

Gershberg, Alec Ian

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## Decentralization and Recentralization: Lessons from the Social Sectors in Mexico and Nicaragua

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## **Decentralization and Recentralization: Lessons from the Social Sectors in Mexico and Nicaragua**

BY

Alec Ian Gershberg  
The New School for Social Research &  
The National Bureau of Economic Research

with

Michael Jacobs  
Inter-American Development Bank

**Inter-American Development Bank  
Social Programs Division, Region II**

Banco Interamericano de Desarrollo  
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# **Decentralization and Recentralization: Lessons from the Social Sectors in Mexico and Nicaragua**

## **Abstract**

This study is designed to help practitioners prepare and evaluate institutional reforms for education and health programs. It provides an analytic framework for use by public officials and researchers, with case studies that illustrate a wide range of actual practice, and a set of lessons learned. The framework uses the concept of “accountability” to link the broad goals of reform to the key dimensions of organizational arrangements. The case studies, based on fieldwork in Mexico and Nicaragua, demonstrate a wide variety of available policy instruments. Significantly, they also demonstrate that the responses to these instruments are equally various: creative interpretation of central regulations by local officials, self governing schools that complement public funds with resources mobilized by fees, the reassertion of national control over previously decentralized health programs. A lot of attention is paid to the “how” of reform; the process of implementation is at least as important as the question of “what” is to be reformed. The lessons derived from these experiences emphasize contingent, rather than absolute, recommendations. Overall, the study suggests how success in achieving greater efficiency, equity and democracy in the management and delivery of social services requires a careful balance of centralized and decentralized responsibilities.

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### **Authors’ Note**

This document summarizes the major findings from four case studies and an Issues Paper produced as part of the study, “Decentralization and Recentralization: Lessons from the Social Sectors in Mexico and Central America.” that was managed by Alec Gershberg for the IDB. The Issues Paper, April 10, 1996, stemmed from interviews with RE2/SO2 staff and a review of the current literature. Together with a workshop held at the IDB on 4 March 1996, the Issues Paper led to the selection of the case studies. The case research was performed May-August 1996 and December 1997; the analysis was performed September-December 1996 and November-December 1997.

The cases presented here include:

1. Mexican Educational Decentralization, 1992-1996, by Alec Ian Gershberg
2. Nicaraguan Educational Decentralization, 1993-1996: the Municipalization and Autonomous Schools Programs, by Alec Ian Gershberg
3. Mexican Health Care for the Uninsured, by Anne-Emanuelle Birn
4. Nicaraguan Health Decentralization: the SILAIS, by Anne-Emanuelle Birn

Each of these case reports, as well as the Issues Paper, obviously contain a level of detail and analysis that it is not possible to capture in the following summary. A an extended final report by Alec Gershberg brought together the principal results of the case studies, an extensive bibliography, lists of people involved and data appendices. Interested readers are referred to these reports for more in-depth discussion. All are available from Michael Jacobs, IDB, RE2/SO2, (202) 623-1903, E-mail: Michaelj@ iadb.org ; or from Alec Ian Gershberg, Milano School of Management and Urban Policy, The New School for Social Research, 66 Fifth Ave, NY, NY 10011, E-mail: GERSH@NEWSCHOOL.EDU, and The National Bureau of Economic Research, (212) 953-0200 ext. 101.

## Section I: Decentralization and Recentralization: Building a Framework for Analysis, Summary of Cases, & Lessons Learned

### A. Project Goals and Concepts

1. Nobody, it seems, can oppose decentralization. Throughout Latin America reforms have been proposed in the name of decentralization by parties of widely different ideology. And, in all fairness, there is a substantial body of theory to back this political enthusiasm. However, even after two decades of quite extraordinary activity, we know very little about the impact of these reforms, particularly in the social sectors. Helping fill this gap is the over arching purpose of the study. We examine how four specific cases of reform have actually worked.

2. The concept of decentralization is often as vague as it is popular. So the study begins by setting out a framework for analyzing what it is that social sector reforms are trying to achieve. We argue that in an effort to *improve the outcomes of service provision* decentralization reforms try to strengthen *performance accountability*. That is, the transfer of authority to lower level or local agencies is seen as an instrument for improving the way that services are delivered, by making the people who supply the service more directly accountable for their performance. However, by disaggregating the different aspects of accountability our framework makes clear that, in many respects, the expected improvement requires both greater autonomy for the *local* service provider, and also strengthened performance of some *central* functions. We refer to this necessary strengthening of central functions as *recentralization*.

3. This explains the title of the report and the principal message of the study: for decentralization to produce the results so widely expected and so badly needed, the reform of social services must pay attention to changing and strengthening the functions of both local and central agencies. The case studies presented here are important in their own right and have interesting lessons for other countries and other services. They also show how using the suggested framework can help government officials and Bank staff design these reforms in a comprehensive fashion. A simplified example will give a foretaste of our discussion. Many social sector reforms seek to give the units that directly deliver a service to the public greater discretion over how to use their budget. This is correctly understood to be the heart of decentralization. However, a strong central commitment to mobilize financing and help distribute information about local performance, is likely to significantly enhance the extent and sustainability of local service improvement. We can go further. In many cases, if responsibility for mobilizing financing is decentralized at the same time as expenditure discretion, service delivery could deteriorate badly for many low income families.

4. The report has three main sections. The remainder of this first section develops a set of goals that are the basis of sound institutional reform policies. Next, we develop a practical analytical framework for studying accountability in social sector decentralization reforms. We then describe the four case studies, summarize our findings, and present the most generalizable lessons learned. This first section, thus serves as both an introduction to the theory and an extended summary of the study as a whole. Section II presents the case studies of educational reforms in Mexico and Nicaragua and draws case-specific lessons learned. Section III does the same for the case studies of health care reforms. Throughout, we do not emphasize blanket evaluations (e.g., X is better than Y), but rather

comparative evaluations such as “If X, then the problems will be A and the disadvantages will be B.”

## **B. Decentralization & Recentralization: Why Do We Care?**

5. There is a wide-spread perception that overly-centralized systems of both financing and providing government services have led to huge inefficiencies and poor service delivery, as well as inequalities in resource distribution. These undesirable outcomes arise largely through the mismanagement of resources and an inability to match service provision with demand. One can begin to discern several lines of argument in favor of decentralization. However, when examined in more detail, it becomes apparent that achieving greater efficiency and equity often requires both decentralization and strengthening of central functions, or recentralization. How can we determine what functions are best carried out at each level. The concept of *subsidiarity*, provides a rule of thumb: push responsibility for service provision to the lowest level possible (to promote participatory democracy and achieve the efficiency gains from matching services to citizen preferences) without sacrificing 1) efficiency through failing to account for externalities, spillovers, or economies of scale associated with those services or 2) equity/redistributional concerns.

6. Box 1 sets out in more detail how this general rule of thumb can be developed.

### **Efficiency and Fiscal Resources Arguments for Decentralization and Recentralization**

7. The first line of argument, we call the efficiency argument. We can discern essentially three different aspects of the efficiency argument, and we later seek evidence for each in the cases:

8. Production efficiency is achieved when a desired output is achieved for the lowest cost in terms of the resources used to produce it. (Or, when output is maximized for a given cost.) It may also be called *technical efficiency*. The argument for decentralization here stems from the belief that sub-national levels of government may more effectively choose input mixes to achieve a desired level of output. In addition, they may manage resources more effectively: this may occur through a) a reduction in bureaucratic red tape; b) more appropriate and effective management styles; or c) greater accountability to the populace on the part of sub-national officials with respect to how expenditures and investments are made. On the other hand, service provision must be produced or regulated in order to account for externalities and spillovers. In addition, if sub-national administrative capacity is weak, then the central government must either take steps to improve it, or continue to use its expertise to provide services directly. This point holds particularly true for evaluation.

9. Allocative Efficiency involves matching the bundles of services provided with the preferences and needs of the population receiving them. The argument for decentralization in this respect is based on the supposition that sub-national levels of government are closer to the population they serve and therefore more capable of discerning local priorities and designing programs to meet them.

10. However, it is well accepted that national governments have the greatest capacity for inter-regional distributive policies, reallocating resources from wealthier jurisdictions to poorer ones. They may also have more capacity for inter-personal transfers. The logic is that the mobility of constituents makes redistributive policies inefficient if pursued too vigorously at the sub-national level. In addition, centralized allocation may be less vulnerable to capture by local elites. But, if the goal of improved service provision is met through increased production efficiency, then it stands to reason

that services may improve for disadvantaged groups, which could improve inter-regional and inter-personal equity despite the persistence of regional disparities.

**TABLE 1: Key Goals & Working Hypotheses for Decentralization & Recentralization Reforms**

<i>Efficiency &amp; Fiscal Resources Arguments for Decentralization &amp; Recentralization</i>		
	Decentralization	Recentralization
<u>Production Efficiency</u>	<p>1. Sub-national governments may choose input mixes and/or develop programs and policies more effectively than national governments.</p> <p>2. Sub-national governments may manage resources more efficiently than national governments by: a) Reducing bureaucratic red tape; b) Implementing more appropriate/effective personnel management; c) Accounting more to stakeholders regarding how funds are spent</p>	<p>3. National governments must account for externalities and spillovers related to national goals.</p> <p>4. National governments may have more expertise, particularly for evaluation and institution building in weak sub-national jurisdictions, and greater capacity for disseminating good practice. In addition, evaluation mechanisms must be comparable across jurisdictions and the national government must rely on comprehensive evaluation measures both for national planning and to hold sub-national jurisdictions accountable for use of national funds.</p>
<u>Allocative Efficiency</u>	<p>5. Sub-national governments know their constituents better than national governments and therefore provide services that more closely match citizen preferences. There may also be improved equity through more effective targeting of the poor populations.</p> <p>6. If reforms improve services for disadvantaged groups, equity may improve despite regional disparities.</p>	<p>7. Central government has greatest capacity for inter-regional and inter-personal redistributive policies.</p> <p>8. Centralized allocation may be less vulnerable to capture by local elites and interest groups.</p>
<u>Fiscal Efficiency and Fiscal Resources</u>	<p>9. National governments can use leverage from fiscal transfers to stimulate economically efficient and/or socially beneficial behavior by sub-national governments.</p> <p>10. As with #5 above, sub-national governments can set some limited number of taxes and/or user fees in a more efficient and responsive manner with respect to the regional/local economy, households and other stakeholders. This may augment the public resource base.</p>	<p>11. Many important taxes (e.g., consumption [value added] taxes and income taxes) may be handled most efficiently and equitably at the national level.</p> <p>12. Sub-national governments can run deficits that in extreme cases can threaten macro stability.</p> <p>11. Importantly, greater sub-national fiscal responsibility may throw regions more to the mercy of their own endowments, thus increasing inequity nationally.</p>
<i>Democracy/Power Sharing Arguments for Decentralization &amp; Recentralization</i>		
	Decentralization	Recentralization
	<p>12. If reforms allow true power sharing, then democratic political participation and/or political stability could be improved. Political equity may also improve.</p>	<p>13. Improved power sharing assumes functioning sub-national democratic institutions, which are notoriously weak in many countries in the region. (See #8 above).</p>

14. Fiscal Efficiency and Fiscal Resources are actually a hybrid of production and allocative efficiency, and relate to the intergovernmental fiscal relations involved with the financing or provision of services by sub-national governments. As Campbell (1991: 7) notes, there are two dimensions: a) the structure of intergovernmental grants and other fiscal relations and b) the impact that sub-national budgets can have on the national macro-economy.

15. It is often argued that decentralization can augment and strengthen the overall resource base for services provided at all levels of government. This occurs because: 1) sub-national governments and/or other stakeholders can be induced, through matching grants and other intergovernmental fiscal mechanisms, to increase their contributions to service provision and tax efforts ; and 2) their



proximity to the urban business population (particularly the poorer segments of it like the informal sector) and other stakeholders may allow subnational governments to tax or charge fees more effectively for the services demanded, thus taking advantage of revenue sources untapped under more centralized regimes. (Bahl and Linn (1991) and DeSoto (1990))

16. The potential for tapping these new resources is, however, limited by the same forces that make the central government more effective at redistribution; thus most important taxes will be handled most efficiently and equitably at the national level. This calls for revenue raising potential to remain largely at the national level to avoid throwing regions at the mercy of their wealth and endowments, while augmenting service provision at the sub-national level through a system of fiscal transfers. These transfers should be constructed in such a way to use central leverage to stimulate economically efficient and socially beneficial behavior. (See Winble 1998 & IDB 1994)

### ***Democracy/Power Sharing Arguments for Decentralization and Recentralization***

17. While decentralization may adversely impact inter-regional equity, it also has been supported as a means to promote democracy and equity. It may permit increased sharing of power and more effective methods of addressing the needs of the poorest segments of the population. The popular impression of central government officials is that they live far away and out of touch with the needs and desires of local populations; therefore, strengthening sub-national officials' positions via decentralization of actual power over decision-making may improve democratic decision making and lead eventually to the strengthening of sub-national political institutions. Power sharing can magnify the perception of political equity, a phenomenon equally important as equity in the purely economic sense. Gains in national political stability that grow from a greater sense of equitable sharing of power can play an instrumental role in supporting the central government's efforts for macro-economic stability. Thus, the power sharing aspects of decentralization relate in some respect to the fiscal efficiency argument. The caveat here, of course, is that democratic power sharing can only occur if sub-national democratic institutions exist and function. Where they are weak, the central government must use its expertise to help foster them.

