

# Decentralisation, Politics and Service Delivery in Mexico

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## **1 Introduction**

For a number of scholars, decentralisation – ‘defined as the meaningful authority devolved to local units of governance that are accessible and accountable to the local citizenry’ (Blair 2000: 21) – provides space for people to participate in local development, ensure a more efficient allocation of resources, enhance local resource mobilisation and improve accountability. This in turn enhances the capacity of governments for more effective poverty reduction strategies.

However, ‘decentralisation is not a panacea and often contributes little to poverty reduction’ (Johnson 2001: 529). Furthermore, ‘the more pessimistic argument has been that decentralisation simply opens up spaces for the empowerment of local elites, not for considerations of the voices and interests of the more marginalised’ (Gaventa 2001: 6). In Latin America, few decentralisation processes have reached their alleged goals, and some have even produced unwanted outcomes (Llambí and Lindemann 2001).

In Mexico, after more than two decades of significant institutional and political change, the federal government has decentralised important resources and powers to sub-national governments. Today, state and municipal governments provide virtually all the services of basic education, health and social infrastructure to their citizens.

Yet, the promise that decentralised governments are more responsive to the needs of the poor and therefore enhance the possibilities for improving the well-being of the people, have not yet been realised. Recent literature on decentralisation in the health and education sectors in Mexico has not found much improvement in the delivery of such services and there is no clear evidence about the use of these resources at the state or municipal level. Moreover, in the case of the funds that are directly spent by states and municipalities for basic social infrastructure –

drinking water, electricity or sewage, etc. – there is some evidence that shows that in a few cases, the resources are channelled to activities that could not be considered as social infrastructure (Hernández Licona *et al.* 2003: 33; Díaz-Cayeros and Silva 2004). It is been argued that although sub-national governments have gained from the decentralisation reforms, particularly in capacity building and decision making, and despite the increase in resources transferred to the sub-national level, the overall impact of decentralisation has not been positive.

This article suggests that although sub-national governments now have a more significant role in service delivery than they had two decades ago, service delivery has not necessarily improved. Despite governments closer to citizens having more political and financial capacities to provide public services to those citizens, the mechanisms to make these public officials accountable are weak, undermining the prospects of decentralisation for more equitable service provision.

The following section in this article examines the politics of the decentralisation process in Mexico. The next section elaborates on the limitations of the decentralisation process and the final section explores the impact of decentralisation on service delivery in three broad sectors: health, education and social infrastructure.

## **2 The politics of decentralisation in Mexico**

Despite its federal structure, Mexico has been characterised as a highly centralised system in political and economic terms, that has structurally limited sub-national governments from participating in the general advantages of federal regimes.

For years, ‘the federal government controlled about 85 per cent of public revenues, the state governments controlled less than 12 per cent, and

the municipalities scarcely 3 per cent' (Cornelius and Craig 1988: 206). The centralisation of financial resources was a crucial strategy in maintaining the stability of the political regime.

Politically, the PRI (Institutional Revolutionary Party) dominated the Mexican political system at virtually all levels of government. Under this system, the president – leader of both the government and the party – was able to undermine the institutional separation of powers that permits a federal system of checks and balances to work properly. The so-called meta-constitutional powers of the president allowed him to have enormous power to implement policy changes (Nacif 2002: 1); they allowed him to undermine the role of sub-national political actors in the policymaking process. The power of the president to designate his successor, the governors of the 31 states and the candidates to the bicameral Congress assured that (a) sub-national political officials were accountable to the president and not to the other branches of government and (b) that decisions over resource allocation were taken by the top political elite in the central government with little or no influence from other political actors (Edmonds 1998: 6). Finally, as the natural counterweights of any federal system were not working properly, accountability in the use of public resources was virtually absent.

Since the early 1980s, pressures for democratisation, economic crisis and the implementation of market-oriented economic reforms encouraged policymakers to decentralise. The debt crisis challenged the statist developmental model that had been in place for decades (Otero 2004). The country was obliged to abandon the protectionist, import-substitution industrialisation process and to adopt a series of market-oriented economic reforms to address the effects of the crisis. The new developmental model reduced the state's economic role and opened up Mexico's economy to foreign trade and investment.

This dramatic transformation of the Mexican economy had negative effects for the population. Austerity and adjustment reforms reduced social spending and subsidies. As Handelman (1997: 45) noted, 'the deteriorating economy and the reduced size of the state sector ... decreased public support for the political establishment by curtailing its ability to fund programs and dispense patronage'. Moreover, as a result of the social costs resulting from structural adjustment policies, by the mid-1980s

opportunities for new civil society organisations developed rapidly in opposition to the new economic model. In addition, the ruling party was under unprecedented electoral pressure from the right-wing party – the PAN (National Action Party) – in many northern states. To make things worse for the PRI regime, in 1987 a group of PRI members from the *Corriente Democrática* (Democratic Current), in clear opposition to the economic model adopted by the government and to the non-democratic practices of the ruling party, split from the PRI, opening the door to the emergence of a left coalition (*Frente Democrático Nacional*), with the possibility of defeating the ruling party.

