de AME muestra que los municipios fuertes tienen la capacidad de perseguir sus intereses sin recurrir a AME y sin necesidad de coordinación. Además, la presencia de discursos altamente politizados, dentro de AME y CONCOPE, aumenta el grado de volatilidad y de fragmentación y profundiza la incoherencia horizontal y vertical del proceso.

El proceso ecuatoriano de descentralización también es incoherente en cuanto a los sectores de medio ambiente y de turismo, por un lado, y los demás sectores, por el otro lado. Esto tiene mucho que ver con la actuación de *veto-players*⁴ y el grado de interés de los diferentes actores en los sectores respectivos. En salud y educación, por ejemplo, donde hay escasa transferencia de competencias, existen sindicatos poderosos con intereses muy arraigados que actúan como veto-players y logran impedir actividades de descentralización. Además, existe una burocracia considerable dentro de los mismos ministerios que puede resultar perdedora del proceso de la descentralización y que por eso experimenta incentivos aversos a la descentralización. Aparte, estos sectores son mucho más intensos en recursos humanos y financieros que los sectores medio ambiente y turismo donde había una amplia rama de transferencias coordinadas por el gobierno central. Los dos últimos sectores se caracterizan por intereses menores, tanto por parte de sindicatos como por parte del gobierno central, que de hecho casi no había asumido las responsabilidades transferidas (Ojeda 2002).

4 Actores con capacidad de veto

El desequilibrio entre la descentralización fiscal y administrativa se debe, por un lado, a la Ley del 15% que causó una transferencia de recursos desligada de una transferencia de competencias correspondientes. Un gran número de actores con intereses conflictivos participó en la creación de la ley. Entre ellos, destacan los partidos costeños PSC y PRE que, durante los años de 1993 hasta 1998, dominaron a las ‘arenas’ claves de descentralización, en donde las respectivas políticas de descentralización fueron elaboradas. Presidieron a AME, CONCOPE, la Comisión de Descentralización del Congreso Nacional, el Congreso y, en 1996 y 1997, también el gobierno central. La cúpula del PSC vinculada personalmente con la alcaldía de Guayaquil, promovió fuertemente el debate sobre más autonomía para la provincia de Guayas y tenía como objetivo conseguir transferencias fiscales asimétricas en favor de Guayas, fortaleciendo, así, el bicentralismo existente. La baja del precio de petróleo aumentó la posición de negociación de Guayas frente al gobierno central. Sin embargo, la coordinación entre las provincias en contra de una distribución asimétrica llevó al fracaso de la propuesta Guayaquileña y a la implementación de la Ley del 15 %, que estableció un fortalecimiento general de los niveles subnacionales (Frank 2003, 235).

La asignación de competencias sin transferir recursos fue reforzada por la Ley de Régimen Municipal, en donde establece que el silencio por parte del gobierno significa un acuerdo tácito. Las principales causas de esta fuente de desequilibrio están representadas por la escasez y por la rigidez de los recursos del gobierno central y la falta de información acerca de los costos reales de las competencias administrativas. Ni el gobierno central ni las entidades a nivel subnacional tienen una idea clara de los costos, sea por falta de capacidad administrativa o por falta de voluntad política.

En su total, los desequilibrios y la incoherencia del proceso de la descentralización han sido causados por una multitud de actores con intereses diferentes, que no han podido ponerse en acuerdo sobre una estrategia coherente y equilibrada. En este contexto, los partidos políticos del Ecuador han fracasado de facilitar la coordinación entre intereses diferentes. No han agregado intereses heterogéneos de carácter regional, sectoral o de nivel de Estado a programas más amplios de descentralización. Por su limitación de representar solamente porcentajes limitados del electorado respectivamente grupos pequeños de carácter regional o sectoral los partidos más bien se tornan en grupos de interés particulares en

vez de agregar un ramo amplio de intereses. Entonces, la falta de los partidos de organizar una descentralización orientada al bien colectivo ha llevado a un proceso caracterizado por desequilibrios y incoherencia.

IV. COOPERACIÓN INTERNACIONAL Y DESCENTRALIZACIÓN EN EL ECUADOR

Desde hace dos décadas la descentralización representa una de las actividades claves de la cooperación internacional y se ha desarrollado una gran variedad de conceptos para apoyar dichos procesos (World Bank 2000). Asumimos que un sistema político altamente fragmentado, como lo encontramos en muchos países latinoamericanos, y particularmente en el Ecuador, causa limitaciones y desafíos específicos para la cooperación internacional.