18. In addition the redistribution of power in the social sectors often involves powerful lobbying and interest groups at the national level as well as different levels of government. For instance, educational decentralization in Mexico necessarily implied a shift in the power structure away from the extremely powerful national teacher's union. Indeed, many analysts view this as the primary political aim of the decentralization in Mexico. The extent to which this actually happened is explored in the case.

19. Having laid out the goals of institutional reform, we now discuss how we analyzed the means by which governments have tried to achieve these goals through policies called "decentralization." Many reforms gain the label "decentralization" when it is not entirely clear that the term is appropriate.

20. In practice this reform environment contains constantly evolving elements of decentralization *and* recentralization. *Performance accountability* emphasizes the need to determine 1) who is responsible for what aspects of service provision? 2) how do the incentives inherent in these arrangements try to encourage effective service provision? And 3) given these first two determinations, how well does the actual service provision arrangement function?.

21. Table 2 sets out the main aspects of the framework. It consists of the seven aspects or dimensions that we have found to be critical to examine what reforms can actually do to increase accountability.

**Table 2: Framework for Analyzing Accountability in "Decentralizing" Social Service Delivery Systems**

<b>Seven Important Aspects for Consideration:</b>	
<b>I.</b>	<b>FINANCE</b> Revenue Authority, central and sub-national Expenditures Authority, central and sub-national Grants-in-Aid and Intergovernmental Fiscal Transfers
<b>II.</b>	<b>AUDITING &amp; EVALUATION</b> (by central and all other relevant levels of government) Financial Performance Operational Program
<b>III.</b>	<b>REGULATION &amp; POLICY DEVELOPMENT</b> Developing/Designing Regulations Implementing/Enforcing Regulations
<b>IV.</b>	<b>DEMAND-DRIVEN MECHANISMS</b> (Expression of Demand) Cost Recovery Citizen Participation Others
<b>V.</b>	<b>DEMOCRATIC MECHANISMS</b> (National, Regional, and Local) Voting Citizen Participation/Local & Grassroots Organizations Conflict Resolution
<b>VI.</b>	<b>SERVICE PROVIDER CHOICE/MIX</b> Public, Private, and Nonprofit (NGO) Provision Civic Society and Civil Associations
<b>VII.</b>	<b>CIVIL SERVICE &amp; (Personnel &amp; Information) MANAGEMENT SYSTEMS</b>

### **C. Summary of Case Studies**

22. By choosing cases in Mexico and Nicaragua, we aimed to draw lessons from both a large, federal country and a small, unitary one. The cases were also chosen for their intrinsic importance and their potential to yield useful insights. In Mexico, the reforms explored primarily involve the transfer of some responsibilities in both the health and education sectors from the federal level to the states. In Nicaragua, some of the reforms are similar, emphasizing the transfer of service responsibility and administration from the central government to either a department-level or municipal-level entity. However, one of the reforms, the Autonomous Schools Program, involves a transfer of significant budget, planning, and administrative powers to the site-level (schools in this case). We consider this a much bolder and certainly rarer reform (though not necessarily *better*) and thus we spend considerable time exploring this case in Section II.2. Below, we briefly describe the four case studies and present brief applications of the framework for each in Tables 3-7. Each of these figures serves also to provide a concise summary of the most important aspects of the respective reforms.

#### **Education Cases**

##### ***Case #1. Mexican Educational Decentralization, 1992-1996, Federal-to-state transfer of Primary***

***& Secondary education administration. Case Study States: Hidalgo, Guanajuato, & Zacatecas***

23. In 1978, the Federal Government created state-level, Federal “delegations” (state-level, Federal authorities) but kept financing centralized (80% federal) via discretionary transfers. States, to varying degrees, developed their own, independent public school systems. In 1992, the Federal delegations and all personnel, property, and expenditure responsibilities were *officially* transferred to the states, but the substantive meaning of this reform, according to the different aspects of the framework, is unclear. Financing remains approximately 80% federal, and transfers are done through annually negotiated transfers. Municipal and school level councils were part of the decentralization legislation, but they do not appear to function (i.e., they do not even exist) and there is little indication that this is changing in the near future. Finally, for better or worse, Mexico’s decentralization “sequence” has now been in motion for nearly two decades, and undergone at least two very different types of decentralization reform, providing ample experience for current analysis.

24. Table 3, a summary of the application of the framework to the recent Mexican educational reforms, shows in what ways we determined the system has changed since the 1992 legislation. The framework proves useful in highlighting that in fact it is difficult to call the Mexican educational reforms “decentralization.” However, in some aspects there has been a transfer of power .

***Case #2. Nicaraguan Educational Decentralization, 1993-1996: the Municipalization and Autonomous Schools Programs. Case Study Departments: Managua, Matagalpa, and León.***

25. *Municipalization*: In a limited number of locales (10 out of 143 municipalities), schools are now the immediate responsibility of municipalities. Municipal Education Councils, led by the mayor and the local representative of the central Ministry of Education, have been established in a broader number of locales. This is a more traditional “decentralization” scheme, which involves transferring some responsibilities for administration from central to sub-national governments.

26. *Autonomous Schools Program (ASP)*: A bold move to school-based management in which school councils are established, the school budget is transferred from the Ministry to the school, and additional fees are charged of parents. School councils have considerable authority over how to use the fees collected, and thus far most fees go toward increasing teachers salaries. The program grew out of ministerial mandates, not legislated changes in the general law, and has so far yielded uneven results, particularly with respect to equity issues. The reforms took place first, before much institutional development, and only now are accounting systems and arrangements for technical assistance being developed by the central government.

**Table 3: Brief Application of Framework for Analyzing Accountability  
Mexican Education Reforms, 1992-1996**

Framework Aspect	Comment/Summary Judgement
I. Finance	<b>Relatively unchanged authority for central and sub-national governments.</b> No change at all on the revenue side. Very little change on the expenditure side: Federal government continues to determine transfers to states based on yearly budget negotiations, although states do literally spend the money, which they did not do before. States have only slightly more control over <i>how</i> to spend than before 1992. Some recentralization from the Federal role negotiating salaries for all teachers, not just those in the formerly separate Federal system. States given no ability via grants-in-aid (such as matching mechanism) to alter the size of the transfer, other than non-transparent yearly budget negotiations.
II. Auditing & Evaluation (Financial, Performance, Operational, & Program)	<b>Central government transferred only financial auditing responsibility.</b> The Ministry no longer does very much due to state autonomy. Little change in quantitative evaluation systems. States developing some evaluation geared towards creating qualitative complements to the Ministry evaluation. States have same responsibility to provide basic data, but the Ministry may have less ability to verify, due to state autonomy.
III. Regulation & Policy Development	<b>Officially, central authority is unchanged.</b> States, however, finding more room to maneuver developing programs officially against Ministry norms.
IV. Demand-driven Mechanisms (Expression of Demand)	<b>No change.</b> No vouchers or other traditional demand-driven reforms. Some increased state interest in polling stakeholder priorities though qualitative evaluations and survey.
V. Democratic Mechanisms (Voting, Citizen Participation, & Conflict Resolution)	<b>Officially, no change. Perhaps <i>some</i> democratic impact:</b> state governors are (arguably) closer to the electorate than central officials and now have more control over the sector: they appoint the state's education secretary who has the few increased powers described in aspects III and VII. Official support of citizen participation, but not many successful examples of its taking root.
VI. Service Provider Choice/Mix (Public, Private, and NGO Provision)	<b>No change.</b> No inclusion of private sector. Very little parental choice to pick schools. Little change in the differentiation between formerly separate Federal and state school systems. Little or no involvement of NGOs and other civil associations compared to other countries in the region.
VII. Civil Service and Management Systems	<b>Significant transfer of central authority.</b> Teachers and most administrators are now state employees. States have increased control of bureaucratic shape and functions, as well as allocation of teachers across geographic areas and sub-sectors of basic education (preschool, primary school & secondary school). Still, however, states face significant resistance from both union and Federal influence over hiring and placement.

27. Tables 4 and 5 present our brief application of the framework to these two programs. The ASP exhibits a relatively high level of change and transfer of central authority along most of the seven important aspects for consideration. Municipalization, on the other hand, has effected fewer changes. Both programs, though very young, show initial promise for improving accountability and educational outcomes in Nicaragua.

**Table 4-- Brief Application of Framework for Analyzing Accountability Autonomous Schools Program, Nicaragua**

Framework Aspect	Comment/Summary Judgement
I. Finance	<b>Significant transfer of central authority to schools:</b> Though the Ministry continues to finance the system centrally, contributions to schools from parents now play a growing role in resources available to schools. Schools have greater control on the expenditure side: principals and school councils have increased discretion over spending patterns. Local councils can alter centrally suggested fee levels. However, there is a strong, if non-transparent, central role in financially supporting poor autonomous schools. Regarding grants-in-aid, the Ministry uses newly-developed grants to autonomous schools to transfer resources for salaries, benefits, routine maintenance, and perhaps utilities based on capitation principles and average costs at the school before autonomy. But transfers are not truly formula driven.
II. Auditing & Evaluation (Financial, Performance, Operational, & Program)	<b>Moderate transfer of central authority:</b> Very little change in central functions, which rely on a small number of random audits and analysis of departmental performance reviews. Some increased vigilance on the part of parents and teachers due to interest in school fees. School and Municipal councils perform program evaluations, but may be ineffective due to lack of sufficient training. Large on-going central evaluation of ASP undertaken with World Bank support.
III. Regulation & Policy Development	<b>Little change in central authority:</b> Norms, standards, text books and basic curriculum still developed centrally. Local councils have some leeway in 1) developing curriculum, though they have done so little in practice and 2) text selection, though the Ministry only pays for their own. Little or no attention by local actors to improving teaching methods. Central Ministry has recently implemented new teaching methods (metodología activa), which have proven popular with teachers (Fuller & Rivarola, 1998).
IV. Demand-driven Mechanisms (Expression of Demand)	<b>Significant change in some schools:</b> Required, voluntary, and (in some cases) extorted fees reflect and influence parental demand for schooling, especially at the secondary level. Participation of parents in local councils provide community input to provision of services.
V. Democratic Mechanisms (Voting, Citizen Participation, & Conflict Resolution)	<b>Significant transfer of central authority de jure; varied results de facto:</b> Where school councils function according to norms, parents, through elected representatives, are given significant voice in school policy including budget, personnel, and curriculum. Principals are elected by the school councils.
VI. Service Provider Choice/Mix (Public, Private, and NGO Provision)	<b>Little change:</b> though autonomous schools represent a significant change in school administration, the public sector is still responsible for service provision. Parents do not have increased capacity to choose schools via vouchers or other mechanisms. NGOs and private organizations do not run autonomous schools. While NGOs and other civic organizations play a significant role in education, their role has not necessarily <i>changed</i> as a result of the autonomous schools program. School administrative structure may, however, facilitate civic involvement.
VII. Civil Service and Management Systems	<b>Very significant change in central authority:</b> principals and the school councils gain considerable control over management of personnel and budget. Municipal-level Ministry delegates are the front line, having gained primary responsibility for recruiting and overseeing autonomous schools, training participants, and resolving disputes.

**Table 5-- Brief Application of Framework for Analyzing Accountability Municipalization Program, Nicaragua**

Framework Aspect	Comment/Summary Judgement
I. Finance	<b>Moderate/Low-Level transfer of central authority:</b> The Ministry controls school revenues and transfers funds for school personnel to municipal governments, which provide no substantial funding. As a result of increased involvement in education, they do, however, 1) support municipal-level Ministry delegates more through provision of small but useful contributions, such as the use of municipal vehicles; 2) sometimes allocate resources for school rehabilitation; and 3) prioritize school construction in project proposals to the central government's social and infrastructure development fund (FISE). Regarding grants-in-aid, the Ministry transfers resources for school personal to municipalities, whose primary responsibility is to administer the payroll system. Transfers are not sizable enough to provide municipal governments with any discretion over the allocation of funds.
II. Auditing & Evaluation (Financial, Performance, Operational, & Program)	<b>Little transfer of central authority:</b> Very little change in official central functions, which rely on a small number of random audits and analysis of departmental performance reviews. Some increased vigilance on the part of municipal and departmental government, parents and teachers due to participation in municipal councils. Municipal councils perform program evaluations, but may be ineffective due to lack of sufficient training.
III. Regulation & Policy Development	<b>Very little change in central authority:</b> Norms, standards, text books and basic curriculum still developed centrally. Local councils have some leeway in 1) developing curriculum, though they have done so little in practice and 2) text selection, though the Ministry only pays for their own. Little or no attention by local actors to improving teaching methods.
IV. Demand-driven Mechanisms (Expression of Demand)	<b>Low/Moderate-level transfer of central authority:</b> To the extent that mayors are more accessible to citizenry than central government officials and have some increased control over the system (see II and III above), parents may have more ability to lobby and express priorities. Participation of parents in local councils provides community input to provision of services.
V. Democratic Mechanisms (Voting, Citizen Participation, & Conflict Resolution)	<b>Moderate transfer of central authority de jure; varied results de facto:</b> Where municipal councils function according to norms, parents, through elected representatives, are given some voice in school policy including personnel and curriculum. System is administered locally by elected officials, not simply Ministry-selected delegates.
VI. Service Provider Choice/Mix (Public, Private, and NGO Provision)	<b>Little change:</b> public sector still provides and regulates schools. No vouchers or significant school choice. While NGOs and other civic organizations play a significant role in education, their role has not necessarily <i>changed</i> as a result of Municipalization. Municipal involvement may, however, facilitate civic involvement.
VII. Civil Service and Management Systems	<b>Moderate transfer of central authority:</b> Municipal governments administer payroll and other personnel transactions. Municipal councils may hire and fire principals and teachers. Municipal-level Ministry delegates have gained primary responsibility for coordinating Ministry-municipal relations.