Under this new political dispensation, in 1988, 'after a hotly disputed race marred by widespread fraud, President Carlos Salinas took office declaring the end of the one-party system. He promised a new relationship between state and society' (Fox 1994: 165). He adopted decentralisation as one of the major components of the government's development strategy. Under his administration, the National Solidarity Programme (*Solidarity*) was created. Formally, it aimed to deal with the social costs of austerity that the adjustment policies had caused. However, for a number of scholars (Fox 1994; Rodríguez 1993) the programme was politically motivated and was used as an instrument to restore presidential legitimacy<sup>2</sup> and to enhance PRI power for electoral ends, thereby reinforcing the power of the federal government. As Shirk (1999: 5) suggests, '*Solidarity* ... served to reinforce the centre's power through deconcentration, because it deliberately bypassed state and local governments ... by extending the federal government's linkages all the way to the community level'. For Fox (1994: 179), '*Solidarity*'s electoral targeting certainly helped to buffer the political impact of the government's controversial macroeconomic program, weakening the opposition in the short run in some areas'.

Despite this political bias, the transfer of resources to lower levels of government increased considerably and government agencies were decentralised. Thus as Cornelius (2000: 119) argues, '*Solidarity*, which started out as a quintessentially centralising, presidential program ended up being a major vehicle for decentralisation, especially the kind that transfers power to the state level'.

By 1995, the newly elected president Zedillo inherited a country facing political chaos<sup>3</sup> and the worst

economic crisis of Mexico's modern history weakened the credibility of the new government. At the same time, the fact that opposition political parties had already gained important political positions at all levels of government and that most PRI governors at that time had been elected during Salinas' presidential term, opened the door to new tensions between the centre and the periphery that, in some cases, challenged presidential authority (Cornelius 1999). This new political scenario led to increasing pressure on the centre as governors and mayors began to appeal for greater and more equitable and transparent resource distribution. In this sense, as a number of scholars suggest (Shirk 1999; Cornelius 2000), Zedillo had little choice but to carry out a redistribution of political and fiscal power during his term and to deepen decentralisation.

In 1997, when the opposition won the majority of the Congress, the demands from the opposition parties for political reform started to be raised more concertedly as the limits of the presidential system were thrown into sharp relief. Since 1997, the president lost his ability to initiate policy changes unilaterally (Nacif 2002), thus heralding a new era of executive-legislative relations, where the former had to negotiate to set the congressional agenda and to pass legislation.

One of the historical demands from opposition political actors was the expansion of sub-national autonomy. The new opposition-dominated Congress pressed for serious moves towards devolution and in 1998, the fiscal decentralisation process was strengthened by the creation of a variety of fiscal funds for sub-national governments. The funds were allocated under 'item 33' of the federal budget to directly transfer financial resources to states and municipalities. Item 33 secured an expansion and rationalisation of decentralisation transfers under a new budget line (Haggard and Webb 2000). For the states, item 33 increased the predictability of education and health transfers. It also represented a serious effort to depoliticise the transfers system by setting formulas for the distribution of federal resources to the states and municipalities.

For 20 years, decentralisation has been one of the major components of the government's development strategy. By the end of the 1980s, it 'had become a primary element in the political discourse' (Rodríguez 1993: 136). The trend towards

decentralisation continued into the 1990s and was strengthened by an active transfer of funds and responsibilities directly to lower levels of government. Today, local governments have more responsibilities and resources than ever before, to provide public services to their population. On the expenditure side, in Mexico, more than half of federal public expenditure is spent by sub-national governments. Yet, in terms of revenues, the fiscal system continues to be one of the most centralised in the world as the federal government collects around 90 per cent of total revenues. This raises serious questions as to what local governments will do with funds they have not raised under their own auspices.

The decentralisation process in Mexico has been linked to a new political dynamic where sub-national political actors have been able to put more pressure on the central government for more fiscal and political autonomy (Beer 2004). Due to the democratisation process and the increasing amount of resources and responsibilities transferred from the federal government, local governments have a more important role within the federal system. Yet, despite these positive characteristics, states remain highly dependent on the federal government, not only for resources but also for policy implementation and decision making. At the same time 'Mexican democracy suffers from failures in accountability at all levels of government' (Diaz-Cayeros forthcoming); the decentralisation process has not been accompanied by institutional mechanisms that could make local politicians accountable.

