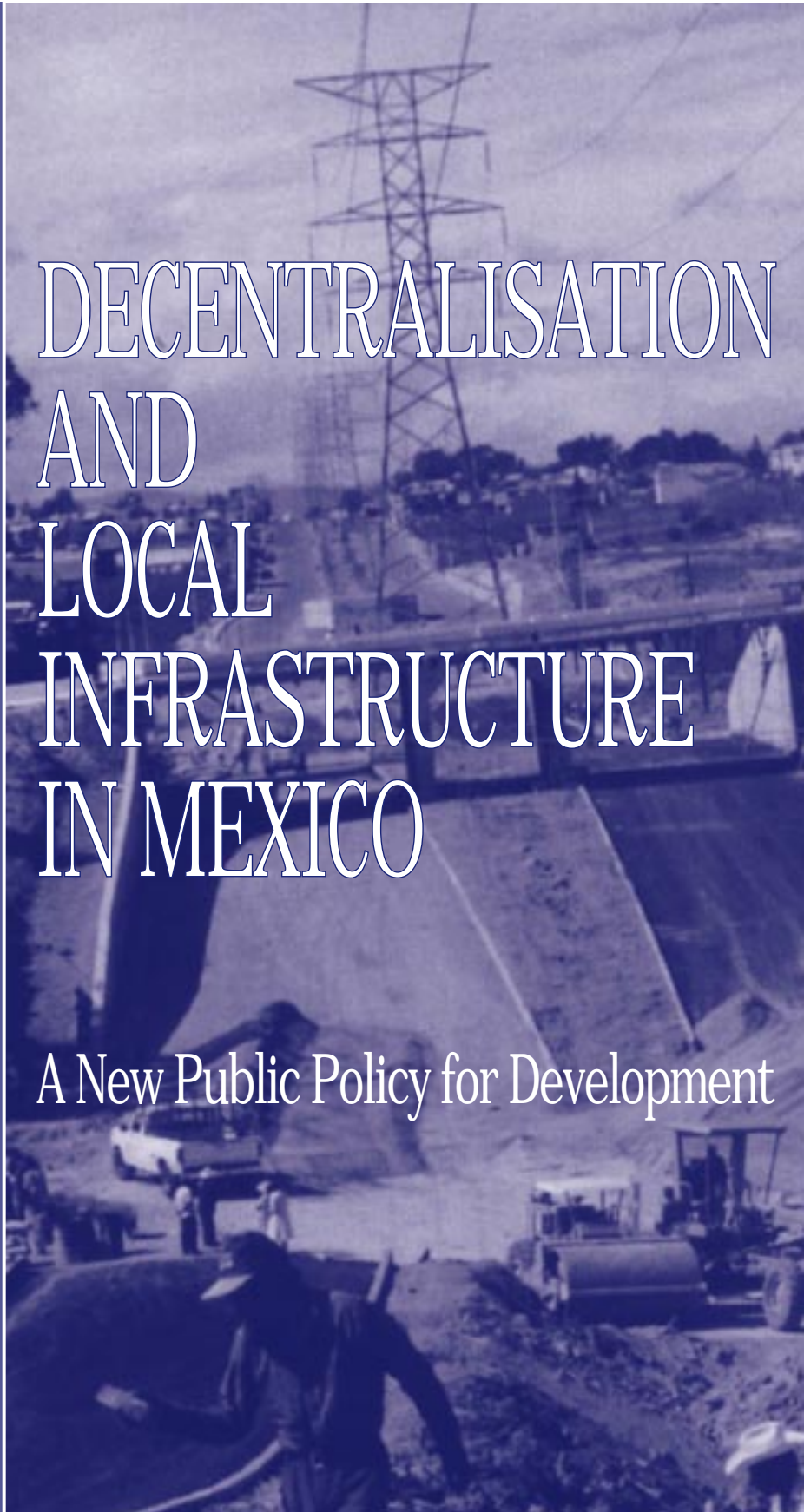


TERRITORIAL DEVELOPMENT

DECENTRALISATION AND LOCAL INFRASTRUCTURE IN MEXICO

A New Public Policy for Development



DECENTRALISATION
AND LOCAL INFRASTRUCTURE
IN MEXICO

*A New Public Policy
for Development*

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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**DECENTRALISATION AND LOCAL INFRASTRUCTURE IN
MEXICO: A NEW PUBLIC POLICY FOR DEVELOPMENT**

FOREWORD

This report was prepared, at the Mexican Government's request, by the Urban Affairs Division of the OECD's Territorial Development Service. It constitutes the first assessment of a Member country's territorial policies and is supplemented with a study by the Working Party on Regional Development Policies entitled "Regional Development and Structural Policy in Mexico". This report endeavours to analyse how the initial study's recommendations could be applied in the context of Mexican development and regional policies.

The report was prepared by Mr. Xavier Greffe, Professor of Economics at Université de Paris-I, who was assisted by Mr. Craig Kennedy, President of the German Marshall Fund of the United States (Washington, D.C.), and Mr. Evan Walker, a former Minister of the State of Victoria and Chairman of the National Capital Planning Authority (Canberra, Australia). Their work was co-ordinated by Mr. Josef Konvitz of the OECD Urban Affairs Division. In December 1995, the three experts, accompanied by Mr. Konvitz, met with numerous representatives of the federal as well as state and municipal governments in Mexico. Mr. Greffe and Mr. Konvitz took part in other meetings in July 1996. The Ministry of Social Development (SEDESOL) and The Bank of Public Works and Services contributed to the success of these research missions. We should like to extend our warmest appreciation to all of the people who lent their assistance, including Mrs Catherine Bignon who prepared the text for publication.

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SUMMARY

Since the beginning of the 1990s, the Mexican federal authorities have presented clear options for the decentralisation of government functions and for a new federalism as concerns the sharing of public revenue. Measures were taken at that time to decentralise the war on poverty, health care, the management of teaching, water distribution networks, highway systems, and so on. To date, these measures have prompted a redistribution of certain powers to the states and municipalities; a transfer of selected civil servants from the federal to the state level; and a change, albeit a slow one, in the principles governing the apportionment of public resources among the various components of Mexican federalism.

The shift towards decentralisation in Mexico appears irreversible, even though some of the issues outstanding seem more important than the ones already resolved. This is perfectly normal: decentralisation has never been an end in itself, except as a means of organising the administration of public affairs in such a way as to get everyone, throughout the country, more closely involved in their own futures. It ought to allow public and private resources to be put to better use in providing infrastructure -- in order not only to facilitate economic development but to reduce inequalities as well. The outcome depends on how this decentralisation is organised, and on the specific objectives it is intended to achieve. In line with this prospect, as set forth by the Mexican Government, it is the purpose of this report, then, to:

- explore the potential impact of decentralisation in the current context of the Mexican economy;
- ascertain the conditions on which decentralisation could in fact help to achieve the stated objectives;
- help shed light on today's debates over the potential adoption of new tools of decentralisation.

The expected benefits of Mexico's immersion into the global economy are significant, and some of them have already been achieved.

But macroeconomic policies, -- the primary instrument guiding this integration -- will turn these projected effects to the Mexican society's advantage only if the country's territories are productive and become globally competitive. Without coherent, modern infrastructure systems, without the right services for businesses and households alike, spread properly throughout the country, and without steps to protect against an accumulated imbalance that would ultimately impair public budgets and economic competitiveness, Mexico's cities and all its territories will encounter difficulties integrating out when generating new activities. Greater public participation, within a pluralistic political system, together with appropriate financial accounting procedures, are essential to the selection and realisation of the best projects. To acknowledge this dimension is to transcend the more traditional concept of decentralisation as a mere sharing of powers and resources and to emphasise that the ability to take better account of benefits and costs at various levels of the economic and social structure -- thereby giving decision-makers greater responsibility -- will determine the quality of the decentralisation that is carried out.