## Health Cases

### *Case #3. Mexican Health Care for the Uninsured 1982-1996. Case Study States: Hidalgo, Morelos, & Jalisco*

28. By most accounts (e.g., Gonzalez-Block [1995]) decentralized health reform in Mexico has not proven successful, beneficial, or real. Fourteen states signed an accord and received responsibility for a very limited set of programs. (We call these "Accord states.") Little changed in the remaining 17 states ("Non-accord states"). Control remains heavily centralized, has perhaps negatively affected

equity, and proposed reforms have not taken hold in any universal way throughout the states. In a sense, this creates an opportunity to establish lessons learned in how NOT to decentralize, and a case study in the possibility of ineffective (from the point of view of services rendered) recentralization. At the same time, several aspects of the health care system were integrated and a few partnerships with the private sector have been initiated.

**Table 6: Brief Application of Framework for Analyzing Accountability  
Mexican Health Reforms, 1985-1995**

Framework Aspect	Comment/Summary Judgement
I. Finance	<b>Little transfer of central authority.</b> Virtually no new financing arrangements on the revenue side with the exception of some user fees, now under state control in Accord states. On the expenditure side, Accord states gained some new control over the budget (e.g. materials and supplies) but until 1995 no control over personnel spending, the lion's share of the budget. In Non-accord states little changed. Regarding grants-in-aid, states were given no ability (such as matching mechanism) to alter the size of the transfer, other than non-transparent yearly budget negotiations.
II. Auditing & Evaluation (Financial, Performance, Operational, & Program)	<b>Virtually no change.</b> Performance, operational, and program auditing continue to be federal, largely through the budget-programming process. Financial auditors are now located in decentralized states, but power of enforcement remains at the federal level.
III. Regulation & Policy Development	<b>Moderate transfer of central authority.</b> Although norms continue to be developed vertically, some states have developed and implemented innovative programs and policies within those norms.
IV. Demand-driven Mechanisms (Expression of Demand)	<b>Moderate transfer of central authority.</b> User fees have doubled as a proportion of total spending in decentralized states to 9.3%.
V. Democratic Mechanisms (Voting, Citizen Participation, & Conflict Resolution)	<b>No change.</b>
VI. Service Provider Choice/Mix (Public, Private, and NGO Provision)	<b>No change.</b>
VII. Civil Service and Management Systems	<b>Little transfer of central authority.</b> States gained only two new powers over personnel matters, both of which are important but limited in scope: 1) Accord state health systems absorbed new groups of workers through the merger of a moderately unpopular state controlled system with a popular and effective Federal one (IMSS-SOLIDARIDAD), and 2) states could devise a system of integrating salary structures. Because the Federal Government has been slow to fill needed new health posts, some Accord states have increased their pool of state workers, largely financed via state-controlled user fees.

29. Summarizing the reforms with respect to the accountability framework (Table 6) reveals that it is hard to call the Mexican health reforms a process of “decentralization,” or even to say that much was changed. States did not gain a significant level of control over even a single aspect of the system, and most of the few new powers they did gain have slowly been taken away from them. A substantively new reform effort, modeled somewhat upon the experience in education, has very recently been initiated, suggesting that the reform effort we study here (1982-1996) is essentially

over. This case study is, thus, different from the other three, which examine young, nascent reforms and policy processes in progress.

**Table 7: Brief Application of Framework for Analyzing Accountability  
Nicaraguan Health Reforms, 1992-1996 (SILAIS)**

Framework Aspect	Comment/Summary Judgement
I. Finance	<b>Low/Moderate transfer of central authority.</b> No new financing arrangements on the revenue side for Ministry services, but new in-patient contracts for Social Security and private patients give hospitals greater revenue-raising and spending powers (albeit tightly controlled by national guidelines). Donor agencies now contribute almost 50% of the health budget, with some allocation and management by the SILAIS. On the expenditure side, the mix has changed moderately--with goods and services, roughly 20% of spending, SILAIS-controlled. Regarding grants-in-aid, SILAIS were given little ability (such as matching mechanism) to alter the size of the transfer from the center, but formula transfers have begun to replace historical budgeting which 1) improves transparency and 2) in principle rewards SILAIS if they demonstrate need and responsible spending of annual budgets.
II. Auditing & Evaluation	<b>No change.</b>
III. Regulation & Policy Development	<b>Moderate transfer of central authority.</b> Although norms continue to be developed centrally, formulas for establishing policy priorities place more responsibility on the SILAIS. Municipalities also given some role in the policy formulation process. Some increased policy-making capacity for private hospital services.
IV. Demand-driven Mechanisms (Expression of Demand)	<b>Little transfer of central authority and little central development of such practices.</b> User fees have been established at both primary and secondary care levels. Most monies remain at the unit or SILAIS, but their use and level is circumscribed by national guidelines. While user fees almost fully fund laboratory, dental, and other services, they have generated barriers to care; recently user fee exemptions have been instituted for priority populations.
V. Democratic Mechanisms (Voting, Citizen Participation, & Conflict Resolution)	<b>Little transfer of central authority and little central development of such practices.</b> More interaction between the municipalities and their communities. Participatory groups identify problems but do not have a governance role.
VI. Service Provider Choice/Mix (Public, Private, and NGO Provision)	<b>Moderate transfer of central authority.</b> The Ministry uses public service providers only. However, there is a growing presence of fee-for-service NGO providers, particularly for women's health services. A development with significant implications for the Ministry -- particularly its hospitals -- are the Social Security Institute's and private sector's new managed care companies, which contract with public hospitals on a risk or fee-for-service basis for differentiated (read superior) services and wards. Regarding civil associations, volunteer boards officially govern the SILAIS, but how much power they actually have is questionable, in part because board members are named by the Ministry, and in part due to lack of experience. At a national level, a volunteer advisory board for health policy development has been formed with significant NGO representation, but it has virtually no power.
VII. Civil Service and Management Systems	<b>Little transfer of central authority.</b> Center (largely the Ministry of Finance) controls the personnel portion of the budget. SILAIS have gained some ability to shift personnel within jurisdictions, but no real ability to hire and fire.



***Case #4. Nicaraguan Health Decentralization: Local Integrated Health Care Systems (SILAIS), Deconcentration/Site-Based Management/Community. Case Study Departments: Managua, Chontales, Jinotega, and León.***

30. This case is "arms-length decentralization" in the sense that the jurisdictions receiving control over regional health care provision are central entities. Departmental-level health units are established and given some control over the supplies budget and local policy development. The center retains control over much of the regulation, financing and planning of the system. As of 1995 all SILAIS were governed by unpaid Boards of Directors, made up of local officials, church officers, people working within the health sector, and "distinguished" community members. Each SILAIS includes a network of primary health care units and a secondary level hospital (that offers specialty services in internal medicine, surgery, pediatrics, and obstetrics/gynecology). As of February 1996, SILAIS were authorized to sell services to the social security system or other private purchasers. The World Bank has helped the center define its role, and the IDB is concentrating on the action at the local level.

31. For the case of the Nicaraguan health sector, decentralization may be characterized as inchoate, with problem definition and allocative responsibility partially located at 17 departmental level SILAIS but some transfer of fiscal control -- limited to goods and services, approximately 20 % of the budget. (Table 7) While the fiscal control transferred for this portion of the budget is extensive, permitting the flexibility to move expenditures from one budget area to another, the management turnover in the Ministry of Health, and more importantly, the absence of any binding legislation has considerably weakened the decentralization effort.

## **D. Lessons Learned**

### **Does institutional reform have some of the expected effects and achieve some of the desired goals?**

32. *Capacity and effective ideas exist at the sub-national level.* Through all four cases, and indeed through nearly every sub-national jurisdiction included in the individual cases, we found consistent evidence of capable administrators ready to develop and implement effective policies -- often with a clearer focus on clients, a more effective use of resources, and/or innovative programs. While this may be less true for sub-national jurisdictions in a small country like Nicaragua (e.g. the departments), this finding is significant because lack of sub-national administrative capacity is often cited as a major concern regarding transferring control from central government bureaucracies. While the lack of experience at the sub-national level is by no means a trivial issue (as in the case of the health sector in the State of Morelos in Mexico), we did not find it as critical as might be expected: for example, the State of Hidalgo in Mexico handled its new education responsibilities very well, even with little previous state-level experience. In fact, sometimes the absence of an existing sub-national bureaucracy can be an advantage.

33. All four cases, but particularly the Mexican health and education cases, show that sub-national administrators are crafty at eking out more power and control than they are officially given. Through scrutinizing legal codes or simply gaining confidence to defy central norms, sub-national authorities seemed to take "decentralization" reforms, however limited *de jure*, as signals that they should do more, *de facto*. This is particularly true for regulation and policy development.

34. Naturally, however, even capable administrators will require both training and an effective intergovernmental incentive environment in order to be effective and accountable. We believe that sub-national administrators have effective ideas (and the ability to implement them) that have been stymied by lack of control over the requisite policy levers. The health and education cases in Mexico support the ideas that 1) state-level officials can and do learn from each other and 2) sub-national officials can be effective in lobbying the central government for support. They showed both knowledge of what the central programs could do to support them and innovation in striking deals with the central programs on arrangements such as providing matching funds. The central government must continue to play a strong role in supporting the implementation of these ideas, particularly through providing compensatory programs and access to technical and administrative support.

35. ***Demand responsiveness occurs and may improve accountability.*** The Nicaraguan education case and to some extent the Mexican education and health cases, show that developing demand-driven mechanisms can play an integral role in reforms that transfer administrative powers away from the central government. These mechanisms may be developed through central guidelines (as in the Nicaraguan case) or may arise from the impetus of capable sub-national officials (as in the State of Guanajuato, Mexico). Radical, demand-driven mechanisms (such as school fees in Nicaragua) may improve accountability, but they also emphasize the need for effective, central compensatory policies and regulations to prevent greater inequities. In addition, the Nicaraguan case shows that demand-driven mechanisms like school fees can be made more responsive and more effective if implemented in conjunction with effective participatory mechanisms.

***Central government continues to have critical responsibilities: so called “decentralization” may alter but not actually reduce the central role.*** Three responsibilities stand out:

36. *Technical Support.* Central governments must provide technical and administrative support, especially for weaker and/or poorer jurisdictions. The centrally-provided training for local-level actors in the Nicaraguan education case is particularly salient.

37. *Evaluation.* Central evaluation practices are important for disseminating good results, holding sub-national jurisdictions accountable, and identifying areas for national planning. Unfortunately, we must make this point mostly through highlighting the absence of good central evaluation in the four cases. On the other hand, different forms of evaluation, monitoring, and dissemination of information should be encouraged at all levels, not just central.

38. *Compensatory Financing.* As mentioned above, well- targeted central compensatory resources and policies are needed to aid inequity, particularly where demand-driven mechanisms form part of the national reform strategy. In Nicaragua, the lack of effective compensatory policies threatens the heart of both the health and education reforms. In Mexico, on the other hand, sub-national administrators immediately lobbied central compensatory programs to effectively support their own innovations.

## What implementation strategies are successful?

***Intergovernmental transfers are powerful tools that both create the overall incentive environment within which social sector systems operate and potentially build the basis for central compensatory policies.***

39. The *formula-based transfers* to local units in the Nicaraguan education and health cases provide the transparency needed for effective and rational annual budgeting. They also provide incentives for local schools and health units to attend to clients the central government views as a priority. On the other hand, the lack of formula-driven transfers -- and the use instead of yearly negotiated transfers -- in both the health and education sectors in Mexico has prevented sub-national jurisdictions from planning and budgeting effectively. At the same time it has failed to hold these jurisdictions accountable for the funds they receive. The negotiations allow political factors to outweigh the compensatory goals of the central government, which could, effectively, be incorporated into formula-driven transfers.