Entre las limitaciones principales que la cooperación internacional tiene que enfrentar en sistemas políticos altamente fragmentados se encuentran la falta de coordinación horizontal y vertical, entre los actores relevantes, y un grado elevado de volatilidad. Conceptos que se destinan a superar estos defectos tendrían que (i) promover la coordinación dentro y entre los diferentes niveles de Estado, (ii) reforzar la continuidad del proceso y (iii) profundizar la coordinación de los países donantes como prerequisite de los primeros dos objetivos.

(i) *Fortalecer la coordinación horizontal y vertical:* En un contexto fragmentado, los actores políticos no son capaces o no están dispuestos a conectar los diferentes niveles de Estado para facilitar una coordinación que llevaría a un proceso coherente de descentralización. Para esto, la cooperación internacional debería apoyar a coordinadores horizontales (básicamente asociaciones subnacionales) y/o verticales (capacitación de partidos políticos y organizaciones de la sociedad civil). Como alternativa, la cooperación podría asumir un papel de coordinador por su propia cuenta. En el segundo caso, sería gratificante que colabore con todos los niveles de Estado, enfocando así el proceso de descentralización y evitando, de esta manera, el problema de preferir un cierto nivel a exclusión de los demás.

(ii) *Promover continuidad:* La necesidad de promover la continuidad del proceso resulta de la alta volatilidad que caracteriza a los sistemas

políticos fragmentados. Por lo general, la cooperación tiene que enfrentar cambios frecuentes de gobiernos, respectivamente de constelaciones de actores y la falta de estrategias a largo plazo. Para promover continuidad, la cooperación podría identificar y fortalecer ‘motores de descentralización’ o sea actores con la capacidad y un interés particular para avanzar el proceso (Campbell / Fuhr 2004a, 6). De esta manera se podría aprovechar de *ventanas de oportunidad política*. Alternativamente, la cooperación -por lo menos temporalmente- se podría convertir en el motor ella misma. Para poder asumir el papel de motor, la cooperación tendría que actuar como *mediador honesto* entre los múltiples actores relevantes y/o hacer disponible información y transparencia.

(iii) *Profundizar la coordinación de los países donantes*: La coordinación entre los países donantes parece ser particularmente importante en contextos fragmentados ya que la fragmentación de donantes tiende a profundizar los problemas que existen en países con alta fragmentación. La diversidad de programas no coordinados corre el riesgo de contribuir a la incoherencia del proceso de descentralización. Para evitar este riesgo la cooperación podría fomentar una demanda más coherente por parte del país contraparte (Paris Declaration 2005). Adicionalmente, las agencias de cooperación deberían profundizar intentos de coordinar su propia oferta, partiendo del simple intercambio de informaciones a un diálogo real sobre una política común (Ashoff 2004).

Para poder cumplir con estos conceptos la cooperación internacional tiene que tomar en cuenta varios principios generales, como un mapeo político constante, una observación detallada del proceso de descentralización, un alto grado de flexibilidad, una selección abierta de contrapartes y sectores y una orientación al proceso.

Bajo estos aspectos normativos, el caso ecuatoriano revela limitaciones y potencialidades de la cooperación internacional para promover la descentralización. Para conocer mejor y desarrollar futuras opciones de la cooperación vamos a evaluar las lecciones aprendidas con respecto a cada uno de los conceptos presentado arriba.

Fortalecer la coordinación horizontal y vertical

(i) *Fortalecer coordinadores horizontales y verticales*: Una creciente orientación al proceso se refleja en la cooperación con coordinadores

dentro y entre los niveles de Estado, sobre todo con organizaciones como la AME y el CONCOPE. Antes la cooperación con estos actores tenía un enfoque más aislado y centrado en proyectos locales. En este sentido, existen varios intentos de fortalecer asociaciones de gobiernos seccionales que tienen el potencial de aumentar la coordinación horizontal y vertical.