Even though there may also be political or social justifications for decentralisation, this report will focus on the economic dimension, and it is therefore from that angle that the various issues will be examined first and foremost.

Two attitudes dominate the current debate over decentralisation in Mexico:

- In Mexico (as elsewhere), some actors see decentralisation as merely a redistribution of powers and tax revenue because they lack a precise economic vision of the strategic opportunities and the costs involved. As yet too few actors see it as a way to get all members of society involved and accountable, entailing new ways of working and co-ordinating at the local as well as central levels. Many people who understand that decentralisation is a positive-sum game are nonetheless concerned about how responsibilities and resources can be assigned to different levels of government with adequate measures of accountability.

- The subject of how to implement decentralisation in Mexico is often approached in the following way: is it better to begin by apportioning powers and then resources, or vice versa? In the first case, the implementation of decentralisation can only be delayed, since certain authorities will logically be incapable of assuming new powers from the outset. In the second case, the issue is the financial risks that such a reform inflicts on the country's financial recovery -- which could also delay the implementation of decentralisation. Mexico's diversity makes these questions hard to answer and prompts inertia rather than bold reforms. The right question is how the accountability of government can be strengthened at the same as expenditure is decentralised.

The first stage in this report was therefore to elucidate the potential impact of decentralisation to clear the way for a policy of infrastructure and local services that could ensure territorial productivity and tend to reduce social disparities. This required an assessment of existing infrastructure and services, highlighting the difficulties that arise from dysfunctions in decision-making or in the process by which the parties involved -- and particularly the people served and those making the decisions -- are given responsibility and held accountable.

It was then possible to show that in Mexico's case the advantage of decentralisation is to give all agents of the national economy greater responsibility for implementing infrastructure and services, from the standpoint of local needs as well as those of the country as a whole. This enhanced individual responsibility encompasses political, financial and economic dimensions.

- Examination of the political dimension highlighted problems of apportioning and co-ordinating powers, as well as problems with terms of office.
- Examination of the financial dimension highlighted problems of questionable apportioning of tax revenue, and of inadequate (or poorly collected) fees for public services.
- Examination of the economic dimension highlighted problems of inadequate production and poor timing adjustments.

- Examination of the accountability dimension highlighted problems of institutional capacity.

More generally human resource management has not always received the investment needed to make people more responsible and accountable, from either a political or an administrative standpoint.

A number of working assumptions and recommendations are then proposed.

- The pace of decentralisation cannot be uniform, given the disparities between territorial entities (states and municipalities) -
- disparities in terms of size, problems and capacities for action.
- To allow for differences in the objective “capacities” of states and municipalities, decentralisation should be implemented through agreements between states and the federal government or, where appropriate, between municipalities, the corresponding states and the federal government. Agreements should soon be adopted in states that meet the minimum conditions of financial control and human resources. The principle underlying such agreements would be to move towards a new territorial division of powers and resources based on the capacity of decentralised actors to assume responsibility for actions vis-à-vis local populations as well as federal authorities and financial institutions. Existing agreements such as the contracts of chapter XXVI could evolve to meet this goal.
- To allow for greater accountability, federal appropriations that are currently allocated in a segmented and pre-allocated manner could be consolidated into a single federal block grant. In addition, provision could be made for changing the time frame of the federal budgeting cycle so that decentralised authorities could prepare their respective budgets in a timely fashion and on the basis of better information. Lastly, thought could be given in certain cases to the possibility of extending terms of office, the shortness of which can be as detrimental to the proper implementation of decisions as it is to the accountability of decision-makers. Partnership with local populations and

businesses will help the authorities to formulate infrastructure programmes that are focused on the medium term.

- Despite what is frequently put forth in debates on decentralisation, it would not seem necessary for the division of powers to be amended significantly. The Constitution already grants substantial powers to both the states and municipalities to administer their utilities and local services, although this leaves open the issue of administrative propriety. Potential changes are therefore limited, and are more a matter of adjustments than of significant modifications.

It would appear desirable, however, for the federal government to assume the function of assessing and monitoring local initiatives, given that so many of them have been sprouting up in widely diverse contexts.

- In the same spirit as above, it would seem necessary to alter the sharing of tax revenue significantly, in the interest of better planning and decision-making. This has in fact been underway in Mexico for a number of years now, and potential adjustments relate more to the relative weighting of proposed criteria than to any changes in the nature thereof.
- Nevertheless, and to allow for very substantial differences in wealth and capital endowment between the various territorial authorities, consideration should be given to setting up a fund for regional development, to be administered by all parties to decentralisation and available for investment projects in exchange for a basic contribution which would vary according to the wealth of the state and/or the municipality involved.
- Lastly, it is vital to introduce a policy to upgrade human resources in order to strengthen the public authorities' ability to act. This leads to a series of recommendations with regard to training, compensation and career management.

INTRODUCTION

The integration of Mexico into the global economy has led to a number of macro and microeconomic reforms that are currently underway, even though unexpected developments can often make this a difficult and lengthy process. But it also means that Mexico will be able to take advantage of the distinctive qualities of its resources and territories, opening up prospects for a deeper and more gradual process of change. What are the main aspects of such a process?

- In order to take full advantage of their new worldwide horizons, the constituent territories of the Mexican economy must innovate, i.e. allow their agents to undertake development projects that are likely to succeed in a global economy.
- If these territories are to innovate, they must have a coherent and efficient network of local infrastructure.
- If this infrastructure is to be provided, it must be planned and managed in a manner that is far more decentralised than in the past.
- These changes must not be postponed because of the Mexican economy's ups and downs. The decentralisation of infrastructure management can in fact help the national economy to adapt better to the opportunities opened up by the global economy.

Regional development, innovative territories and local infrastructure

If the Mexican economy is to benefit from its integration into the world economy, it must be able to develop its natural and human resources through productive development projects. This productivity of the Mexican economy will be determined by a wide range of factors, such as overall macroeconomic conditions (curbing inflation, stabilising exchange rates,

containing debt, etc.), a better organisation of markets, the availability of domestic savings properly channelled towards productive projects, etc. But in a global economy in which access to a growing variety of goods and services has become the rule, it is essential that actors be in an environment that combines the conditions necessary for them to develop their resources and assets. Thus, the various territories that are the foundations of the Mexican economy -- the regions, states and municipalities -- must be able to provide those resources that will enable actors to create and realise their development projects.

Regional development must not only be considered as a way of equalising conditions among the various parts of the country in order to avoid the demographic, financial and social costs of inequality between different states or regions. It must also be considered as a way of raising the overall level of development by creating the conditions for greater productivity throughout Mexico.

This approach will make it possible to solve a traditional dilemma of the Mexican economy. Whenever this economy has opened up to market forces in order to develop its production, it has had to face serious social tension or imbalance. As a result, the federal government has regularly been forced to introduce numerous measures to offset inequalities or mismatches -- measures that are invariably of a remedial nature and both costly and ineffective. Thus, Mexico's experience of regional development has traditionally been limited to helping certain regions catch up, or to establishing social programmes aimed at offsetting unequal development. The most recent and, it should be said, by no means the least successful example of this approach was President Salinas's *National Solidarity Programme*, which encouraged a more rapid integration of the Mexican economy into the world economy while at the same time offsetting the negative effects of this opening up on certain groups or states through a major anti-poverty programme.

However, by stimulating regional development, i.e. by raising employment, investment and living standards in individual regions, it may be possible to link economic and social progress and to use public funds more effectively.

If a territory is to be innovative in Mexico today, it must be capable of providing high-quality resources and networks that give access to the global economy and make it possible for development projects to compete successfully on global markets. This will be possible only if:

- there is an environment that can either innovate or attract the desired human or material resources with the necessary qualities; and,
- there are communications networks that make it possible to keep abreast of the changes or innovations underway, and that provide information about those innovations.