40. *Earmarking transfers* in very specific ways (as is the case for both health and education in Mexico) limits the overall effect that transferring such funds to sub-national units is, in theory, expected to have. On the other hand, central governments can (even unofficially) relax or tighten the actual expectations for such earmarking. In the Mexican education case, we found evidence of creative sub-national interpretations of the intentions for earmarked funds, and a willingness by the central government not to enforce regulations strictly. In Mexican health, on the other hand, we found that the central government was able to take back nominally decentralized powers via tightening their interpretation of regulations. This suggests a way of achieving “incremental decentralization” that has not been widely recognized: the deliberate, progressive widening of expenditure categories to make room for local initiatives -- a means that also potentially creates space for learning by doing.

41. ***Reforms that do not change personnel policies and practices are ineffective.*** The powers to hire, fire, and negotiate salaries are the linchpins to any potential system of improvements. Health and education reforms in Mexico have been stymied by the lack of any of these three powers at the sub-national level. In Nicaragua, to some extent the same is true in health, but in education these powers have been largely extended to the school and school-council level and this has both improved accountability and held the entire reform together, even in the face of other significant problems and obstacles.

42. ***Legislation need not precede reform.*** Mexico has followed the more conventional reform process of building a legal and legislative base for a reform agenda, and then implementing changes. Nicaragua, on the other hand, effected large-scale changes via internal ministerial directives in the absence of a firm legislative base. The dangers of the Nicaraguan model are not trivial, and they include the potential that changes in central administration or early pitfalls in implementation may scuttle the entire reform effort. On the other hand, Nicaragua was able to effect fundamental and far-reaching changes in school administration and finance in a remarkably short amount of time, while avoiding the stumbling blocks of legislative battles. In addition, the Nicaraguan model encouraged a great deal of learning by doing that is sure to make any subsequent legal foundation more appropriate and effective. The conventional model makes ensuing changes far more costly. We suggest that both Mexico and Nicaragua have important lessons to learn from considering the attributes of the alternative strategy. In fact, the right recipe for reform in most countries is likely a

combination of both strategies, even if one or the other dominates.

**43. *Citizen and community participation can play a constructive, and even a decisive, role in effective local service provision, but it is not an end in and of itself and it cannot simply be legislated.*** While including community participation in the reform legislation may help to encourage such practices by putting the topic on the reform agenda of all involved, true and constructive participatory mechanisms cannot be legislated. Unless participatory groups are given clear responsibilities that they themselves value -- such as budgetary or personnel control -- as well as confidence that their decisions matter and will stick, participation is unlikely to support effective reform. Participatory groups should be given the opportunity to buy into a reform process because they view it as being in their best interests. It is very important to offer all stakeholders an interest in reform programs, and this can be done by offering them either money or power or both.

44. Mexico built school councils into the reform legislation, but these councils did not have clear powers, did not build upon existing parent associations, and exist in a system of up to ten other councils associated with any given school. They do not function. Nicaragua created school councils with the powers to hire and fire teachers and handle significant portions of the school budget. They compensated teachers, who might otherwise have been losers in the system, with higher salaries. The Nicaraguan school councils function, and they have augmented the accountability of the entire system. Participatory groups in the Nicaraguan health reform were given less binding decision-making powers and it is not entirely clear that their functions are indeed appropriate: they do not function particularly well. Participation itself (which requires the time and effort of citizens) must be treated as a scarce resource to be put to its most productive use: used in one area, it cannot be used elsewhere.

**45. *Protect the crown jewels: make sure that the reform process protects popular and well-performing programs.*** The Mexican health reforms essentially did away with a joint program between the Mexican Institute of Social Security (IMSS) and the National Solidarity Program (Solidaridad) for the rural uninsured, which simultaneously hurt service provision and tainted popular sentiment against the reform movement in general.

**46. *Defining the appropriate jurisdiction for reform is important and difficult. It is also different for the health and education sectors.*** The best sub-national level to produce a service from a production technology point of view may be quite different from the administrative level most capable of producing it. The Nicaraguan health case is a perfect example. Considering only the production of health services, regional units seem quite attractive. However, in Nicaragua (as in many small countries) the regional unit of government is not a full-fledged administrative entity capable of taking on the responsibility for service provision, nor does it have elected leaders. The choice then becomes one of transferring responsibilities to more local units (such as municipalities or individual health centers), or transferring control to semi-public integrated agencies, or keeping the control central. In small countries the latter may be preferable. The point at which the actual production of health and education takes place is different enough that pursuing a similar set of reforms (or attempting to discern common lessons learned) can be difficult at best, wrong at worst. Education is largely produced very locally (at the school or even the classroom level). Health on the other hand, presents far more regional issues even in its basic production. This greatly affects the choice of the appropriate level to which to transfer control. Nicaragua shows that schools can be an appropriate level for education administration, but municipalities may not be. Health, on the other hand, provides a

stronger case for continued central control in a small country.

### **How should we think about and begin to analyze “decentralization” reforms?**

47. *The framework for analyzing accountability presented above is a useful way of examining institutional reform.* It encourages the analysis of specific functions and discourages general (and not particularly useful) questions regarding the degree of decentralization and centralization of the entire reform. The framework helps us to observe how well the specific functions are organized to achieve overall accountability and effectiveness. Thus, we advocate using the word *decentralization* as little as possible and instead advocate focusing on the important dimensions of the reform.

## **Section II: Education Cases**

### **Section II.1: Mexican Educational Decentralization 1992-1996**

#### **A. Background & Summary of Findings**

48. The Mexican system of primary and secondary education has undergone two major reforms in the past 20 years that it labeled “decentralization.” The first, in the late 1970s, involved the reforms to the structure of the Federal Government's Public Education Secretariat (SEP) without any significant transfer of either funds or responsibilities to state governments themselves. Federal delegations (*delegaciones*) were established in each of the 31 independent states in an effort to move the locus of Federal educational administration out of the Federal District (D.F.) and closer to the populations served. The second, explored in this case study, began in 1992 and officially transferred responsibility for direct service provision from the Federal Government to the states.

49. During the 1980s, the Federal Government continued to dominate the financing of the sector through a budgeting process requiring each of the delegations to compete for a national pool of resources allocated annually by the Federal Government through the Ministry. Most of the approximately 1,000,000 primary and secondary teachers remained Federal employees.

50. Since mid-century, States could establish their own education systems financed through their own-source revenues (most of which come via the Federal revenue sharing system). These systems remained virtually independent, with their own teachers and administrators (both state employees) and their own infrastructure. The degree to which states chose to do so varied widely, with some states, like Nuevo Leon, actually spending more of their own resources on their state system than the Federal Government spent on the Federal system in their state. On the other hand, some states, such as Hidalgo, relied almost entirely on the Federal Government's system of primary and secondary schools. Gershberg (1995) shows that some state governments had, before 1992, significant experience in all aspects of the education sector (including budgeting and administration) while others had practically none. In addition, since states were allowed to develop their own systems and use their own resources to finance it in the first place, the decision to enter the sector was, to some extent, in the hands of state

governors long before even the 1978 reforms.<sup>1</sup>

51. Constitutionally the Federal Government was responsible for securing primary education for all Mexicans while states were free to choose where to place schools within their own systems. Gershberg (1995) provides evidence that states targeted better-educated urban populations leaving the Federal Government to cover the more disadvantaged and rural populations.

52. In 1992, the Ministry took what it hoped would be the next big step towards decentralizing the education sector. The National Agreement for Basic Education Modernization (ANAM), signed by the governors of all 31 states, legally transferred the previously Federal system (teaching and administrative personnel and infrastructure) to the states, which had to establish their own State Secretariats of Education, if they had not already done so.<sup>2</sup> Only the National Council for Educational Development (The Federal compensatory program targeting isolated communities) and Federal District teachers remain officially employed by the Federal Government. The 1993 General Education Law (LGE) solidified the 1992 ANAM, and gave it more legal muscle.<sup>3</sup>

53. The combination of 1) agreements signed between the Federal Government and each state and 2) the passage of a new General Education Law made it very unlikely that the transfer of administrative control to the states could be reversed quickly by a subsequent Secretary or presidential administration. Up to 1992, the transfer of administrative responsibilities to the states faced two main obstacles: 1) governors' fears of receiving responsibility for which they were not prepared and 2) the National Teachers Union, discussed below. The 1992 ANAM overcame the first of these two obstacles. Remarkably, the negotiating process for the ANAM took only about three months with the governors, though negotiations with the union essentially started in the late 1980s. Nevertheless, we must emphasize that the critical authority to hire, fire, and place personnel was not granted to the states, nor was the authority to negotiate teacher salaries. These facts call into question the true importance of the responsibilities that the Federal Government granted to states.

## **B. Mexico: State-level Education Case Studies Highlights**

54. The states chosen for case studies are Hidalgo, Guanajuato, and Zacatecas. One working hypothesis was that state experience since the 1992 ANAM would vary with the extent to which each state had developed its own non-Federal system before 1992; therefore, we chose states with different levels of state expenditure as a proportion total expenditure in 1991<sup>4</sup>. All three states are relatively poor and relatively non-urban. All states also exhibit relatively poor educational outcomes. And, there is no clear, *a priori* relationship between outcome or quality indicators and the state contribution to the share of education resources.

### **Hidalgo**

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<sup>1</sup> It is important to note that the degree to which states contributed is largely the result of political and historical forces rather than socio-demographic or economic indicators. That is, one might expect, for instance, that wealthier states would contribute more. But this is not necessarily the case: while it is true that Nuevo Leon, a wealthy state, contributes heavily, Chiapas -- one of the four poorest states -- also contributes relatively heavily.

<sup>2</sup> Basic education in all case studies refers to preschool, primary, and secondary school levels. The ANAM also includes initial, indigenous and normal schooling.

<sup>3</sup> We will refer to the 1992 ANAM and the 1993 LGE together as "the decentralization legislation" or the "1992 reforms."

<sup>4</sup> 1991 State Expenditure was 3.7%, 23% of total (State & Federal) expenditure in Hidalgo, Zacatecas & Guanajuato, respectively. Gershberg 1995

55. The actual transfer of the formerly Federal system to state control went smoothly. Other than transferring the functions of the federal Ministry's *delegado* to a governor-appointed state secretary of education, there was little alteration in the bureaucratic chain of command, the administrative personnel, or in the major functions of what had previously been the Ministry delegation. The governor cleverly chose a young and capable legal expert as secretary of education, who worked at the time under the federal Ministry's unit that essentially wrote and negotiated the signing of the 1992 ANAM with each governor.

56. This secretary picked two well-defined programs with political overtones, and made sure that they worked: the literacy campaign and the preschool program. The literacy campaign reduced official illiteracy rates from 17% before 1992 to 10% in 1996, bringing the rate in line with the national average and winning an award of international recognition. A key component of the program was the use of primary and secondary school teachers, who worked for extra pay as literacy teachers. This aspect would have been impossible prior to the 1992 reform because of Federal norms. The preschool program's key aspect is teaching preschool students to read and write, a practice that is still officially counter to Federal norms. However, the state has won its legal and bureaucratic battles with the Ministry and the program has survived. Both programs provide some evidence that increasing the freedom with which state and local actors operate, even slightly, can lead to innovative sub-national reforms improving both production and allocative efficiency. Importantly, Hidalgo's state level administrators also showed acumen and innovation in lobbying and working with Federal compensatory programs to support both programs.

### **Guanajuato**

57. Before 1992 Guanajuato had developed its own system of education, which accounted for approximately one third of the expenditures annually for basic education in the state. Interestingly, this figure has not changed since 1992. In 1992, the state system had been headed by the same secretary since 1985, and he was kept on by the governor as secretary of the entire system, including the Federal transfers. It is clear, from this case and additional interviews with Federal officials, that states with more extensive state systems at the time of 1992 reforms had a rich source of personnel from which to staff the new system under their responsibility.

58. On the other hand, these personnel still faced great administrative obstacles and the first two years after the 1992 ANAM were filled with concerns related to merging the two systems. By most accounts, the system did not progress at all vis-a-vis traditional outcomes in this time period because of this process. This does *not* mean that the overall administrative bureaucracy shrank. Rather, it was re-organized: for about two years after the state inherited the Federal system, each key administrative category had two similar posts -- a director of primary schooling for the state and another for the Federal system, a director educational planning for the state and the Federal system, etc.

59. In the area of demand-driven mechanisms and evaluation, the state is implementing a large number of interviews with and surveys of key actors -- especially parents, students and teachers -- to determine demand and priorities. They continue to rely on the Federal Government for macro-level quantitative evaluations such as student exams and various attendance and efficiency criteria, but they are complementing this information with qualitative evaluations. The results are not yet available. This program was developed because of a sense that, given its new responsibilities, the state felt a need to determine demand, but cost recovery was non-existent and community input inconsistent at

best. The interview process, while susceptible to manipulation, is an innovative solution (in the Mexican context) that has grown out of the 1992 reforms.

60. In terms of policy development, Guanajuato has two programs that can clearly be attributed to the reforms stemming from the 1992 reforms. The first is a policy of municipalization, in which state education officials have tried to a) establish municipal level offices to handle payrolls, settle work disputes, and participate (in the near future) in planning and school construction and b) foster stakeholder participation through municipal-level councils. The second is a program to increase preschool enrollment.