### **3 Decentralisation without accountability**

Some eight years on, since item 33 was created as a means to strengthen the capacity of states and municipalities to deliver public services effectively to the population, it seems that the political dynamics of the federal system have undermined the capacity of citizens to influence policymaking and to guarantee that resources are channelled and used to benefit the poor.

As it has been argued, the decentralisation process in Mexico has followed a political logic, where the federal government has transferred funds to lower levels of government, to help face the increasing demands from sub-national political actors for more political and financial autonomy. Dramatic shifts in the configuration of the political map due to

increasing competition in local elections and more access to financial resources at the local level reshaped the relationship between central and lower levels of government. Sub-national political actors elected through more democratic and transparent elections became aware of the importance of gaining financial and political autonomy from central government. As politics at the sub-national level became more pluralistic and democratic, political actors at the local level gained incentives to broaden their policy influence and expand their political capital within and outside their jurisdiction (Beer 2004). With more decision-making powers and resources, sub-national political elites could increase their ability to compete for political space.<sup>4</sup> In this sense, in the last few years, sub-national political actors have obtained an extraordinary share of resources to be used to provide key public services to the population.

Both decentralisation and democratisation have reshaped the political dynamics of the federal arrangement in Mexico. Today, sub-national political actors, particularly governors and mayors, have access and control over important resources to provide public services but the institutions to limit and audit the use of those resources lack human and financial resources and institutional autonomy. In other words, decentralisation strengthened the capacity of sub-national political actors to insert their interests into national politics. Unfortunately, key aspects of decentralisation as the implementation of effective mechanisms to make public officials accountable have been left behind. Thus, in many cases, resources are not allocated according to the interests of the citizens, which is one of the stated goals of decentralisation.

In this sense, it can be argued that the decentralisation process in Mexico has been shaped by the interests of the political elite at the national level, as well as by the more active role of sub-national political actors in the national arena. The political struggles and interests of the different political actors within the federal system have played a major role in determining the limited social outcomes of the decentralisation process in Mexico.

#### **4 Decentralisation and service delivery**

The decentralisation of public services is part of a turnaround in Mexico's economy and politics since the 1980s. It was expected to improve service provision, as

decision making and policy implementation could be more easily monitored by citizens at the local level.

Since 1998, when item 33 was created, resources have been channelled to finance public services that were decentralised at the beginning of the 1990s, i.e. basic education and health. In addition, under item 33 of the budget, the federal government allocated resources to finance municipal projects for basic social infrastructure through the Municipal Social Infrastructure Fund (FAISM). According to the Fiscal Coordination Law (FCL), these funds should be targeted to the poorest communities in each municipality to carry out physical infrastructure projects: potable water, sewers, drainage, urbanisation, rural electrification, basic education and health infrastructure, roads, housing improvements and productive rural infrastructure.

At the time of writing, item 33 is the most important source of finance for states and municipalities. Under this new scheme, sub-national governments provide essential services to their citizens, as almost 85 per cent of item 33 is allocated to: health, basic education and social infrastructure. Yet, although item 33 represents an important step forward towards a more predictable and transparent transfers system as it allows the distribution of resources to state and municipal levels of government, in practice, it seems that the new distribution of federal transfers to lower levels of government may not have benefited the most disadvantaged regions of the country and effectively address the real needs of the poor.

A 2005 study on service provision in Latin America notes that, despite the fact that service coverage has increased in many countries of the region in the last two decades, strong inequalities persist in the provision of basic public services. In the case of Mexico, although it is among the successful countries who have expanded coverage of basic public services throughout its population, strong inequalities still persist across regions and among different sectors of the population (World Bank 2005).

In the case of education for example, on the one hand in his study on decentralisation of education, Merino (1997) points out that education achievement has not improved significantly since decentralisation took place. In terms of disparities across states, he shows how, between the state with the highest average of schooling and the states with the lowest average,

there is a difference of almost five years. On the other hand, disparities across social groups are also important. As the World Bank (2005: 12) notes, 'the average person in the bottom quintile of the income distribution has 3.5 years of schooling, compared with 11.6 years for a person in the top quintile'.

In general, decentralisation of education represented a decentralisation of management functions, but not a decentralisation of decision-making powers. As Cabrero and Martínez-Vázquez (2000: 153) suggest, the reform 'resembles administrative deconcentration rather than true decentralisation'. The decentralisation of education allowed the federal government to provide sub-national governments with financial resources but within central government guidelines. At the same time, the assignment of responsibilities between the state and federal level was in some cases unclear, leading to inefficiency in the delivery of services particularly at the state level. In addition, given the shared responsibility for education services, between the federal and state levels, accountability was also reduced, as the blame for bad performance could easily be shifted between levels of government.