The former refers to resources in terms of skills, health care and environmental quality, etc., while the latter encompasses the necessary transport, energy and information networks. It is always somewhat risky to be too specific about the types of services or infrastructure required, for what may seem to be essential to one territory's development may not necessarily be relevant to another's. Furthermore, the list of necessary resources inevitably changes over time; for example, enterprise parks or sites acting as incubators for new business projects have become as important as vocational training institutions or roads. One thing is certain: no distinction should be made between economic infrastructure, such as transport networks, and social infrastructure, such as hospital facilities or drinking water supplies. It is the combination of all this infrastructure that gives a territory the capacity to sustain innovation.

While recognising the danger of being too specific about the types of infrastructure required, there is basic agreement among states and municipalities as to the essential infrastructure that should be promoted:

- water: treatment, supply, disposal and retreatment;
- electricity, for either industrial or household use;
- disposal and processing of solid and liquid waste;
- road equipment and maintenance (lighting, cleaning);
- transport and communications networks (roads, railways, air and sea routes);

- urban transport systems;
- educational and training institutions;
- health care facilities;
- environmental protection authorities;
- housing and related infrastructure;
- civic, cultural and sporting facilities;
- markets and slaughterhouses;
- public gardens and parks;
- cemeteries;
- enterprise parks or zones and enterprise incubators.

Finally government should be concerned not only with infrastructure alone, but also with the services produced and managed once this infrastructure has been built.

1. It is illogical to set up often costly infrastructure without ensuring that the anticipated services will actually be provided.
2. The concept of a territory implies the existence of services as well as the underlying infrastructure. It is the quality of the services provided -- in terms of labour force skills or business parks, for example -- that will determine whether a territory is innovative.
3. Given the situation of the Mexican economy, it will be possible to finance infrastructure only if the resulting services can generate resources; for example, investment in drinking water infrastructure is conditional on the possibility of making users pay for the services provided.

Decentralisation is not the only possible solution, but it may be the most viable one. To make progress toward a more effective way of meeting local infrastructure needs, Mexicans at the local, state and national levels must want to innovate: decentralisation is not a solution to be imposed from without Mexico; it should be sought from within.

1. WHAT IS THE CURRENT STATUS OF DECENTRALISATION IN MEXICO?

Before trying to answer this question, a distinction must be made between two terms that are frequently used in the debates on this issue, namely the new federalism and decentralisation. Although the debate on decentralisation is relatively recent, the debate on federalism is a central theme that runs throughout Mexican history. In general, the term of federalism refers not only to a constitutional system, but also to an allocation of fiscal responsibilities and tax revenues between the federal government and the various states. Decentralisation is seen as a policy of modifying these responsibilities and the financial transfers between the various levels of government.

1.1 The Changing Shape Of Federalism

Initially, the principle of federalism was adopted largely to control the separatist tendencies of certain parts of Mexican national territory and, of course, it reflected the model of its neighbour to the north. This federalism was quite strong, and in the nineteenth century some states not only established their own taxation system, but also issued their own currency. This was a period when the states were strong and the federal government was poor. With the Mexican revolution (1910-1917), the responsibilities and power of taxation of the federal government were strengthened, but without significantly altering the basic compromise that had prevailed since the beginning, by which federalism was an agreement reached among the various states within the Congress. In the 1920s, Mexico went through a period during which it was ruled by military leaders, heirs or victors of the Revolution, which tended to reaffirm the central figure of the President.

With the creation of the Institutional Revolutionary Party (PRI) in 1929, not only was political competition concentrated within a single party, but a more coherent system was established, and even imposed, between the federal, state and municipal governments. Under President Cardenas, the

federal government began to play a major role in the modernisation of the country, and the balance of power between the centre and the states shifted significantly in favour of a strong presidency.

This trend towards a stronger central government was supported by a policy of import substitution implemented during the 1940s and 1950s. This policy required major public investment and aimed to support productive capacity, both of which reinforced the federal government's taxation powers. This gradually led to a situation in which the federal government was "rich" and the states were "poor". Table 1, which provides a breakdown of the amount of resources available by level of government -- an issue which will be developed further--illustrates this evolution.

Table 1. Percentage of public revenues by administrative level

Year	Federation	States	Municipalities
1900	63	24.1	12.9
1923	72.6	14.5	12.9
1930	68.7	22.9	8.4
1940	71.4	23.3	5.3
1950	78.3	18.4	3.3
1960	78.6	18.6	2.8
1970	86.4	12.0	1.6
1980	89.4	9.4	1.1
1991	81.1	15.5	3.4
1992	73.6	21.9	4.5

Source: Diaz Cayeros (1995), *Desarrollo económico e Inequalidad regional*, op.cit., P.76; Banco de México (1995) *The Mexican Economy*, op.cit., p.86.

1.1.1 The development of decentralisation

This, together with economic reform process initiated in 1983, was the context within which the debates on the new federalism and decentralisation emerged, which were all the more intense because the main political parties (PRI, PAN and PRD) championed various positions and

included them in their respective electoral platforms. These debates led to a number of measures being taken:

- In 1989, the National Solidarity Programme was implemented at the central level. This was not a decentralised programme as such, but it was highly deconcentrated at the local level. A serious effort was made to choose projects that would meet local needs, based on consultation with the various local actors, and took a variety of different forms, such as the creation of municipal development councils that considerably broadened the base of traditional municipal councils (*cabildos*); the establishment of local solidarity agreements making it possible to co-ordinate the initiatives of states and the federal government; the setting up of programmes in which the private sector was called upon to meet local urban needs, such as the Hundred Cities Programme; and the establishment of municipal funds—particularly as part of the support programmes for indigenous populations—which make it possible to begin pooling resources at the municipal level and using them more flexibly. Integration, targeting goals, sharing of responsibility and participation have become guiding principles of a deliberately deconcentrated policy, which the authorities are attempting to transform into genuine decentralisation (reform of Chapter XXVI of the Federal Budget).
- During the same period, the Family Integral Development Programme (*“Sistema Nacional para el Desarrollo integral de la Familia”*, DIF), which had been set up in 1983 to provide assistance to children under the age of five, children who were victims of abuse, disabled children and pregnant mothers, decentralised its services so fully that it can now be considered as a “system” comprising 31 DIF state offices and nearly 2 000 offices at the municipal level. This programme has also strongly emphasised the principle of local consultation, since the main benefit of decentralisation is not only to ensure that solutions are better adapted to local problems, but above all to implement solutions in co-operation with the local population, and sometimes even with their concrete help.
- More recently, ministries have launched decentralisation programmes. This is a step that has been taken in particular by the Ministry of Education, which plans to transfer nearly all of its

staff to the responsibility of the states, and by the Ministry of Health, which has begun to transfer some of its responsibilities and staff. Other ministries are also organising or implementing decentralisation plans, either by entrusting the states or municipalities with new responsibilities or by signing agreements with them defining the scope of these new responsibilities.

- Finally, as part of the preparation of the 1996 Budget, important measures in favour of decentralisation were taken:
 - the effective decentralisation in 1996 of more than two-thirds of Budget Chapter 26 on poverty programmes;
 - the elimination by the end of 1995, under the 1996 Fiscal Co-ordination Act, of the possibility for states and municipalities to use funding paid to them by the federal government to guarantee their loans with commercial and development banks;
 - growing use of standardised government accounting methods throughout the first quarter of 1996, thanks to the energetic action of Secretariat for the Treasury (Hacienda);
 - the very trend of budget data, which shows that the financial needs of states and municipalities are increasingly being taken into account, even though some of them consider this progress to be insufficient.