Sin embargo, la experiencia ecuatoriana nos muestra dos limitaciones principales. Primero, medidas de capacitación, muchas veces no resultaron efectivas contra la fragmentación y la debilidad estructural de los actores internos. Parece que este tipo de intervenciones requiere una cierta estabilidad y capacidades ya existentes de actores; una condición que raramente se observa en el Ecuador, por lo menos al nivel nacional. Aunque varias intervenciones han producido resultados positivos, este acercamiento no sirve como base fundamental para las actividades de la cooperación internacional en sistemas políticos tan fragmentados.

La segunda limitación tiene que ver con el principio de la imparcialidad política. Sólo pocas agencias están dispuestas a cooperar explícitamente con partidos políticos, ya que sus mandatos demandan la imparcialidad política. Lo que resulta es que los diferentes acercamientos y el diferente estado de preparación, para trabajar con partidos políticos, han creado dificultades para ponerse de acuerdo entre los países donantes y de implementar una estrategia coordinada en esta área de intervención.

(ii) *La cooperación internacional como coordinador de descentralización:* La coordinación de descentralización muchas veces no parece ser un enfoque de las intervenciones de agencias de cooperación en el Ecuador. Mientras que muchas actividades se concentran en el nivel local, la gran mayoría de estas actividades no está apuntada a conectar los proyectos locales con el proceso nacional de descentralización.

Las agencias de cooperación justifican su enfoque en proyectos locales primordialmente con un enfoque tradicional y supuestas ventajas comparativas basadas en el nivel local. Como consecuencia, una gran parte de las actividades locales no está enfocando el proceso de descentralización sino está ligada a una lógica de gobernabilidad local, participación local y desarrollo local. En otras palabras, el enfoque local no aparece como una medida para un fin (descentralización) sino como un fin en sí mismo. Sin embargo, focalizando simplemente las intervenciones al nivel

local no se va a eliminar la incoherencia del proceso de descentralización en su conjunto.

En cuanto al proceso de la descentralización, esta lógica de desarrollo local presenta dos limitaciones importantes. La primera trata de la identificación y difusión de proyectos locales pilotos. Asumiendo que las experiencias positivas van a difundirse automáticamente, muchas agencias no han desarrollado un instrumento de transmisión explícito. Además, la mayoría de actividades locales se ha emprendido en municipios de buena gestión, como muestra el caso de Cotacachi. Aunque el enfoque en casos exitosos promete alcanzar los objetivos del proyecto con más facilidad, no sirve necesariamente para recoger una rama amplia de experiencias ni para disminuir la incoherencia y los desequilibrios del proceso de descentralización. Así que, la segunda limitación consiste en las limitadas actividades que tratan de conectar experiencias locales con el proceso de descentralización.

Promover la continuidad del proceso de descentralización

(i) *Reforzar motores de descentralización:* La experiencia de la cooperación internacional en Ecuador demuestra la gran dificultad de identificar organizaciones que efectivamente contribuyen a un proceso más continuo de descentralización. Organizaciones como CONAM o algunos ministerios centrales individuales han cesado de funcionar como motores de reforma debido a cambios políticos. Otras como AME y CONCOPE han ganado peso político por lo cual están recibiendo apoyo internacional en la actualidad.

En general, la estrategia de promover la continuidad del proceso cooperando con motores de descentralización tiene un potencial limitado en el contexto fragmentado del Ecuador. En este ámbito, la cooperación tiene que enfrentar un doble desafío. Por un lado tiene que ser flexible en la selección de sus contrapartes para poder reaccionar a los cambios políticos frecuentes. Por el otro lado, un acercamiento altamente flexible podría debilitar el objetivo de promover la continuidad del proceso. Aparte, muchas agencias de cooperación identifican municipios individuales como motores de descentralización. Debido a la poca difusión de experiencias piloto y el enfoque dominante en el desarrollo local, la cooperación con municipios, sin embargo, escasas veces es compatible con un apoyo para “motores” de descentralización.

(ii) *La cooperación internacional como motor de descentralización:* En los años pasados, la idea de reforzar ‘agentes de cambio’ ha ganado popularidad en los discursos de la cooperación internacional. Sin embargo, la experiencia de los países donantes en el Ecuador muestra que este acercamiento solamente funciona hasta cierto límite.