Decentralisation of health services also reflects similar problems. According to Moreno (2001), there are significant disparities in the distribution of decentralised resources across states. He points out that the distribution of federal funds in the health sector is influenced by regional socioeconomic conditions, but other variables such as the installed capacity of health services remain the most influential. In addition, it is not clear to what extent states are autonomous in managing financial resources. States have to comply with a series of minimum standards in order to allocate resources. Unfortunately, 'there is still confusion on what these minimum standards are and how they should be interpreted' (Cabrero and Martínez-Vázquez 2000: 163). Also, the distribution of resources, in particular the formulas for the allocation of health funds under federal transfers, create some problems for the improvement of this service.

In the case of the FAISM, its creation represented a step forward in the decentralisation of powers and resources directly to municipalities, as resources from FAISM were totally transferred to the states and to the municipalities to finance social infrastructure, using a formula indicated in the FCL, which assigns the

resources under a relative position of the municipalities according to a poverty and marginalisation index (Hernández Licona *et al.* 2003: 33).

Historically, FAISM resources exceeded the total budget of the Federal Ministry of Social Development. In addition, in contrast to health and education grants, sub-national governments have more room for manoeuvre in the use and distribution of FAISM grants. FAISM could be a key policy instrument to combat poverty and inequality. Unfortunately, research by Díaz-Cayeros and Silva (2004) has found that there is no relationship between the amount of resources used for the construction of basic social infrastructure at the local level and an improvement in service delivery. Moreover, the institutional capacity to evaluate and monitor the use of public resources at the local level is extremely limited. Contrary to other federal social programmes, monitoring and evaluation systems for the use of FAISM are extremely weak. As a result, it is not clear how local governments actually use the fund.

Today, the three major funds of item 33 – health, education and social infrastructure – reflect important limitations that impact on the provision of public services. Despite the political developments that Mexico has recently experienced, some aspects may have a negative impact on the performance of decentralised funds for pro-poor service delivery. First, the transfer system is still complex and unclear as the distribution of resources to state governments is based on the historical patterns of federal expenditure before decentralisation and not on an explicit formula that includes equity and efficiency concerns. In this sense, the current system is characterised by important disparities across sub-national governments; thus states with lower levels of development are receiving fewer resources than better-off regions (De la Torre 2004). Second, while states and municipalities have more resources to provide public services than ever before, the institutions and mechanisms to guarantee a transparent and effective use of the resources remain weak. Third, the strong dependence of sub-national governments on federal funds and the lack of clarity in the assignment of responsibilities is (a) undermining the capacity of sub-national governments to deliver better services because 'each level of government can blame the other for not doing its part' (Cabrero and Martínez-Vázquez 2000: 152), and (b) is discouraging local tax efforts, as

sub-national political actors 'are reluctant to bear the political (and organisational) costs of enforcing local taxes ..., when they can take advantage of federal resources at virtually no cost' (Moreno 2003: 16). This has meant an increasing dependence of sub-national governments on federal transfers.

## 5 Conclusion

As it has been argued, the decentralisation process in Mexico opened up the once-centralised federal system in Mexico. It opened up debate on local interests at national level. In particular, the introduction of item 33 represented a step forward in terms of the decentralisation process, as the new funding arrangement system appeared to be more transparent, more efficient and less discretionary. At the same time, item 33 represented the beginning of a new era where sub-national governments became responsible for the provision of most public services.

Yet, item 33 has not yet solved effective service delivery and equity objectives. In practice, it seems

that the use of federal transfers has emphasised the financial dependence of local governments, but has not entirely solved the problem of distribution of resources, and has not enhanced the capacity of citizens to hold sub-national politicians accountable for results.

The decentralisation process has reshaped the political dynamics within the federal arrangement, therefore impacting on the performance of sub-national governments. In particular, decentralisation of political and fiscal resources to sub-national units of government – through previously dormant constitutional powers – drove a new redistribution of power within the different political actors in the federal system (Gibson 2004). It is true that sub-national governments have gained as a result of decentralisation, however its pro-poor potential is yet to be seen. It seems that decentralisation has shown some progress in Mexico, but it can only fulfil its promise of greater efficiency and responsiveness if local governments can be held accountable, especially to low-income citizens.

## Notes

- 1 Corriente Democrática was formed in 1986 within the PRI, with the aims of lobbying against Mexico's new economic model and of promoting the democratisation of the party.
- 2 The 1988 Presidential election result was one of the most contested in Mexican modern history. A major post-electoral conflict weakened the newly elected presidency.

- 3 In January 1994, there was an armed rising by the Zapatistas in the southern state of Chiapas. On 23 March, the PRI presidential candidate, Luis Donaldo Colosio, was murdered. Both events were a shock to the political system and to the financial markets.
- 4 It is worth noting that in the 2000 Presidential election, the candidates of the three major parties had been governors.

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