Furthermore, in June 1996, the Interministerial Commission for Social Development published a report on the status of decentralisation within the various social ministries, showing that:

- three of the six ministries concerned have reached a number of agreements with federal bodies;
- US\$48 billion of appropriations have been decentralised;
- “objective” formulas for apportioning funds among the various states have been developed by ministries, although this has been done far less frequently for municipalities;

- attempts to assess progress have been made, generally based on indicators showing whether targets have been met.

Thus, the Fiscal Co-ordination Act is an improvement over the previous situation. This should be borne in mind when reading the following observations.

It remains the case that some frequently successful decentralisation initiatives are not enough to constitute a coherent decentralisation policy.

- There is not a genuinely co-ordinated policy of decentralisation at the central level, something which requires intersectoral co-ordination at the central level. Even though the Interministerial Commission for Social Development has existed for a year, there are still major difficulties in co-ordinating the decentralisation policies of the various ministries. Each ministry adopts its own policies and measures without co-ordinating them systematically beforehand with other ministries. The failure to combine these initial transfers of responsibilities or staff with a corresponding reapportioning of funding and redefinition of the appropriate legal framework has created strong tensions and has deprived both states and municipalities of the flexibility that they particularly need.
- Decentralisation could then be seen as a re-allocation of burdens or responsibilities, perhaps to dispose of problems that have become intractable at the central level and of transferring their costs to local levels, rather than a means of achieving economic outcomes by creating new jobs and stimulating activity at the local level.
- Financial issues are not being solved as rapidly as would be desirable. The re-allocation of expenditures is not the only subject of disagreement, but the issue of how tax revenues (*participaciones*) should be distributed among the various levels of government has yet to be settled.
- It is undeniable that progress has been made in involving local governments and citizens in decision-making, and this is a sign of a profound change in the way public expenditures are managed.

Nevertheless over-regulation often means that the centre has the last word for reasons that are not always clear.

- More generally, decentralisation has not been accompanied by accountability, which is indispensable if it is to work. Without accurate budgetary information, accountability is impossible, which means that decision-making will be based on political bargaining rather than on relatively objective assessments of needs.

1.2 Financial Resources And Decentralisation

If local authorities are to:

- be accountable;
- respond better to local needs;
- create leverage that can promote development;

they must have genuine room for manoeuvre in terms of financial resources.

This means that they must have both an adequate amount of funds as well as a certain freedom to use them flexibly, neither of which seems to be the case at present in the Mexican system.

The funds available to local authorities are not sufficient. Although in many federal systems, the amount of central government spending does not exceed 50 to 60 per cent of total public expenditures, if we look at Table 2, in Mexico this amount is nearly 80 per cent, which shows that it is a very highly centralised system indeed. The revenues of the various levels of government as a percentage of GNP (Table 3) show a comparable imbalance, which once again is in sharp contrast with the indices for decentralised countries.

Table 2. Expenditure by level of government

(billion of N\$, 1991)

	Absolute values %	
Total Federal government	224.1	80.40
States	34.7	12.45
Municipalities	10.3	3.69
Federal District	9.6	3.44

Source: Data from INEGI (1994), Poder Ejecutivo Federal (1994), Connolly (1995, p.30)

Table 3. Public sector gross revenue by level of government (%)

	1971	1980	1986	1993
Total Federal government	24.14	37.90	49.27	36.22
States	2.34	3.50	3.87	4.01*
Municipalities	0.51	0.28	0.86	1.50*
Federal District	0.99	0.28	1.26	1.36

Source: PIB, Anexos informes presidenciales, INEGI, SPP (1992, 1994 p.38)

States and municipalities have three sources of public funds:

- taxes they themselves collect on their own behalf;
- transfers from the federal government of funds raised through federal taxes (even though these taxes may have been collected for the federal government by the states);
- budget appropriations provided to local authorities by various ministries.

Taxes collected directly by the various levels of government

The principles upon which taxation is based in Mexico's federal system included:

- the same tax base can be used by both the federal government and the states;
- the states collect taxes for the federal government as well as on their own behalf;
- the federal government returns to the states a portion of many of the taxes they collect (the so-called “recoverable” taxes), according to a formula known as “fiscal apportionment” (“Ley de coordinación fiscal”).

In Mexico, the amount of local authorities' own resources, i.e. those that are not channelled through the federal government to then be redistributed to states and municipalities, is quite small. This has three consequences:

1. The states and municipalities have virtually no financial autonomy.
2. Neither states nor municipalities are in a position to offset or even manage the effects of variations in the amounts of federal subsidies, particularly if there is a macroeconomic crisis. Federal resources are far more balanced.
3. The states and municipalities cannot easily play their natural role as investors in local infrastructure, since they have little budgetary flexibility. In Table 6, we see that the state's percentage of total public works spending shown to be only 14.8 per cent, while that of municipalities is a mere 5.2 per cent, which is incompatible with genuine and effective decentralisation. This explicit centralisation of government contracts tends to favour the largest firms and deprives the states and municipalities of the leverage that a greater variety of prime contractors would create at the local level.

Table 4 shows that the amount of the states' own tax resources is roughly 3.3 per cent, which is extremely low, while that of municipalities is 17.6 per cent, which is higher, although this is an average, and the figures may be much higher or lower from one municipality to the next.

Table 4. Distribution of local government revenue by source (1991)

Income	State government	Municipalities	Federal District
% of federal taxes	59.1	47.1	49.7
Local taxes	3.3	17.6	26.1
User prices	3.0	8.0	10.0
Public debt	12.4	5.2	1.3
Others (fines, profits, etc.)	22.2	22.1	12.9

Source: States and municipalities: INEGI (1992, p.50; 1994, p.18)

Table 5 shows that the federal government has five major sources of revenue: VAT, income tax (the largest of the five), the petrol tax, taxes on goods and services and, by far the smallest, import taxes. Moreover, these sources of revenue are becoming better balanced, which is a highly positive trend;

Table 5. Composition of federal taxes (%)

Tax	1980	1992
VAT	16%	18%
Income tax	36%	32%
Oil tax	23%	18%
Tax on products and services	6%	10%
Tax on imports	7%	7%
Others	12%	15%

Source: Government Reports, 1981 and 1993.

Table 6. Distribution of expenditure in public works and development, by level of government (1991)

	Absolute values %	
Federal government	16.4	32.8
Federal public undertakings	21.1	42.2
States	7.4	14.8
Municipalities	2.6	5.2
Federal District	2.5	5.0

Source: Data from INEGI (1994), Poder Ejecutivo federal (1994), Connolly (1995, p.30)

The small amount of taxes collected directly by the states on their own behalf comes from an entertainment tax or a tax on older cars, although some states have added taxes on wages or a hotel tax. The Constitution prohibits them to establish any tax that might interfere with the free transit of goods between states. Moreover, many states find the cost of collecting taxes often outweighs the benefits they are expected to bring. Many local elected officials simply hesitate to raise taxes.

The situation is somewhat better in municipalities since they receive property taxes (*predial*), which are collected for them by the states. Property tax rates could be raised, but it appears that much better results could be achieved by raising the prices of public services, although this would require a series of economic and financial changes -- not to mention changes in mentalities -- that are far from complete.

Could the allocation of tax revenues be changed so as to give states and local authorities greater autonomy and flexibility?

This subject is currently being debated in terms of several potential sources of increasing revenues. It should be mentioned at the outset that based on past experience the federal government has ruled out the possibility of sharing with the states, either through a system of points or percentages, the three main federal taxes, i.e. value added tax (VAT), the petrol tax and income tax. These kinds of solutions would have had the most favourable financial impact on the states. Some people have suggested different measures:

- A first measure would consist of establishing a tax on movable assets to be levied by municipalities.
- A second would be to establish a *tax on new cars*; the states are reluctant to introduce a tax the effect of which would by no means

be neutral across states. Since the tax would be included in the selling price, those states in which these cars are produced, assembled or imported would be very likely to profit from it far more than the others.