En su lugar, actuar como motor de descentralización por su propia cuenta ha comprobado ser la manera de intervención más prometedora y al mismo tiempo más ambiciosa. Respecto a iniciativas legales de importancia crucial, la mediación honesta ha contribuido esencialmente a un proceso más continuo de descentralización y ha ayudado a superar puntos muertos. La Ley de Régimen Municipal, la Ley de Responsabilidad Fiscal y – a un menor grado – el Convenio VATA están considerados como los mayores avances de los esfuerzos nacionales de descentralización. Cabe destacar que agencias multilaterales y bilaterales de cooperación han jugado un papel decisivo en todas estas iniciativas.

Para tener éxito como mediador honesto la cooperación necesita observar detalladamente el proceso de descentralización y analizar continuamente la constelación de actores. El instrumento de la mediación honesta requiere sobre todo identificar y evaluar ‘ventanas de oportunidad’. En cuanto a los riesgos hay que tomar en cuenta que los resultados de dichas intervenciones no siempre pueden ser previsibles. De igual manera podría ser que las intervenciones no contribuyan a un proceso más continuo de descentralización. Finalmente, muchas veces es muy difícil actuar como un mediador imparcial. Sin embargo, a pesar de estas limitaciones, el caso ecuatoriano demuestra que el potencial de mediación de alto perfil supera los riesgos vinculados.

Finalmente, una actividad adicional debe consistir en proveer información y transparencia, especialmente en contextos fragmentados. En Ecuador, las agencias de cooperación han promovido efectivamente continuidad ayudando a proveer una imagen global del proceso de descentralización y a llenar brechas de información.

Profundizar la coordinación de los países donantes

(i) *Reforzar una demanda coherente:* Como consecuencia de la alta fragmentación política en el Ecuador existen grandes dificultades por parte del gobierno nacional de formular una demanda coherente para

intervenciones externas. Desde que la descentralización actualmente no representa un tema prioritario para el gobierno central, las intervenciones externas están orientadas más bien en su propia oferta y no en una demanda coherente. Sin embargo, el lado ecuatoriano ha intensificado en los últimos años sus esfuerzos para coordinar a las agencias de cooperación.

En este sentido, el Instituto Nacional Ecuatoriano de Cooperación Internacional (INECI), la institución principal responsable para la cooperación con los países donantes, ha iniciado en el año 2002 – junto con otras agencias de cooperación – mesas temáticas de donantes. Estas mesas aspiran a promover la coordinación de las agencias internacionales y la cooperación entre organizaciones nacionales y países donantes. De hecho, muchos países donantes participan en las mesas y las mesas han servido en algunas pocas ocasiones como fuentes de una demanda coherente.

La cooperación internacional, en sus esfuerzos para apoyar a instituciones capaces de formular una demanda coherente, enfrenta los siguientes desafíos: Primero, la inestabilidad y alta fragmentación de las organizaciones dificultan el surgimiento de una demanda coherente. Segundo, INECI sufre de ciertas limitaciones: El instituto no tiene la competencia de determinar las políticas de contrapartes nacionales importantes (como, por ejemplo, ministerios y asociaciones subnacionales) frente a los países donantes. Además, debido a una politización muy alta, el personal cambia con frecuencia y la escasez de personal en general contribuye a la debilidad institucional de INECI (Arcos Cabrera 2001, 115). Tercero, en la Mesa de Gobernabilidad las instituciones nacionales y subnacionales claves no están participando con frecuencia; más bien, constituye una mesa de los países donantes que una fuente para promover una demanda coherente. Cuarto, los países donantes no dan todo el respaldo para reforzar una demanda coherente. Muchas veces están más interesados en vender sus propios modelos en vez de responder a una demanda nacional. Aparte, también están sufriendo de cambios frecuentes de personal y de visiones correspondientes de corto plazo.

(ii) *Reforzar una oferta coherente*: En la actualidad, una gran variedad de agencias de cooperación está asistiendo el proceso de descentralización. Muchas personas entrevistadas de estas agencias consideran que la coordinación entre los países donantes ha mejorado actualmente, pero si desean más esfuerzos de coordinación.