## **Zacatecas**

61. The state proportion of school finance has actually fallen in Zacatecas since 1992. State officials explain the trend saying that the declining share of state spending is due to increases in Federal support since 1992 at a higher rate than the absolute increases of the state. We found some support for this explanation. Increased Federal support supposedly has occurred because the state has low education indicators. State officials suggested, however, that the state is not complying with its end of the bargain and has reallocated to other sectors state funds previously destined for basic education. Remarkably, officials from the state Department of Finance also verified this trend. Zacatecas provides examples of the incentive problems inherent when sub-national entities spend national money.

## **C. General Discussion of Key Reform Aspects**

### **The Revenue Side of Education Finance**

62. On the revenue side, financing has remained largely Federal (approximately 80% nationally), with the Ministry using a system of annually-negotiated, non-transparent transfers essentially similar to those used pre-1992. As discussed below, states have not gained significant control over either how these transfers are determined or how they must be spent. That is, the sources of funding do not exhibit any decentralization and the authority over the use of funds exhibits little more. Despite the fact that the 1992 ANAM is called a “decentralization,” some traditional measures of decentralization have not risen: As mentioned above in Zacatecas, the state share of financing the sector has actually *fallen* since 1992.

63. For another example, the data show little change in the percentage of state own-source expenditures on basic education in Guanajuato. The same pattern holds true for Hidalgo, which continues to rely almost exclusively on the Federal Government to finance education. This pattern of no change seems more common than that found in Zacatecas.

64. Government data in this area are much sketchier than they were before 1992. This owes in part to the increased autonomy given states, which now report their own-source contributions in the sector to Federal authorities less consistently.

65. One very interesting lesson learned is that one standard measure of decentralization, the proportion of resources raised and/or contributed by sub-national governments, is *not* a good indicator of “decentralization,” or more correctly of local control. This is especially true since well-



designed transfer mechanisms can provide greater expenditure autonomy without transferring responsibility for the provision of funds. In fact, such measures may reveal recentralization of certain aspects of sources of funds.

66. Since the sources of education revenue have not been decentralized, the transfer mechanism and expenditure authority become critical. As discussed in the previous section, *subsidiarity* would call for a relatively centralized system of revenue but a more decentralized authority over expenditure authority.

### **The Expenditure Side of Education Finance**

67. On the expenditure side, there has been *some* transfer of responsibility to states, but much less than at first appears. The official line is that expenditure responsibilities have been decentralized. It is true that the states receive their Federal transfers, make their own contributions to the basic education budget, and then disburse expenditures. However, in reality states have control over only a very small portion of the basic expenditures. Teacher salaries constitute over 90% of expenditures in the sector, and teacher salaries continue to be negotiated in Mexico City, between the teachers union and the Ministry, with certain involvement by the president himself. States are then left to execute budgets 90% of which are largely out of their control. Thus, expenditure decentralization has given states power only over that portion of the budget that is not salaries. States must also follow regulations developed centrally. States have some increased power to allocate teachers across levels of schooling and, to a lesser degree, across localities within the state; thus, states have gained some limited control over the portion of their budgets devoted to salaries.

68. The states have lost some authority. Before the 1992 ANAM, the state systems were totally separate from the Federal systems. The ANAM specifically dictates the equalization of salaries and benefits of teachers in the two formerly separate systems. Now, salaries for the entire system (both the formerly Federal and state systems) are negotiated in the center, a fact that affects, if not totally negates, the new state power over the non-wage portion of expenditures. This situation highlights the importance of the personnel portion of the budget and the conclusion that without changing power over personnel, a reform is not likely to change much else. In Guanajuato, when the Federal Government mandated raises to teachers formerly under its employ, the state was forced to raise salaries equally for those formerly state teachers with whom it had previously negotiated salaries on its own.

### **Budgeting Processes and Intergovernmental Transfers in Education Finance**

69. In addition, the federal budgeting process itself has not changed significantly. The federal allocations to states would still be described as annual, negotiated, discretionary transfers. Interviews revealed that Ministry officials had hoped to implement a matching mechanism in the transfers, but faced opposition from the governors of poor states. In the years since, they have continued to try to reward states for spending own-source revenues on education, but the process is as non-transparent as the rest of the budgeting process.

70. In this environment, the states have had to absorb the Federal education system into their own governments. For those states previously financing their own separate systems, this has meant merging two systems effectively. Viewed in the most positive light possible, the 1992 reforms can

best be deemed an intermediate step towards a real transfer of important powers to the states in which the Federal Government officially transfers personnel, property, direct service provision responsibility, and some administrative control to states but maintains both the purse strings and the power to form general policy and regulations (*normatividad*) -- including determining the national curriculum, approving the regional curricula, performing national evaluation, negotiating teacher contracts, and allocating most resources. Strategically we may view this reform as the Federal Government attempting to increase its legitimacy using the rhetoric of “decentralization as democracy” while neither abdicating its own control nor seriously challenging the control of the national teacher’s union. (Ornelas [1996])

71. Regarding regulation and policy formation, on the one hand, and auditing and evaluation on the other, the Mexican reform appears to have *reversed* what would be considered good practice. 1) the Federal Government continues to transfer resources to the states, but they audit these funds more poorly than before; 2) they have made no special efforts to improve central evaluation, which is precisely the central function one might consider most important, after basic finance; and 3) they continue to tie state officials’ hands with centrally mandated and heavily regulated curricula and procedural norms, as well as with teacher salaries negotiated at the center. Along with the decentralization legislation, the Ministry should have redistributed funds and reorganized technical expertise within its own ranks to weaken regulation and the “long arm of the state,” and strengthen this important function. If funding is ever to be connected to evaluation, the Ministry must pay particular attention to this issue.

### **Social Participation in Mexican Education Reforms**

72. To increase broad-based participation in education, the ANAM established the school-level Social Participation Council. These councils were designed to be more broad based than the existing and well-established Asociación de Padres de Familia because they include many different stakeholders -- teachers, administrators, and other community members. Unfortunately, the councils do not function as intended. Writing participation into the decentralization legislation does very little unless it builds on previously existing social participation and goes hand in hand with the Federal and state government willingness to give the participatory councils more than advisory power over school personnel, budgets, and local curricula. Both are largely missing in the Mexico reforms.

73. Another problem with the legislation of social participation is the proliferation of participatory councils. There are at least ten potential formal mechanisms for social participation at each school.<sup>5</sup> Obviously all cannot possibly function at each school, but some schools we visited had as many as five committees attempting to function simultaneously. This phenomena, called *comitismo* in Mexico, has saturated school stakeholders with organized participatory entities. In this context, the participatory councils stand little chance of functioning widely. Nevertheless, the State of Hidalgo -- at the cost of great administrative effort at both the state and the school levels -- has formally constituted 4270 councils. Finding even a few that worked, let alone *any* that worked according to regulations, proved difficult.

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In addition to the CPS, CMPS, and APF, there are committees or councils for: the Programa de la Calidad Educativa (PCE); the Comité Escolar de Salud; the Comité de SOLIDARIDAD; the Consejo Técnico, a council of teachers; the Comité de Desayuno Escolar; the Comité de Parcela Escolar, a council of teachers, parents, and students charged with tilling an ejido for a rural school; and the Tienda or Cooperativa Escolar.

## **D. Conclusions**

74. Overall, the Mexican reforms initiated in 1992 show some signs of promise, but nearly as many missed opportunities. The lack of *any* innovation in Federal budgetary practices and fiscal transfers is perhaps the biggest, especially given that the Federal Government still provides the lion's share of the funds. The states administer a system whose most important fiscal attributes are determined in Mexico City: teacher salaries and the annual size of state budgets. Transfers are as discretionary as they have been for decades, and they create disincentives for both the states and the Federal Government for effective service provision. The failure to secure strong central evaluation and auditing is salient as well. Indeed, the Federal Government has transferred some limited powers to the states, but it has transferred more serious problems than powers.

## **Section II.2: Nicaraguan Educational Decentralization 1993-1996:**

### **The Municipalization and Autonomous Schools Programs**

80. Under the Sandinista regime, the Nicaraguan system of basic education was highly centralized, although during and after the civil war, the tradition of local payments by parents to support secondary schools was solidified. Since the 1990 elections brought the United National Opposition to power, there have been two distinct policy efforts to transfer more responsibility and decision-making to the sub-national and school level.

81. The first policy reform associated with decentralization by the Ministry of Education is the "Autonomous Schools Program (ASP)," which is essentially an adaptation of school-based management that combines school site councils with a system of school/user fees paid by parents. The second policy reform labeled as decentralization by the Ministry is "Municipalization," a program through which municipalities receive fiscal transfers to administer school payrolls and other limited powers. Both reforms also function in conjunction with an effort to establish Municipal Education Councils intended to further involve municipal and other local stakeholders.

## **A. The Autonomous School Program**

### **Basic Description of the Program**

82. The ASP has grown impressively rapidly since its inception in 1993. According to King *et al* (1996), about 100 secondary schools and over 200 single primary schools entered the program in only three years. In addition 42 *Núcleos Educativos Rurales* have also become autonomous. These *nucleos* are groups of two to four rural schools usually sharing a single principal that join together in order to share services and administrative functions. Primary schools became eligible for autonomy only in 1995. In terms of scope, approximately 8,000 of the 32,000 primary and secondary public school teachers in the country now teach in autonomous schools.

83. The basic components of school autonomy involve:

,        A monthly fiscal transfer to the school principal to pay for teacher salaries, benefits, and

basic maintenance. Teachers receive their salary in cash rather than checks.

The formation of a school site council charged with powers over budget; personnel; and (officially) some curricular decisions and evaluation and planning functions.

The implementation of supposedly mandatory school fees for secondary school students and supposedly voluntary school fees for primary students. The fees may be for monthly attendance and/or exams; registration forms; services such as diploma processing; library use; and other services (such as use of a computer lab). These fees are used to augment teacher salaries or perform other operations as deemed necessary.

84. Though it represents a fundamental change in the way that a significant portion of the national system of education is governed, the ASP is not established in national law. It has not been ratified by the national legislature, but rather has been governed by a series of Ministry internal directives, many of which are not in the public domain. The Ministry officials proudly proclaim that the reform process is one of “*hechos no de derechos*” (accomplishments, not laws). This provides an interesting alternative to the process in, for instance, Colombia, where years were spent constructing decentralization policies on paper without significant implementation. This strategy has provided some tangible benefits aside from the mere speed of the reform. The Nicaraguan government, and the Ministry more specifically, have learned a great deal from the early experiences of the ASP -- and this knowledge will undoubtedly impact positively on the legal framework. That is, if the legal framework is ever developed.

85. The danger with this strategy is, of course, that the reform is more easily reversible until it is firmly and legally established. In Mexico, for instance, the 1992 decentralization reform was established first with individual agreements between each state governor and the Ministry of Education -- and shortly followed by a new national education law -- making the reform, for better or for worse, very difficult to turn back on. Luckily (for Ministry officials and others favoring the ASP) the results of the recent presidential election probably assure the program’s short-run survival. However, at the end of the Chamorro administration, uncertainty both imperilled the program’s stability and put many participants (actual and potential) in a “wait and see” mode. Yet another pitfall with this process has been considerable confusion (or even purposeful manipulation) on the part of government officials and other participants over the precise rules governing the ASP.

### **How Schools Become Autonomous**

86. The Ministry first targeted secondary schools for autonomy. The logic was that secondary schools were larger in size, fewer in number, generally run by more experienced principals, and had a more established history of charging fees than primary schools. In addition, the Ministry hand-picked the first 20 secondary schools in 1993 from among large, urban secondary schools presumably based upon their likelihood of success.

87. Schools are recruited by Ministry delegates in each of the 143 municipalities. The Ministry correctly recognized the need to have a cadre of local representatives to spread the program. With support from U.S. AID, they trained each municipal delegate, teaching them the philosophy, goals, and components of the reform as well as strategies for promoting it. This training took place in a central location and it is clear from our interviews that it was of high quality. The delegates, to a person, understand and fully support the program.

88. The first step in the process is for the Ministry delegate to convince the teachers in the school to sign a letter requesting autonomy. They do not promote the program in all schools, however. They choose schools with capable principals and teachers and large matriculation. The primary selling point with the teachers is the promise of increased salaries supported by the school fees. This is perhaps the most clever, if controversial, aspect of the program. Teachers would otherwise have substantial reason to oppose autonomy, particularly because of the new power shared between principals and parents to hire and fire teachers.<sup>6</sup>

89. When approved, the principal travels to Managua and signs an agreement with the Minister of Education called the School Co-management Agreement. This agreement contains the Ministry's promise of monthly transfers the school will receive for paying salaries and, importantly, spells out the policies for school fees.

### **School-Based Management and Fees in Autonomous Schools**

90. After entering autonomy, a school is governed by the principal along with the school site council, which always has a voting majority of parents. Consejos Directivos have an array of functions that include approving internal school rules and physical renovation; informing the community of its decisions; and elaborating and approving school operating plans, budgets and voluntary monetary contributions. The Consejos Directivos have extensive human resource powers including hiring or dismissing any school staff, including the principal. Consejos Directivos have some curricular powers in altering, improving and incorporating different elements into existing programs.