- A third solution would be to introduce a *surtax on goods and services*, in addition to the tax already levied by the federal government. This would make it possible to side-step the principle of fiscal co-ordination, but the federal government has reservations about this measure.
- A fourth would be to establish a *hotel and restaurant tax* (this already exists in some states). However, in this case it would be necessary to exempt those who pay this tax through VAT, which would not be in the interest of the federal government.
- A fifth measure would be a *petrol surtax*, in addition to the existing federal tax, perhaps to be collected and kept by the States.
- A sixth solution would be to introduce a *new tax on car hire*. However, this tax “proposed” by the federal government might simply encourage states to compete for taxes through “dumping”, which in the end would substantially reduce the revenues this measure would be expected to produce.

The 1996 Fiscal Co-ordination Act, promulgated on 15 December 1995, has taken some major steps towards meeting the demands of the states:

- 20 per cent of the surtax on goods and services is to be distributed directly, one-fifth of this amount is to be allocated to the municipalities;
- the tax on new cars will be allocated in full to the states as of 1997;
- also with effect from 1997, the states will be able to levy additional local taxes on vehicle hire;

- lastly, statutory measures concerning the acquisition of property and restaurants and hotels will be gradually amended in order to transform them into local taxes.

These responses demonstrate that decentralisation is now well under way and that federal government has been able to find workable solutions to the issues raised by the states and municipalities.

However, what some states would in fact like to obtain is a much more explicit and comprehensive share of revenues from taxes on petrol, alcohol and tobacco, a percentage of VAT and perhaps even a share of income tax. The representatives of the federal government argue that it would serve no purpose to provide additional tax revenues without first defining the new responsibilities of the states and municipalities.

The redistribution of federal tax revenues, or the principle of tax co-ordination

The second source of financing of the states and municipalities is the redistribution of a share of the taxes levied by the federal government. Some 25 per cent of the taxes received by the federal government are redistributed (*recaudación participable*) to the states and municipalities as follows:

- 18.51 per cent go to the *Fondo General de Participación*, which is distributed among the states (the percentage was increased to 20 per cent in 1996);
- 5.5 per cent go to the *Fondo de Fomento Municipal*, which is distributed to municipalities by their respective states;
- 0.5 per cent go into the *Fondo de Reordenación*, which is distributed only to cities to help them solve their problems of organisation and installation of services (from 1996 onwards this will be amalgamated with the above fund).

The problem is not only the insufficient amount of the funds distributed, but also the methods of distribution, which are criticised by some states, although others are less critical. Thus, the Fondo General de Participación works as follows.

- Firstly, 45.17 per cent of the Fund is distributed in direct proportion to the number of inhabitants; there is little criticism of this first criterion in and of itself, except for the delays and difficulties involved in determining the exact number of inhabitants;
- Secondly, 45.17 per cent of the Fund is distributed on the basis of each state's ability to collect the full amount of the taxes levied by the federal government; in other words, the more effectively a state collects the federal government's taxes, the larger the amount that will be transferred back to the state; conversely, the less active it is, the less it will receive. The impact of this second criterion has been as substantial as it was justified, and its implementation has prompted states to change for the better some of their more questionable practices as regards the effective collection of taxes. But it has been heavily criticised by many states, for although it formerly played a positive role, they wonder why it is still so important now that collection methods are far more objective and satisfactory than they were in the early eighties.
- Lastly, 9.66 per cent of the fund is distributed in inverse proportion to the state's per capita tax yield, i.e. in terms of a poverty indicator.

The tax co-ordination formula, which is extraordinarily complex in its details, is based on three main criteria:

- the number of inhabitants in the state;
- the level of poverty of the state;
- its ability to collect taxes.

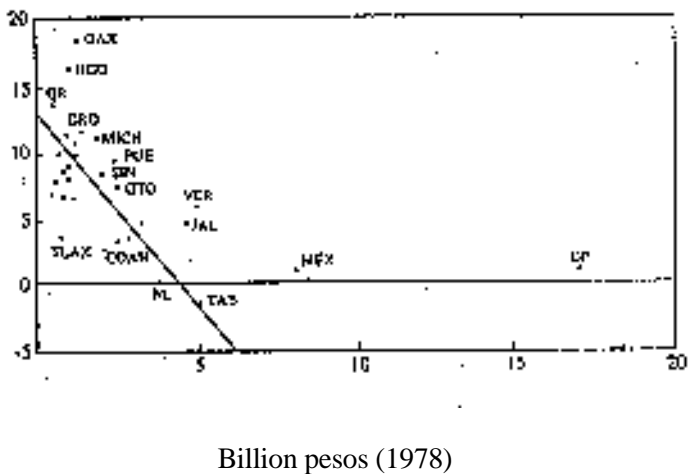
Although all three of these factors should certainly be preserved in the final formula, one may well ask whether the weight attached to each criterion is logical, and particularly: the substantial importance given to the number of inhabitants is reasonable enough, the percentage attributed to the inequality index, may appear too small, and the weight attached to the ability to collect taxes too large.

It is the mix of these criteria that explains the statistical observations regarding the “share distributed per inhabitant”:

- Thus Figure 1 shows that the richest states (the Federal District, Nuevo León) receive the largest shares, while the poorest states receive the lowest shares per capita; thus, the second criterion is highly effective, but the last criterion may also have an effect. On the other hand, Figure 2 shows each state’s share in terms of its growth rate: the poorest states’ shares have grown the most rapidly.

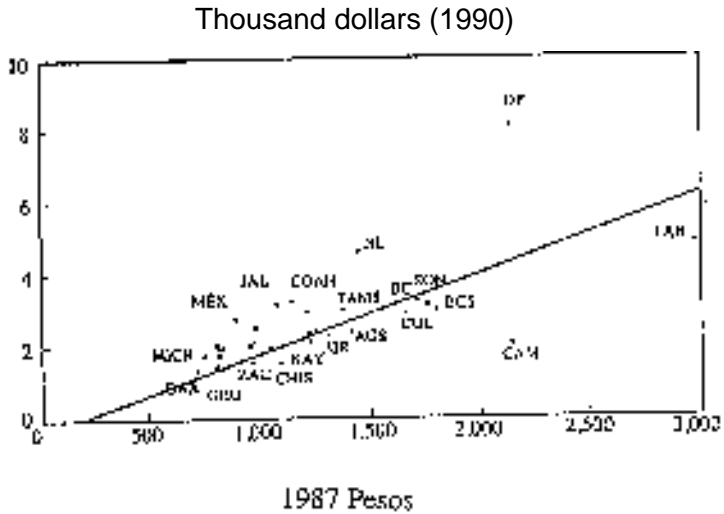
Figure 1. **Shares distributed per capita (1992) by state**

Annual growth in real terms



Source: Diaz Cayeros, 1994, p. 94

Figure 2. ad **Convergence of tax share distributed**



Source: Diaz Cayeros (1994, p. 95).

Consequently, the use of this formula has led to less imbalanced results than was formerly the case. The differential between the highest and the lowest shares was formerly 1 to 14; this was later reduced to 1 to 8.5, and now stands at 1 to 2.5. This may be why the states are less critical of the formula itself than of excessively small base to which it applies, in their eyes.

2. AT WHICH LEVEL SHOULD LOCAL INFRASTRUCTURE DECISIONS BE MADE?

When dealing with a federal or decentralised system, the simplest way of answering this question is to refer to the principle of subsidiarity. This would mean that all decisions should be made at the level closest to the actors concerned and their problems, i.e. at the municipal level, and that other levels should only intervene when problems cannot be solved at this first level. They would be, as it were, subsidiary. As attractive as this position may be, it is difficult to accept for the two following reasons:

- even if a responsibility can be assigned to a given level, the decisions made at that level may have an impact at other levels and/or in other jurisdictions; in its simplicity, the principle of subsidiarity assumes that decisions made at one level have absolutely no external effects, which is questionable, above all if we are thinking in terms of development. In the case of Mexico, moreover, the Constitution recognises specifically the possibility of external effects, for example, by laying down that the states may not take measures that would interfere with the functioning of markets, which considerably reduces the scope of their responsibilities.
- even if a responsibility can be assigned satisfactorily to a given level, this does not mean that all the conditions for carrying out this function are necessarily present, since means of financing, or simply expertise, may be lacking at this level.