Como plataforma principal para la coordinación de los países donantes sirve la Mesa de Gobernabilidad. El intercambio de informaciones facilitado por esta mesa está bastante avanzado, pero sólo produce un impacto limitado. Aparte mecanismos de coordinación raramente exceden el intercambio de informaciones. En su lugar, actividades de coordinación bilateral surgen ocasionalmente (acceso compartido a informaciones, complementariedad de actividades, cofinanciamiento de proyectos, cooperación ad-hoc y planeada), sin que haya una coordinación de carácter estratégica entre los donantes. No hay una discusión profunda sobre objetivos y acercamientos comunes.

La experiencia ecuatoriana demuestra que la coordinación entre los países donantes – aún deseable para promover la descentralización – se dificulta por una variedad de razones. Existen visiones normativas y acercamientos diferentes, procedimientos inflexibles y rivalidad entre las agencias de cooperación. Además, elevados costos de transacción y en ocasiones intereses nacionales impiden un mayor grado de coordinación.

V. CONCLUSIONES Y RECOMENDACIONES

Con respecto al proceso de la descentralización en el Ecuador se puede concluir, que a pesar de algunos notables avances, el proceso demuestra defectos graves. Cabe destacar que, desde una perspectiva de los principios ordenadores de una descentralización exitosa, los defectos más graves consisten en la incoherencia y el desequilibrio del proceso. El proceso de la descentralización es incoherente, dado que no hay un consenso sobre el contenido programático de la descentralización y tampoco existe un ramo aceptado que defina las responsabilidades de cada nivel de Estado. Aparte, hasta hoy en día, existe una gran brecha entre la descentralización fiscal y la descentralización administrativa, la última caracterizada por ser lenta e inconsistente con el principio de subsidiaridad.

Las causas de estos defectos más importantes, a nivel contextual, son las estructuras heterogéneas y regionalizadas a nivel subnacional como factores coyunturales desfavorables. Ambos factores han aumentado los conflictos distributivos y los problemas de coordinación, tanto a nivel vertical como horizontal. Además, el sistema partidario fragmentado no ha sido capaz de reducir estos problemas. Los partidos políticos no han podido actuar como organizadores del interés colectivo y, muchas veces,

han estado vinculados con intereses particulares dentro del proceso de descentralización. Consecuentemente, la falla de los partidos políticos, de agregar una amplia rama de intereses y de formular programas coherentes, ha contribuido a que los divergentes intereses particulares politicen extremadamente el proceso de descentralización.

Con respecto al rol de la cooperación internacional en el proceso de la descentralización en el Ecuador, hemos argumentado que se necesita estrategias en el área de descentralización que reaccionen adecuadamente al problema de fragmentación. En general, la cooperación ha encontrado más respuestas en el ámbito tradicional de reforzar los actores internos por lo cual subrayamos la alternativa de jugar un papel más activo.

Primero, la cooperación internacional debería poner más énfasis en promover la coordinación a nivel vertical y horizontal; ya que, en sistemas altamente fragmentados, la falta de coordinación es una de las principales causas de la incoherencia y de los desequilibrios. Esto implica, que la cooperación necesita poner más atención a vincular sus actividades locales con los niveles nacional y provincial. Dado que un proceso coherente y equilibrado de descentralización no solamente requiere actividades a nivel local, la cooperación debería prestar más atención al nivel provincial y nacional.

Segundo, la cooperación internacional debería promover continuidad al proceso de descentralización, ya que la volatilidad a nivel nacional dificulta significativamente el desarrollo de un proceso equilibrado y coherente. Por esto, el tradicional enfoque de la cooperación, de trabajar con contrapartes estables, puede ser riesgoso porque lleva a un enfoque centrado en lo municipal, que no necesariamente promueve una descentralización equilibrada y coherente. Por causa de estos riesgos, una alternativa prometedoras en sistemas fragmentadas puede consistir en promover el diálogo entre actores diferentes y asumir el papel de un mediador honesto.

Finalmente, la cooperación internacional debe promover una demanda más coherente por parte de las organizaciones ecuatorianas y debe poner énfasis en mejorar la coordinación entre los donantes, para llegar a una oferta más coherente. Por esto, la cooperación debería integrar más organizaciones como INECI, para llegar a procesos de planeamiento e implementación, más integrales. Cabe destacar que las organizaciones de

la cooperación deben superar sus déficits de coordinación y comenzar un proceso común e integral de planeamiento, que va mucho más allá del simple intercambio de información.

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