91. By far the most contentious and controversial component of the ASP is the imposition of user charges upon parents. They provide, first, the only incentive strong enough to win the support of enough teachers to make the ASP process tractable. Second, they provide critical additional resources to the sector which are unlikely to come from the Ministry, which can only be described as remarkably cash poor.

92. Scarce educational resources notwithstanding, the fee policies do raise serious questions regarding the equity of the ASP and have provided the source of staunchest social and political opposition. Central Ministry officials are fond of trying to play down the size of the fees with the analogy that C\$10 per month is only the price of two beers. But, for a typical family with average performing students,<sup>7</sup> the monthly payments if fully collected can hardly be called inconsequential: a family with six children in school would have to pay C\$60 per month in attendance fees and perhaps another C\$40 to C\$60 per month in materials, examination, and other related fees. C\$120 per month could easily be 50% of the family's household income. Naturally, the result is that they do not pay some

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We say little about the teachers unions in this case study; however, we note the following: In Nicaragua four different teachers unions vie for power among each other. The union with the largest membership (ANDEN) is strongly associated with the Sandinistas, and thus has suffered a loss of prestige under the current administration. While they are staunchly opposed to the ASP and in fact have launched publicity campaigns against it, ANDEN has not proven strong enough to block it. The fighting *between* unions may have allowed the ASP to succeed. A plain lesson that emerges is that weak union power simplifies the fight to implement controversial decentralization reforms.

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All fee exemptions are based in part upon grade-point average. They may also then consider poverty or if the parents are teachers. We found significant evidence in interviews with both parents and teachers that poor parents could not and often did not pay voluntary fees. In particular, parents of large families found the cumulative charges onerous. On the other hand, we found less direct evidence that parents discouraged their children from attending school because of the fees, so this statement expresses a concern more than a finding. However, one teacher did say that she felt that the fees played a role in discouraging parents from sending their children to first grade on time. Clearly, these finding signal a need for compensatory mechanisms as discussed below.

or all of the fees or they discourage their children from attending.<sup>8</sup>

93. In primary school the fees are by law voluntary. However, instances of teachers refusing to administer exams to non-paying primary school students are not rare, and even cases of teachers or principals refusing to admit students occurred. In these situations, the MED delegates and the mayors play a key role in conflict resolution by “reminding” school staff that the fees are voluntary. But even if they are successful in supporting the students, it is hard to escape the class-based social environment being created within the institutions that are supposed to play an equalizing role. It is hard to make voluntary school fees truly voluntary. It is even harder to avoid emphasizing class differences. Compensatory mechanisms must be well established and preferably implemented transparently at the same time as the fee system.

94. Schools exhibit a broad range of fee collection strategies. In relation to the size of the monthly transfer received from the Ministry, total fee collection ranges from 0% to as much as 161%. In other words, some schools derive nothing from fees while others use them to more than double their available resources. Fee policy is set by the school councils obviously based only loosely upon Ministry guidelines. Councils then allocate fee revenue according to the priorities they establish. Interviews revealed that if fee revenue is substantial, the councils typically allocate half to teacher remuneration and half to maintenance/repair; purchase of furniture or other amenities such as computers or library books; and/or social events. However, if fee revenue is low, councils seem to cut the teacher remuneration first. The salary bonus for teachers ranged from 0% to 50% of their monthly income for secondary school teachers and 0% to 30% for primary school teachers. Unfortunately, this is probably why we found morale to be particularly low among teachers in very poor, and particularly rural, communities where autonomy has wrought none of the promised financial rewards for teachers.

### **Stakeholder Analysis in the ASP**

95. However, this observation, even coupled with fears over inequities, should not be taken as a fatal criticism of the user fee component of the program. To the contrary, we are convinced that they are a critical component of the Nicaraguan ASP model. A summary of the main winners and losers, in the theoretical absence of fees, shows why this model may not work without them.

96. **Principals, at least those with leadership ability, are winners** for they gain far greater control over school functions and now answer much more loosely to higher powers. Those with vision have the possibility of implementing it. True, principals now answer to a council in which parents have majority voting control and the power to dismiss them. But this is a trade-off worth making for the vast majority of capable principals, especially since 1) controls exist whereby MED delegates have the ability to block capricious actions by the council and 2) parents are likely to follow good leadership from school staff.

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97. **Parents, too, are potentially winners**, as long as they are satisfied with their representation on the council. They gain majority control of the councils; send their children to schools less encumbered with a distant bureaucracy foreign to them; and, according to many of our interviews and the evaluations presented King et al (1996), may witness improved teacher and student performance.

98. **Teachers, on the other hand may be losers**. They neither gain majority control of the councils nor freedom from their original manager. They may gain improved working conditions if they share the vision of the principal and/or the parents, but without increasing teacher salaries the tripartite symbiotic relationship between the sets of actors begins to unravel. Some remuneration is in a sense necessary to “buy” the teachers under the auspices upon which they were “sold” the program in the first place.<sup>9</sup>

99. Achieving this outcome without exacting costs upon parents higher than the benefits they receive and adversely affecting equity is *the* challenge of the Nicaraguan school-based management reform, and requires a strong compensatory effort on the part of the central government. That is, the central role is not smaller but different after well-designed reforms.

100. We found that while the central government does indeed provide added compensation to autonomous schools in poor districts, the mechanisms are not transparent and appear to occur at the expense of non-autonomous schools. One suggestion would be a poverty-based match of parental contributions where autonomous schools in poor communities would receive Ministry matching funds for all fees collected. This would produce multiple benefits: 1) it would maintain the sense of financial involvement that has apparently made parents more dedicated to participating in school affairs; 2) it also maintains the increased accountability and citizen oversight that comes when people feel they are paying directly for a service; 3) it would ensure that compensatory funds were targeted at least in part to supporting teachers salaries, which we have seen is a critical component for the success of the Nicaraguan model of school-based management; and 4) it would combat the inequity that results from throwing schools more at the mercy of the endowments of their communities.

## **B. The Municipalization Program and the Municipal Education Councils**

101. Many countries (e.g., Brazil and Chile) have implemented policies that transfer some school administration responsibilities to municipalities. Nicaragua, through the Municipalization Program, is no exception. Since it is not nearly as unique as the ASP among school reforms in Latin America -- nor nearly as fully implemented -- we pay far less attention to this second Nicaraguan “decentralization” reform here. At the same time that the Ministry first started developing and promoting the ASP as one form of decentralization, it formulated and began to implement a Municipalization process that transferred certain, albeit limited powers, to municipalities chosen to participate. When the ASP gathered steam, the Ministry appears to have de-prioritized the Municipalization effort and only 10 of 143 municipalities have entered the program. One interesting lesson learned is that a central ministry can indeed set up two reforms, one more controversial than the other, as a way to hedge its administrative investments.

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However, as Savedoff (forthcoming) points out improvements in school management can increase teacher satisfaction. In Venezuela and Chile this was the case even though teachers had less job stability.

102. The municipality operates in the sector through a Municipal Education Council (CEM, *Consejo Educativo Municipal*), composed of the mayor and other municipal officials, the MED delegate, teachers, parents, members of the religious community, and members of the commercial sector. Importantly, CEMs are not unique to decentralized municipalities.<sup>10</sup> They are officially required in all municipalities, even non-decentralized municipalities which have few or no administrative functions and handle no Ministry transfers. To the mixed extent that the CEM has taken hold across the country there has been some increase of municipal involvement even in areas not in the Municipalization Program. At the outset, the Ministry chose three large cities to be the first to experiment with the program. A major consideration for which municipalities to choose was the character of the mayor. Each was considered talented, in favor of decentralization reforms in general, and personally close to the Minister of Education. The next step was supposed to be the expansion of the program to other municipalities in the departments of the three large cities. This happened only in Matagalpa. It seems that the administrative and political energy required to expand the ASP so quickly made it difficult to devote the needed time and resources to Municipalization. It remains to be seen if the new administration takes it up again.

103. The CEMs have increased the participation of mayors in the education sector even in municipalities that have not been “decentralized.” Apparently the CEMs have forged a closer relationship between the mayors and the MED delegates and placed the education sector higher on the list of mayoral priorities. Thus, the CEMs seem to have expedited and even increased the number of school construction projects proposed to the central government. The interaction between the mayors and the MED delegate and other members of the CEM has also involved more actors in the location of new schools, and both mayors and MED delegates expressed that the choices had improved since the CEM had been initiated.

104. The closer relationship between the mayor and the MED delegate has had other benefits as well. MED delegates consistently stated that they received more backing from the mayor in the execution of their responsibilities. Most often this involved small but significant support such as the use of municipal vehicles to deliver supplies to schools (most MED delegates have no vehicles of their own) or the provision of municipal funds or buildings for school meetings, parties, and other functions.

105. Many mayors have felt left out of the process of school autonomy. While that may be precisely a goal of the ASP, given the role of the mayors in proposing construction projects, it could not be considered beneficial to have mayors feeling unconnected to the education sector. The CEMs have helped involve mayors more in the sector amidst a major reform process that could have isolated them from it more. Also, outside of major cities, mayors are where many citizens go to lodge many kinds of complaints. In the case of the ASP, a major complaint has been the pressuring of parents to pay voluntary fees. The CEM has given the mayors an official instrument through which to resolve disputes arising over fees in the autonomous schools, even if their direct power over autonomous schools is weak.

## **C. Conclusions**

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Note that we will refer to municipalities in the Municipalization Program as “decentralized” and those not in the program as “Non-decentralized.” This does not imply any judgement as to the level and extent of decentralization as, for instance, in the framework in Section I. Rather, we do this because this is the term used by the actors involved and because “municipalized municipalities” is an ungainly term.



106. Overall, the Nicaraguan decentralization reforms provide a very interesting and innovative example from which to learn. Of course, it remains to be seen if positive results will be generated in the most important aspect, student outcomes. In addition, if the Ministry cannot resolve some of the serious equity issues, the reform is sure to fail for political reasons and its legacy will be increased disparities in performance and opportunity between different and varied populations. Nevertheless, the unique characteristic of the reform is the extensive role of the school council in setting policy for school governance, not simply advisory functions, and the initial results indicate that this arrangement is at least achievable and potentially beneficial. Finally, among Latin American school reforms, there may be no other example for study in which the user fees are so sizable at the same time they are controlled by the councils themselves. Whether or not the program proves successful, development institutions and education analysts are sure to learn a great deal more from the experience.

### **Section III: Health Cases**

#### **Section III.1: Mexican Health Care for the Uninsured, 1982-96**

##### **A. Background and Summary of Health Sector Reforms and Findings**

107. For the case of the Mexican health sector, the 1980s reforms may be characterized as “partial” or “incipient” decentralization, whereby, in 14 of Mexico’s 31 states, responsibility for the uninsured population was transferred from the Federal to the state level, but budgetary decentralization was limited to drugs, supplies, and general service expenditures. Even within this limited budgetary reform, the degree of state autonomy varied over time and Presidential administration. Notwithstanding these serious limits to decentralization, the Mexican reform case offers a number of interesting lessons, both in terms of positive and deleterious effects on the administration and delivery of health care and in terms of how *not* to decentralize.

108. The Mexican health sector comprises three basic components:

- a) the Social Security system consisting of a number of different institutions, which cover all employees in the formal economy and are financed by employer-employee payroll taxes (in 1994 approximately 48 million people or 53% of the population, were officially affiliated);
- b) the Secretariat of Health (SSA or “The Ministry”), which serves the uninsured population and is funded through general revenues (approximately 29 million or 32% of the population) and the Integrated Family Development Program (DIF), the National Institute for Indigenous Peoples (INI), the Federal District Department (DDF) and the Rural Health Program run by Social Security (IMSS-Solidaridad, discussed below) which together serve 14 million people (15% of the population) and
- c) the private sector, which is organized around private insurance (2.4 % of the population) and out-of-pocket payments. Data regarding private sector coverage are incomplete, but there is evidence that both the insured and the uninsured population attend the private sector (with expenditures concentrated among the wealthiest segments of the population).

109. The Federal government has recently admitted that there are 8 to 10 million people with no access to public health services whatsoever (approximately 1/4 of the uninsured population or 10% of the entire population). Many among this population may attend traditional healers and midwives; there is almost no information about coverage and expenditures in this area.

110. Overall, the private sector constituted 42.7% of total health spending in 1992, Social Security made up 44.3% of spending, and the Ministry 13% of spending. The social security system spends approximately four times as much per capita for the covered population as the Ministry spends for the uninsured.

111. Simultaneous to the devastating economic recession of the early 1980s that eventually reduced the per capita health budget by almost half, President Miguel de la Madrid (1982-1988) promoted “the decentralization of national life,” as a means to fulfilling Mexico’s historical commitment to a Federal system of government and as a tool to “achieve unity in the national development of the geographic, ethnic, and cultural mosaic” that characterizes Mexico. As part of this global plan and, according to many, as a pretense for reducing Federal spending on health, the de la Madrid administration planned the “decentralization” of health services to the state level, at once promising autonomy to the north, equity to the south, and greater efficiency overall. Fiscal reform was envisioned via the 1984 General Health Law, through which the Federal government gave the states responsibility for organizing, delivering, supervising, and evaluating health services.