In Mexico, the principle of subsidiarity is recognised implicitly by the Constitution, at least as far as local infrastructure is concerned. Article 115-III of the Constitution gives local authorities very broad responsibilities in the field of local infrastructure, and merely mentions that states may also assist them with these functions if need be. In the field of education and health, a further reallocation of responsibilities is also necessary.

It remains the case that local infrastructures are often inadequate. How can decentralisation improve their availability?

2.1 Overview of Current Levels of Infrastructure

2.1.1 *The basic data*

The problems connected with decentralisation, infrastructure and local services, must be understood in reference to regional disparities, the current allocation of responsibilities and the urbanisation of Mexican society.

Regional disparities

In any country, decentralisation will invariably widen the existing differences, since the richest or best equipped territories will have a comparative advantage that is likely to increase over time by attracting even more resources to the detriment of less rich or well equipped territories. In addition to this imbalance, the growing differences between the territorial components of a given country will inevitably give rise to the following costs:

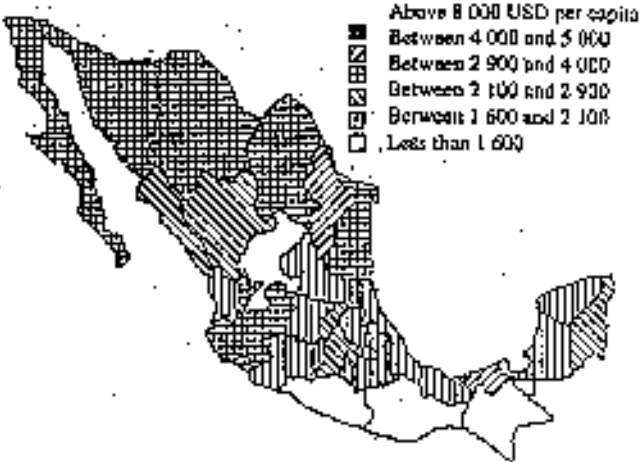
- depopulation in areas that cannot attract the expected effects of decentralisation;
- congestion in the most attractive areas since widening differences in standards of living will give rise to phenomena of protest and growing demand to reduce inequalities.

However, in Mexico, the states and municipalities are highly diverse, which significantly increases these risks and the related costs. Perfect mobility of labour and capital between the different states is limited by inadequate infrastructure as well as by the structure of the housing market which is essentially based on property ownership rather than rental housing, thus making the costs of migration considerable. According to the data now available, it would take at least thirty years for the a state such as Oaxaca to catch up with the living standards of Nuevo León.

Thus, for Mexico, decentralisation could be both a means of preventing population loss because of the poor quality of a territorial unit and a means of solving the problems created by spontaneous and often anarchic migrations to urban centres which appear to offer these migrants opportunities.

The differences in the regional GDP of the various states are the first indicator of inequality among territories. In 1993, the average national GDP per capita was US\$3 000, but it was only US\$1 000 in a state such as Oaxaca, while it was as high as US\$8 000 in the Federal District (Figure 3). In terms of purchasing power, the regional differences are just as large, since it ranges from US\$2 300 in the poorest states to US\$15 000 in the richest, which is again the Federal District (Figure 3).

Figure 3. Per capita GDP by state 1990



Above 8 000 USD per capita
 Between 4 000 and 5 000
 Between 2 900 and 4 000
 Between 2 100 and 2 900
 Between 1 600 and 2 100
 Less than 1 600

Source: Diaz Cayeros (1994, p. 56), based on INEGI data.

Social or welfare indicators can also give an initial idea of these differences in living standards. A human development index used by some researchers makes it possible to rank the different states between 0 (the lowest level) and 1 (the highest level). This index in fact combines a set of monetary and physical indicators compiled at the federal level (Table 7). Once again, there is a clear-cut ranking, with the Federal District, Nuevo León and Baja California at the top, and the states of Guerrero, Chiapas and Oaxaca at the bottom. However, in some cases this index does reflect a state's ranking in purely monetary terms; for example, the State of Tabasco is in a far less favourable position than its purely monetary figures would suggest.

Table 7. Indicators of economic development

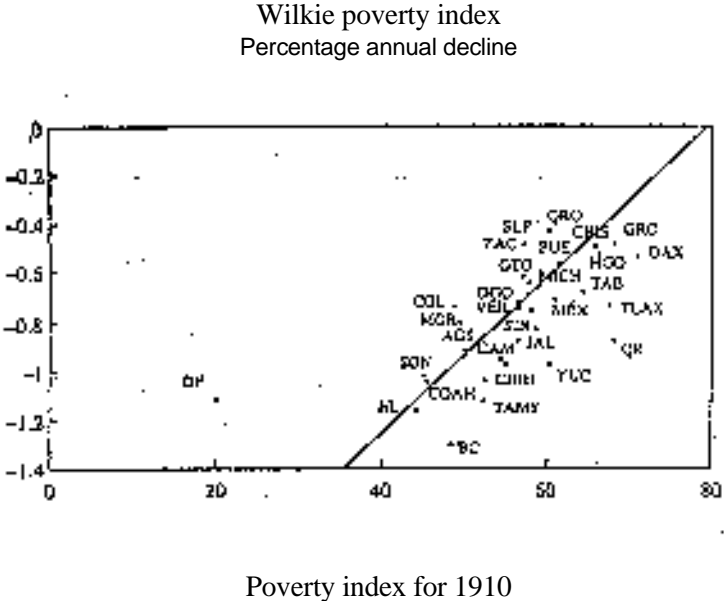
State	GDP by State	GDP by State Purchasing Power Parity	Human Development Index	Wilkie Index	Osuna Index	Welfare Index INEGI
	1990	1989	1989	1970	1970	1990
Aguascalientes	2381	5201	0.849	20.6	6250	6.0
Baja California	3256	6167	0.870	16.0	13935	7.0
Baja California Sur	2994	5904	0.861	23.2	5611	5.9
Campeche	2029	4750	0.807	24.9	-1103	4.5
Coahuila	3251	6268	0.865	18.7	8463	6.1
Colima	2874	5309	0.833	25.6	1218	5.9
Chiapas	1466	2820	0.579	41.0	-13389	2.6
Chihuahua	2935	5578	0.827	19.2	7708	5.6
Durango	2481	4928	0.850	28.7	2958	4.3
Guanajuato	1957	3737	0.716	29.1	-2767	4.5
Herrero	1388	2620	0.581	40.5	-11173	3.4
Hidalgo	1640	3073	0.623	36.6	-8266	3.3
Jalisco	3193	6011	0.819	21.0	4387	5.6
México	2652	4958	0.805	23.1	2368	5.9
Michoacán	1678	3169	0.665	30.8	-5455	4.3
Morelos	2049	4189	0.761	23.4	1821	5.6
Nayarit	2090	3964	0.759	31.1	2788	4.3
Nuevo León	4666	8748	0.889	15.3	12650	6.5
Oaxaca	1227	2299	0.549	42.0	-14261	2.4
Puebla	1831	3456	0.625	32.3	-5375	4.0
Querétaro	2397	4708	0.761	34.9	-7199	4.7
Quintana Roo	2270	5354	0.822	33.3	-5047	5.3
San Luis Potosí	1906	3745	0.732	33.1	-5679	4.1
Sinaloa	2427	4548	0.809	28.5	730	4.9
Sonora	3169	6103	0.860	19.9	8342	5.8
Tabasco	4831	9328	0.807	33.8	-6334	3.7
Tamaulipas	2974	5688	0.837	18.9	5860	5.9
Tlaxcala	2120	4613	0.790	30.4	-2394	4.5
Veracruz	2012	3737	0.691	28.3	-3333	3.8
Yucatán	2038	3973	0.739	26.2	-3916	4.8
Zacatécas	1545	3257	0.704	35.1	-4565	3.8
Federal District	8129	15141	0.885	6.4	20389	7.0

Source: Diaz Cayeros, 1994, p.58.