112. As a preliminary step to a supposedly full transfer of budgetary control to the states, the Ministry deconcentrated their Coordinated Health Services Offices in the states. These offices were state-level, Federal delegations headed by an official who was essentially the secretary of health for the state. They were given an expanded involvement in the budget and planning process in that they could *propose* more than before, but the final decisions continued to be made in the center. This change was the only reform that took place in all 31 states.

113. While de la Madrid’s plan envisioned reforming all 31 states, only the 14 states that had signed the decentralization agreements (here called the “Accord States”) by 1987 ultimately implemented the most important elements of the reform described below<sup>11</sup>. Political will and the state’s potential capacity to increase its proportional contribution to health spending for the uninsured were important criteria in this process, although many observers have noted that, with the exception of Guerrero -- whose Governor was the intellectual architect of the reform -- all of the Accord states had either a high level of socioeconomic development and/or a medium to low poverty rate. This has led to the conclusion by analysts of the process that states were selected based on relative wealth and the “least resistance” to change on the part of the state governments themselves and Social Security.

114. The dominant element of the reform was the creation of a single state system of health for the uninsured, which entailed transfer of responsibility for uninsured populations from the IMSS-Solidaridad and the State Coordinated Health Services of the Ministry to new entities under state authority. Due to the opposition of Social Security, the states selected had the least IMSS-Solidaridad infrastructure, leaving 72% of the program’s units intact and 6.5 million people covered

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In the Accord States are: Aguas Calientes, Baja California, Colima, Guanajuato, Guerrero, Jalisco, México, Morelos, Nuevo León, Quinatana, Querétaro, Sonora, Tabasco and Tlaxcala.

in the 17 Non-Accord states. (Gonzalez Block et al., 1989). By the end of the 1980s reform, IMSS-Solidaridad had turned over 23 hospitals and 911 rural medical units, leaving it with 50 hospitals and 2404 units for nine million people in the remaining 17 states.

115. Throughout the country, the fusion of the IMSS-Solidaridad and State Coordinated Health Services was and remains the most controversial aspect of the reform for a variety of reasons. First, because not all IMSS-Solidaridad personnel joined the new state health secretariats, there was a net loss of health personnel serving the uninsured population immediately after the fusion, even though the number of health personnel generally increased in the late 1980s. Next, many IMSS-Solidaridad employees were opposed to joining the state health secretariats because of inferior working conditions. The merger was also expensive, costing hundreds of millions of pesos for salary equalization and severance pay. Most important, because of the broad popular support for IMSS-Solidaridad thanks to its more comprehensive and integrated services, better staffed and equipped units, and superior outcomes, a merger with the less favored coordinated health services was widely opposed.

116. The 1980s reform was thwarted for a number of reasons. First the Federal government's failure to give states power over the personnel budget meant that fiscal transfers to the Accord states constituted less than one fourth of spending. Because of their limited tax base (or ability to retain taxes at the state level), most states were unable to significantly increase their financing capacity even though they were assuming greater administrative costs. Moreover, although one of the main objectives of reform was to localize programmatic decision-making, the Federal Ministry continued to exercise control of major program selection and overall health policy. Finally, the fusion of IMSS-Solidaridad facilities with those of the Ministry ultimately resulted in fewer resources and less equity, particularly in impoverished rural areas.

117. Despite the vast legislative decentralization framework created during the 1980s, decentralization was not only never achieved but also reversed. The Federal health reform impulse was suspended at the end of the de la Madrid administration after only 14 states had signed decentralization agreements. The suspension of reform is attributed to internal reports citing a sharp decline in quality of health services in Guerrero, Morelos and other states and to public outcry over deterioration of former IMSS-Solidaridad services. In a nutshell, by the late 1980s it was clear that "decentralization" reforms had not improved performance or accountability for health services and that the health infrastructure had deteriorated in many Accord states.

118. In 1989 the administration of President Carlos Salinas de Gortari (1988-1994) began a quiet reversal of the previous reforms of health services for the uninsured. This took place through a gradual substitution of more generalized transfers with line-by-line budget earmarking and through the creation of several centralized public health initiatives to improve maternal and child health. Many observers have attributed the Salinas recentralization to an improvement in the Mexican economy and to the Salinas administration's desire to wrest control from state governments. This suggests that political forces, not the failure of the legislative mechanisms, ultimately doomed the reform effort of the 1980s.

119. Decentralization has only recently re-emerged as a major goal of the Zedillo government and the National Accord for the Decentralization of Health Services signed on August 20, 1996 appears to be a significant step. Although this next episode of reform faces a number of obstacles, because of the importance assigned to decentralization as a policy initiative by the Zedillo administration,

virtually all persons interviewed at every level of government pronounced themselves in favor of budgetary and programming “decentralization.” Moreover, there was at least a surface-level consensus that “decentralization” had been carried out only partially in the 1980s, in contrast to the plans for the Zedillo reform which was perceived to be more legitimate in its design. Thus far only a few activities have been decentralized, such as the transfer of check disbursement for salaries to the states and an option for direct purchase of pharmaceutical products.

120. Summarizing the reforms with respect to the accountability framework reveals that it is hard to call the Mexican health reforms a process of “decentralization.” States did not gain a significant level of control over even a single aspect of the system, and most of the few new powers they did gain have slowly been taken away from them. As mentioned above, the case provides lessons in how *not* to decentralize. Despite the fact that we cannot label the reforms “decentralization,” since the Mexican government did in fact use that label, all future efforts to implement true reform will begin with having to overcome the legacy of these failed reforms.

## **B. State-level Health Case Studies Highlights**

121. State cases were selected based on their ability to illuminate particular problems of the reform process of the 1980s or to innovate in some aspects of the performance accountability framework regardless of whether they were officially Accord states. Since signing the decentralization agreement in 1985, Jalisco has introduced both training and administrative mechanisms to prepare it for the responsibilities of it will take over from the federal government. In areas where budgetary and administrative authority has been transferred to the states, Jalisco’s preparation has paid off; however, due to Federal limits on state budgetary control, Jalisco has been unable to decentralize fully or successfully. The case of Morelos, which possesses a similar marginalization index to Jalisco and thus theoretically started from a comparable level of social development, demonstrates the tremendous problems that can be created in health services delivery even under partial decentralization.

122. As a Non-Accord state, Hidalgo has undergone interesting innovations both in health and education reform over the last few years. Hidalgo, the nation’s fourth poorest state, represents an alternate “path” to budgetary and policy reform in accordance with the performance accountability framework despite its exclusion from the official reform process. As one of four states benefitting from the \$180 million World Bank First Basic Health Care Project (PASSPA), Hidalgo was provided the resources and responsibility to increase access to care for marginalized population. While this responsibility initially proved problematic, a new state health team installed in 1993 has been able to take full advantage of PASSPA’s flexibility, creating its own system of service delivery and state-level accountability. An assessment of the Hidalgo experience suggests that decentralization may be enabled by state demonstration projects.

## **C. Key Reform Aspects**

### **Health Finance and Personnel Management in Accord and Non-Accord States**

123. In exchange for budgetary transfers from the Ministry, Accord states signed agreements promising to increase the state contribution to public health spending. On the eve of the reform, the states that would subsequently sign the Accord contributed an average of 17.43 % to public health

expenditures compared to 5.58% in the remaining states, a threefold difference. (Gonzalez-Block et al., 1989) The average state proportion of spending on the uninsured in Accord states actually fell from 1985 to 1987 by 37.3%, but proportionate state spending dropped even more dramatically in Non-Accord states during the mid 1980s.

124. Additional evidence of the consistency in spending differences between states is an internal Ministry study comparing 4 Accord to 4 neighboring Non-Accord states which found that the Accord states contributed 22.6% of health care financing compared to 7.8% for Non-Accord states, still a threefold difference. Thus, through periods of economic growth and contraction, the Accord states did not proportionately increase their contribution to the health budget, and the three to one ratio between Accord and Non-Accord states remained remarkably consistent before, during, and after the reform process.

125. Another indicator of the continued centralization of finances is the proportion of the Ministry budget that is under state control versus Federal control. [SSA, 1995] finds that Accord states in 1994 controlled 23.4% of their budgets vs. 20.4% control in Non-Accord states, a very small difference. The largest reason that Accord states have gained little more control over their health budgets than Non-Accord states stems from the failure to transfer significant control over the personnel portion of the health budget.

126. Other than the fusion of IMSS-Solidaridad and Ministry employees, the 1980s reform process resulted in no significant personnel management changes for either Accord or Non-Accord States. The existence of state health workers, with their own unions and salary structures suggests that further reform may be complicated, as suggested by the experience with the education sector. In theory, the Federal government has promised to pay to raise the salaries of state health workers to the level of Federal workers, in part to allay the fears of the national health unions. The personnel and union decisions made for the Secretariat of Public Education reform are being used as a model for the Ministry, but problems with the education reform resulting in recent teacher strikes may make the assurances of union compliance with the reform plans of August 1996 far too optimistic. Because health workers union is smaller than the teachers' union, there is considerable concern about breaking it up into 31 branches.

### **Eking Out a Little Real Decentralization: Policy Development and User Fees**

127. In general, regulations and norms continue to be Federal, although over the last decade some states have developed their own norms, particularly in the area of Sanitary Regulation. Jalisco's state health care plan has defined a basic package of essential services that is more extensive than the Federally recommended package (three more free services), and one jurisdiction has developed a package with a further free service. Likewise, Hidalgo's recently-elaborated packages of essential services are oriented around demographic groups rather than programmatic activities and also go far beyond the services specified by Federal norms.

128. Policy development, distinct from regulation and norms, has seen more decentralized activity, with states and municipalities now encouraged to develop their own priorities. For example, municipalities in many states now rank their health priorities based on the local epidemiological and, to some extent, socioeconomic profile, rather than strictly following national programmatic priorities.

This has led to greater awareness of local health problems and attempts by municipalities to increase health promotion and disease prevention activities. Hidalgo's packages of essential services based on age groups and social conditions have a far more preventive focus than has been typical of Ministry services. However, the budgeting process continues to be organized around Federal programs, requiring state planning and budgeting personnel to carry out gymnastics to justify state policies according to the Federal budget guidelines.

129. In terms of demand-driven mechanisms, the main element present in Mexico has been the user fees. In 1994 user fees ranged from 2.3 to 16.1 percent of total health spending by state. The use of these funds differs by state. In Non-Accord states, most monies stay at the unit level and are used for the purchase of medicines and other supplies not covered by the regular budget. Case-by-case socioeconomic investigations are carried out in most states to determine the veracity of claims of inability to pay for health services. In Hidalgo 85% of the fees stay at the unit or jurisdictional level, 10% go to the state, and 5% to the Federal public welfare fund. In Jalisco, 100% of the fees go to the state secretariat of health where they are used to pay for personnel and other expenses. This situation is probably unique among Accord states--elsewhere the monies go first to state coffers.

130. The exclusive state use of user fees was a small but important element of the decentralization agreements of the 1980s; recent Federal suggestions that the fees in Accord states return to Federal control have been met with considerable opposition. User fees are becoming an increasingly important revenue source, more than doubling as a proportion of total spending for the uninsured in Accord states, from an average of 4% in 1985-7 to 9.3% in 1994-5. Although Non-Accord states have less control over user fee revenues, these states collected almost as much - a proportional contribution of 6.9% of total spending in 1994/5.

#### **D. Conclusions & Lessons Learned from Mexican Health Decentralization**

131. Summarizing the reforms with respect to the accountability framework (Figure 4 in Section I) reveals that it is hard to call the Mexican health reforms a process of "decentralization," or even to say that much was changed. States did not gain a significant level of control over even a single aspect of the system, and most of the few new powers they did gain have slowly been taken away from them.

## **Section III.2: Case Study of Nicaraguan Health Decentralization**

### **A. Background and Summary of Health Sector Reforms and Findings**

132. The Sandinista government created a centralized system of health services delivery, though there was some experimentation with local level budgeting for hospitals and district health systems in the mid 1980s which divided the country's then 9 regions into "health areas." Following a solidification of central control from 1990-1993, over the past few years the Chamorro government turned to the Local Integrated Health Care Systems (SILAIS) model at the departmental level as its primary reform to manage over 800 health units and 27 hospitals in the nation's 143 municipalities.

133. Interestingly, unlike some other countries in the region, Nicaragua has allowed policy formulation and implementation to take place before the development of national reform laws. A series of Ministerial Resolutions starting in 1991 have led to the development of 17 SILAIS. This is similar to the process followed in the education reforms analyzed in Section II.2. Nicaragua's recent reform has also taken place within the context of technical cooperation with a large number of donor agencies. Some of these continue to have a centralized focus, while others have a SILAIS-level focus that may or may not be coordinated with the central level.