It is at least as important to understand the overall trend of these inequalities as where they stand at a given point in time. In Mexico, estimates of the Wilkie index have long been available, which combines a number of factors reflecting well-being or culture, such as clothing, food, proficiency in languages other than only the indigenous language, etc. The lower this index, the higher the level of well-being.

The use of this index makes it possible to show that between 1917 and 1960, the situation improved in all states, with the least rich among them progressing the least rapidly.

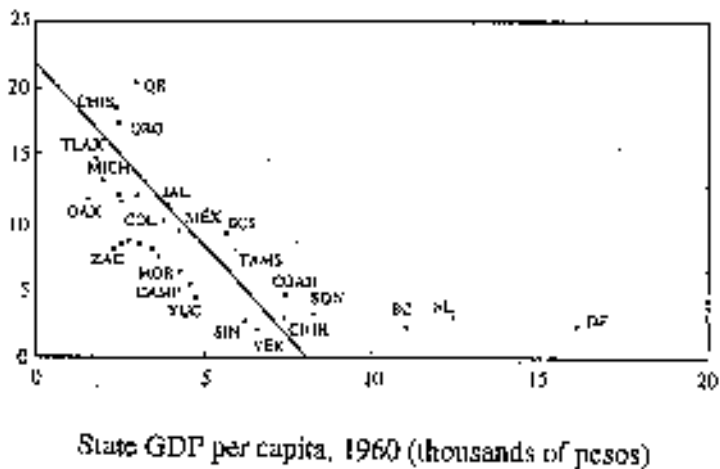
Figure 4. Divergence of well-being 1910-1960



Note: Scale: 0 minimum, 100 maximum.
 Source: Diaz Cayeros, 1994, p. 62.

During the 1960s, inequalities tended to diminish. This trend (Figure 5) is confirmed by the data of the National Statistical Institute. On the other hand, we observe that during the 1980s the trend towards growing territorial inequalities resumed (Figure 6).

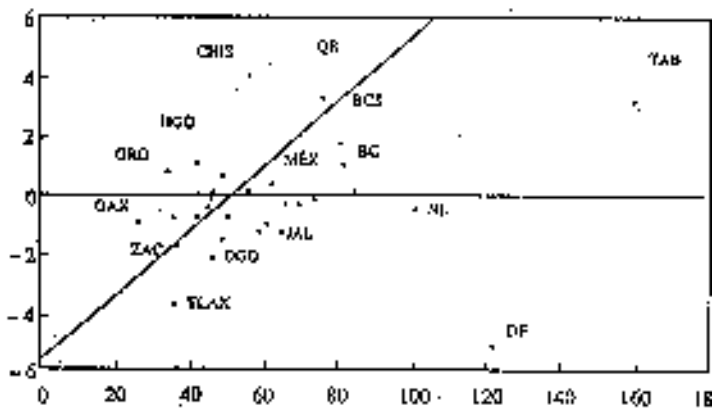
Figure 5. **Convergence of GDP by state, 1960-1980**
Percentage annual growth



State GDP by state, 1960 (thousands of pesos)

Source: Diaz Cayeros (1994, p. 63), based on INEGI data.

Figure 6. **Divergence of GDP by state, 1980-1990**
Percentage of annual growth



GDP by state, 1980 (thousands of pesos)

Source: Diaz Cayeros, 1994, p. 65.

NAFTA and regional trends

The North American Free Trade Agreement, which was signed in 1993 and entered into force on 1 January 1994, should accelerate these regional trends. With this treaty, together with Mexico's participation in OECD and WTO, Mexico is going to put an end permanently to its traditional policy of protection of national industries and import substitution. No doubt, this opening up might benefit all the states in the long term, but they are not equally able to take advantage of these new opportunities, whether from the standpoint of transport and communications networks, skilled labour, etc. Even Mexico City might experience some hardship since two mainstays of its development, i.e. a captive domestic market and a highly centralised public sector, will play a less dominant role.

However, there is every reason to believe that the existing inequalities can only grow to the advantage of the richest states and/or the states in the north of Mexico. The development of enterprises through the *maquiladora* system shows that the Mexican territory as a whole is feeling the effects of this opening up of trade.

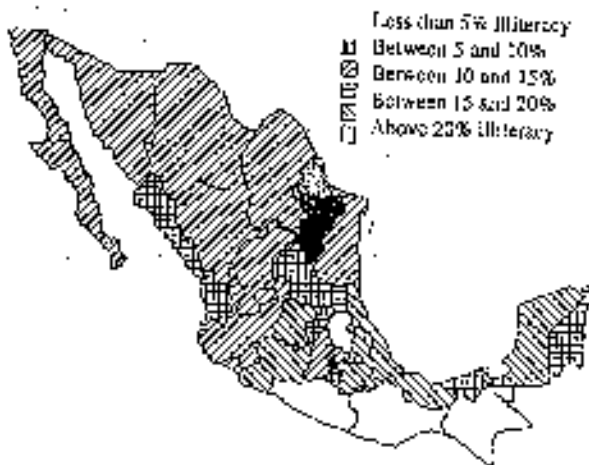
The current debates on inequality and poverty in Mexico have made clear that the three variables play a decisive role:

- the importance of agriculture in overall production;
- levels of education;
- the existence of local infrastructure.

Thus, figures showing levels of illiteracy and levels of the infrastructure necessary for trade reveal that there are sharp inequalities in both these fields (Figures 7 and 8). As a result, it is unlikely that decentralisation will be able to reduce such gaps, in the short term, even though it can raise basic levels of satisfaction or performance. Thus, it will be necessary to undertake remedial policies that are adapted to the new context of decentralisation.

Figure 7. Illiteracy rates 1990

Figure 5. Taux d'illétrisme



Less than 5% illiteracy
Between 5 and 10%
Between 10 and 15%
Between 15 and 20%
Above 20% illiteracy

Source: Diaz Cayeros, 1994, p. 67.

Figure 8. **Mobility/ease of trade index 1987-1992**



Index of .5 or above
Between .25 and .49
Between 15 and 25%
Between 10 and 15%
Less than .10

Source: Diaz Cayeros, 1994, p. 69.

The urbanisation of Mexico

To understand more fully Mexico's local infrastructure problems, it is important to take into account its growing urbanisation, which is not limited only to the growth of Mexico City. Fifty years ago, 22 per cent of the population lived in cities of over 10 000 inhabitants; by 1970, this percentage had risen to 42 per cent; by the early 1980s, it had climbed to over 55 per cent. If different definitions of urbanisation are used, such as cities with more than 2 500 inhabitants, the increases are even more striking (Table 8).

Table 8. The urbanisation process

	1940	1960	1970	1980	1990
% Rural	64.9	49.3	41.3	33.7	27.5
% Urban	35.1	50.7	58.7	66.3	
% Small City	8.1	10.8	9.4	10.0	
% Middle City	4.0	11.6	13.3	16.5	
% Large City	7.9	14.9	22.9	26.2	

Definitions: Urban: more than 2 500 habitants

- Small city: between 15 000 and 99 999 habitants

- Middle-sized city: between 100 000 and 999 999 habitants

- Large city: more than 1 000 000 habitants

Source: García del Castillo, R. (1995), *Análisis de Municipio Mexicano: Diagnóstico y Perspectivas*, op.cit., p.18.