134. As of 1995 all SILAIS were governed by unpaid Boards of Directors, made up of local officials, church officers, people working within the health sector, "distinguished" community members, and the SILAIS director, who has a "voice" but no vote. Each SILAIS includes a network of primary health care units and a secondary level hospital (that offers specialty services in internal medicine, surgery, pediatrics, and obstetrics/gynecology). As of February 1995 (Ministerial Resolution 36-95), SILAIS were authorized to sell services to INSS or other private purchasers. Despite this authorization, the SILAIS remain contractually accountable to the Ministry of Health to meet productivity, health, and satisfaction targets in return for funds and technical assistance.

135. These reforms were designed to change the Ministry of Health's roles to those of aiding the SILAIS in policy development, norm-setting, evaluation, monitoring of health system performance, and technical assistance to the SILAIS. Nonetheless, the Ministry retains control over health sector funding via performance agreements and continues to control staff levels and composition (although SILAIS are permitted to fire staff). Drugs and medical supplies are also purchased centrally to preserve economies of scale, but purchases are now based upon the requests of the SILAIS. The principal change that has been generated by the reform thus far relates to the local management of the budget for operating costs (goods and services), approximately 20% of SILAIS funding.

136. For the case of the Nicaraguan health sector, decentralization may be characterized as inchoate, with problem definition and allocative responsibility partially located at 17 departmental level SILAIS but with decentralized fiscal control limited to goods and services, approximately 20% of the budget. While the fiscal control for this portion of the budget is extensive, permitting the flexibility to move expenditures from one budget area to another, the management turnover in the Ministry of Health, and more importantly, the absence of any binding legislation, has considerably weakened the reform effort.

### **B. Departmental Case Study Highlights**

137. SILAIS cases were selected based on their ability to illuminate particular problems of the reform process and for regional balance. León was selected as an example of one of the best SILAIS with the most experience. Jinotega was selected as an extremely marginalized region with high infant mortality. Managua was included for being the largest SILAIS and center of the nation's reference hospitals. Chontales is an example of a small, marginalized region whose administrative capacity has been bolstered by the FORSAP program administered by the Dutch government. Finally the region of Bluefields was included as a mini-case because of the particular problems posed by the Caribbean region and because its political legitimacy and greater autonomy contrasts with the Pacific Coast SILAIS.

138. The experience of Bluefields SILAIS in many ways demonstrates that accountability has been lost or confused through the reform process. For example, the SILAIS generated electricity debts in 1995, and it remains unclear whether it is the responsibility of the SILAIS or the Ministry of Health to assume this electricity debt. The SILAIS argues that the budget allocated was insufficient, while the Ministry argues that the SILAIS was responsible for rationing the use of electricity. Interestingly, similar confusion over utility bills occurred through the Autonomous Schools Programs. Ironically, it is ultimately the Ministry of Finance, not the Ministry of Health that controls the purse strings.

### **C. General Discussion of Key Reform Aspects**

139. Health spending comprises approximately 20% of total government expenditures, but real health spending has declined by over 12% from 1992 to 1996. Outside of the Atlantic autonomous regions, the departments have no spending powers and cannot raise their own revenues since they are not constitutionally recognized entities. In sum, discretionary authority over resources at the SILAIS level to accomplish local objectives has been highly limited.

140. There have been some changes to the budget process intended to enable further transfers of budgetary power to the SILAIS. In the past the budget was decided on a historical basis, but since 1995 it has been based on local, formula-based requests and the efficient utilization of the prior year's budget. It is not clear whether this change has been fully implemented. The old methodology of cost-rationing specified budgets down to the detail, including the unit cost of each item (tires, gasoline etc.) Today, the SILAIS signs a budget which is a list of responsibilities for the year based on its plan of activities. Both SILAIS and hospitals present a monthly budget by program and expenditure concept.

141. As of 1995 the goods and services budgets transferred to the SILAIS for primary care were assigned based on the following adjustment factors: 1) health status; 2) access; 3) epidemiological characteristics; and 4) health prevention indices. The formula derived from these factors is intended to assign more money to primary care to adjust for imbalances that were created in the early 1990s. In 1993, for example, 30% of expenditures went to primary care, 50% to secondary care, and 20% to administration. From 1994 onwards the central government mandated that 46% of the budget should go to primary care, 50% to secondary care, and 4% to the central Ministry and SILAIS administration. While some SILAIS reported adhering to this formula, in 1995 national level health spending was designated as follows: 26% to primary care, 56% to secondary care, and 18% to administration.

142. A final note on the budget concerns external aid, which now exceeds \$60 million, almost as



much as government health spending. It is difficult to separate the role of the Nicaraguan reform process from the infusion of outside funds in ascribing any efficiency and medical productivity gains of the last three years. Since these agencies are such large players in the health care budget, it is particularly important to coordinate their specific programs with larger reform efforts to transfer authority to sub-national entities to prevent both duplication of efforts/services and potentially contradictory reforms.

143. As in Mexico, the failure to decentralize human resources, which comprises 65% of the health budget in Nicaragua and over 23,000 workers, is perhaps the most important impediment to reform. One of the main human resource problems in Nicaragua is the oversupply of doctors and undersupply of nurses. This has been exacerbated by the failure to decentralize personnel. Not only does the continued centralization of personnel prohibit the shifting of expenditures to other areas, but if a physician's position is replaced with that of a nurse or any other lower paid position, the SILAIS loses the salary differential. This has led to game-playing, with many persons working under incorrect job categories. It has also prohibited the redressing of physician-nurse imbalances in the health system.

144. Despite the failure to decentralize the personnel budget, the SILAIS have gained authority to transfer people within the SILAIS (for example moving specialists from hospital to primary care settings) and even to other SILAIS, as long as the health workers' union agrees to it. The SILAIS can also fire individuals but cannot create new positions and may not be guaranteed the right to fill positions of fired and retired individuals.

145. Norms and regulations continue to be established centrally, but supervision is carried out by the SILAIS, who complain that this ought to be a central responsibility. There is agreement that far more norms and regulations are developed than can be carried out and supervised. Policy planning has been partially decentralized. There is a new method as of 1995 to prioritize health problems using following criteria (Ministerio de Salud, 1994a): 1) magnitude of the problem defined by frequency (%) of morbidity and mortality rates in affected group and by the importance in terms of demand for services; 2) importance of the problem as decided by the SILAIS Board, SILAIS Administrative Team, local government, community, and relation of the problem to national health and social policy priorities; 3) cost of addressing the problem according to the volume of human, material and financial resources used; and 4) susceptibility of the problem to preventive and treatment technology, such as equipment and instruments, medicines, the input of qualified personnel, and the capacity to mobilize these resources at the opportune place and time.

146. Each municipality devises its own priorities based on local needs, which are then forwarded to the SILAIS. Once scores are aggregated, the problems are ranked for priority according to the scores and the SILAIS Board decides how many of the problems will be addressed in accordance with the recommendations of the SILAIS Administrative Team and national health policies. These policies then become the basis for program budgeting. It is not clear how much this priority-setting process is actually used for changes in operations--although certainly the local level is now much more aware of own health problems and budgets.

## **D. Conclusions**

147. The government's concept of "decentralization" here may be categorized as an end not a means. This is not, unfortunately, an atypical model of reform and thus yields useful "lessons learned." For the case of the Nicaraguan health sector, decentralization may be characterized as inchoate, with problem definition and allocative responsibility partially located at 17 departmental level SILAIS but some transfer of fiscal control -- limited to goods and services, approximately 20 % of the budget. (Table 7 in Section I) While the fiscal control transferred for this portion of the budget is extensive, permitting the flexibility to move expenditures from one budget area to another, the management turnover in the Ministry of Health, and more importantly, the absence of any binding legislation has considerably weakened the decentralization effort.

**148. As in the Mexican case, because the majority of the budget, particularly the personnel budget, was not released to sub-national control, decentralization cannot be said to have taken place to date.** The tight control over personnel on the part of the Ministry of Finance has had particularly pernicious effects. Notwithstanding the well-known imbalance between physicians and nurses in Nicaragua, no SILAIS dares to replace a physician's slot with one of a nurse, for fear of losing resources. The Ministry of Finance's stronghold on personnel has resulted in an insuperable disincentive to rationalizing the distribution of health human resources. In addition, the failure to decentralize personnel expenditure blocks organizational innovations at the local level and prohibits local decision-making over the appropriate balance to strike between human resources, medications, supplies, and other parts of the budget. A recent series of IDB-funded studies on demand for health care in Nicaragua (Ministerio de Salud, 1996 a-d) suggests that there are considerable unmet needs for medications and health services in general. Without flexibility to allocate resources appropriately at the sub-national level, it is unlikely that the SILAIS or the municipalities will succeed in efficiently meeting that demand.

**149. A further problem has been caused by the separation of administration and budgeting for primary care and secondary care.** This separation is resulting in a breakdown of referral systems, the loss of accountability for the health of the population, and a de-emphasis on prevention. That hospitals no longer cross-subsidize primary care is likely to result in lower primary care funding. The primary level's truncated responsibility for the patient may result in over-utilization of the emergency room and in higher preventable hospital admissions. The sole example of continued coordination between primary and secondary care is in León, where there is an atypically close relationship between the hospital and the SILAIS based on conjunctural, personal factors.

**150. Nicaragua provides an example of the importance of defining the appropriate sub-national level for receiving new responsibilities.** While the 17 departmental SILAIS appear to offer, from a technical standpoint, an appropriate and manageable administrative level for providing services, the lack of legal standing of the departments, their inability to govern or raise revenues, and the absence of representation of other sectors has created reform in a vacuum. From a technical stand point, municipalities are unlikely to be appropriate for many health services, so the central government should maintain a high degree of control.

**151. The rationale for "decentralization" on the part of international donors has not been demonstrated to have succeeded.** The reform process was initiated in response to the deteriorating quality of health services in the early 1990s and due to considerable pressure from international donor agencies which currently favor this policy as a means to increase equity and efficiency. However, there is concern that international aid for decentralization is leading to more rather than less

inefficiency in that the agency-funded programs--particularly those based at the central Ministry of Health rather than at the SILAIS or municipal level--do less (with more money) than the Ministry of Health. Moreover, there is considerable concern about the continuing deterioration in the quality of health care services even though some departments have shown improvements.

152. This is not to say that there is no role for international agencies in the decentralization effort. Indeed those agencies that worked at a SILAIS rather than a central level and that participated and coordinated with SILAIS staff were able to show administrative improvements and in many cases literally kept the system from collapsing. Decentralized international donor support combined with the varying capacity of SILAIS directors and teams has led to uneven successes in reform. Here, the role of the more successful agencies might be taken as models of donor support. At the central Ministry of Health level, international agencies could help develop reform legislation and assist in the definition of national data collection priorities and standards.

153. **At the same time, the Nicaraguan Health case demonstrates the pitfalls of putting the implementation cart before the legislative horse.** While the employment of ministerial decrees beginning in 1993 jump-started reform, the failure to legally institutionalize these changes raises considerable doubts about the sustainability of the reform process. In Nicaragua there are no laws governing the health sector in general or the transfer of control to sub-national jurisdictions in particular. Ministerial decrees or informal changes in practice are the sole instruments guiding health reform, leading to great insecurity on the part of administrators who are unsure of the permanence of changes. Legal instruments were expected to be created as the reform process evolved, but political obstacles and the ease with which ministerial resolutions resulted in reform, stymied these developments. This result stands in marked contrast to the conclusions in the Nicaraguan education case and points out the risks inherent in the Nicaraguan strategy. However, in a sense, this is also a positive outcome -- a weak reform was not cast in legislative stone and therefore was not difficult to re-work or eliminate.

154. **The Nicaraguan case also begs the question of whether the transfer of significant control to sub-national jurisdictions is the best response to the country's needs.** The rationale of reform in a country of the size, financial and human resources, and relative epidemiologic homogeneity of Nicaragua should be carefully questioned. When coupled with overall cuts in financial resources and only partial fiscal decentralization, the process has generated resentment at the decentralization of problems but not decision-making capacity.

155. **The conflation of the "decentralization" process with the establishment of privatized hospital wards and managed care arrangements has been problematic on several levels.** First, privatization and so-called differentiated services and wards have generated inequities, in direct opposition to the intended goal of using the transfer of controls to the regional level to increase equity. Second, privatization has been used as a means to generate extra-budgetary "decentralized" hospital-level revenues instead of decentralizing the main budget. A better focus might be to improve revenue collection and distribution. In any case, the coordination of all such reform activities is clearly a role for central government.

156. **Considerable pitfalls notwithstanding, the reform process has resulted in a number of favorable changes, particularly in the area of policy development, priority setting, and**

**programming.** The new priority-setting process has alerted the SILAIS and municipalities of the need for better data and data analysis in the establishment of both local and national priorities. The first-time budget knowledge at the local level has permitted municipalities to think carefully about how to balance various needs and activities. Enhanced civic participation in the governance of the SILAIS has the potential to improve the responsiveness of Nicaragua's health system. Formal and on-the-job training has given experience to the subnational levels in executing budgets, devising means of rewarding employees, and supervision.

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