This urbanisation can be explained by a number of factors:

- the rate of demographic growth: it rose from 1.7 per cent in 1940 to 3.3 per cent in 1970, although it fell to 1.9 per cent in 1990 thanks to active demographic control policies;
- the decrease in the labour force working in agriculture: it dropped from 65 per cent in 1945 to 29 per cent today;
- the very rapid rate of migration to cities of the female population in search of jobs in service or household activities.

This demographic growth has had a number of consequences:

- It has led to a rapid increase in situations of unplanned urbanisation, in suburbs and inner cities; as a result, the rate of self-built housing rose from 21 per cent in 1950 to over 50 per cent in 1970. Despite this trend, housing supply has always lagged behind the needs: in 1980, based on the standard of one housing unit for each 5.5 people, the housing shortage came to nearly 4.7 million units (1.2 new units and 3.5 renovated units). Thus, some 70 per cent of the low-income population is housed in informal housing in which minimum health standards are far from being met;

- It has led to a rapid increase in informal service provision in the fields of transport, waste disposal, etc. This has by no means been a positive development, for the methods of managing these services often result in a very low quality of service for users and very poor working conditions for those who provide them, while those who organise them reap considerable profits.

This urbanisation is often thought of as only concerning the megalopolis of Mexico City, which is seen as typifying urban Mexico. Today, however, there are three very large cities in addition to Mexico City (Monterrey, Puebla and Guadalajara) and especially there is a network of numerous cities with over 100 000 inhabitants, which were targeted precisely by the 100 Cities Programme.

- since 1990, the rate of growth of the “100 cities” has been higher than that of the four largest cities: 3.6 per cent as compared with 1.2 per cent (during the 1990-96 period);
- migration is no longer from rural areas to cities, but between cities, especially within the network of the 100 cities.

2.1.2. Meeting local needs

The extent to which needs are met varies considerably in Mexico, as is shown by the statistics available for the main urban areas, which are generally considered to be better equipped than rural areas. Table 9 gives a breakdown of service provision by city.

Table 9. Level of needs satisfaction in urban areas

Area	% Homes w/o Inside Water			% Homes w/o Drainage		
	1970	1980	1990	1970	1980	1990
Mexico City	40	31	36	25	14	9
Ciudad Juárez	49	37	32	33	27	21
Torréon	39	22	24	37	28	20
Monterrey	37	28	18	29	20	10
Guadalajara	28	18	16	16	9	16
San Luis Potosí	32	22	13	23	22	9
Veracruz	39	36	38	24	20	16
Tampico	47	50	38	25	25	17
Oaxaca	63	51	45	50	44	23
Merida	44	36	31	46	40	26
Total country	61	50	50	59	43	35

Source: García del Castillo, R. (1995), *Análisis del Municipio Mexicano: Diagnóstico y Perspectivas*, op. cit., p.25-45.

What is striking here is not so much the low level of the indicators themselves as the low rate of positive change. Overall, the percentage of housing units supplied with piped drinking water remained virtually unchanged between 1980 and 1990. On the other hand, the indicators on wastewater disposal progressed more satisfactorily, but here too the progress during the last decade has not been as rapid as hoped based on the previous decade's statistics.

Other statistics are available on trends in rural areas. According to the data of the CIDE, which attempt to make a distinction between principal towns and outlying communities.

- As regards provision of piped drinking water, nearly 30 per cent of principal towns are supplied at a rate of 100 per cent, while the rate of provision outside these towns is only 2.6 per cent. Conversely, 47 per cent of the population living outside principal towns has a rate of provision of under 25 per cent, as opposed to only 7 per cent of the population of principal towns (Table 10);

Table 10. Percentage of the population with piped drinking water

	In principal towns	Outside principal towns
less than 25%	7.0	47.0
25 to 49%	10.8	9.5
50 to 74%	12.0	26.9
75 to 99%	40.5	13.5
100%	29.8	2.6
National total	100	1000

Source: García del Castillo, R.(1995), *Análisis del Municipio Mexicano: Diagnóstico y Perspectivas*, CIDE, 1995, p.25.

- As regards wastewater disposal, 44.6 per cent of principal towns provide effective sewerage services (i.e. a rate of provision of at least 75 per cent), as opposed to a rate of only 7.1 per cent for municipalities overall. As for the lowest level of services (a rate of provision of less than 25 per cent), 33.0 per cent of the population of principal towns are concerned, as opposed to 72.3 per cent of those living in outlying areas (Table 11).

Table 11. Percentage of the population provided with sewerage service

	in principal towns	outside principal towns
less than 25%	33.0	72.3
25 to 49%	2.98	11.5
50 to 74%	19.5	9.1
75 to 99%	31.3	7.1
100%	13.3	0
National total	100	100

Source: García des Castillo, R. (1995), *Análisis del Municipio Mexicano: Diagnosticó y Perspectivas*, CIDE, 1995, p.256.

Table 12. Percentage of municipalities citing the financial problem as the most important

Services	General
Water	63.30
Sewering	48.63
Lighting	54.70
Street cleaning	54.30
Pavement	63.40
Markets	34.10
Cemeteries	44.90
Slaughterhouses	22.00

Source: Encuesta nacional de Gestión municipal (1993), CIDE (1995), p.39.

A special case: Mexico City

Mexico City must be analysed separately because of its special constitutional status and the size of its population. In 1990, Mexico City's population had already risen to over 17 million, of which 8.2 million inhabitants lived in the Federal District, a comparable number in the State of Mexico and the remainder in bordering States (Morelos, Puebla, Tlaxcala). If these population ratios have remained stable, then the population of the metropolitan area of Mexico City stands at over 21 million inhabitants. At first glance, the rate of provision of basic services appears to be highly satisfactory (a 98 per cent rate of water supply provision and 99 per cent provision of electricity), but there is some controversy as to the quality of these services in certain areas or sectors. If needs are considered by age group, two groups are less well provided with services than others, i.e. young people under 14 and the elderly over 65. Nevertheless, the basic problems remain transport and pollution, for over 30 million trips are made daily, and the existing 178 kms of metro lines are no longer sufficient.

2.2 Responsibility For Infrastructure And Local Services

2.2.1 Network activities

Water

Water supply is one of the most important of all services, both for agricultural and industrial uses and for domestic use. In all these cases, it is necessary to ensure supply, treatment, distribution, disposal and retreatment. Moreover, there are specific constraints that make these tasks more difficult, for 80 per cent of the population lives in semi-arid areas, and there are three major water catchment areas.

Furthermore, the water supply system was long centralised and managed by the Comisión Nacional de Aguas (CNA), which had a large number of local offices. Thus, there is a centralised water supply system, but beginning in 1983 a series of measures in favour of deconcentration and later decentralisation were undertaken. However, it is necessary to distinguish between uses of water for irrigation and for consumption by households. It should also be mentioned that another body, CILA, a joint intergovernmental body of the United States and Mexico, manages the allocation of international waters to the territorial units located in Northern Mexico.

As regards water for irrigation, the Law of 1991 initiated a decentralisation process aimed at achieving the following three goals:

- to decentralise the 80 irrigation districts, which would now be managed by users' associations;
- to enable the federal government, which retains ownership of the main infrastructure, to collect maintenance costs (reservoirs, main distribution networks);
- to use water more efficiently.

With this in mind, the CNA has signed agreements known as “modules” with users, which ultimately would allow them to organise water use as they wish while requiring them to pay charges that would cover the cost of basic infrastructure maintenance. In conjunction with this policy, which has

made possible an increase in the amount of irrigable land, other similar programmes have been implemented, such as PRODEP, which makes it possible to develop small networks and plots with a view to making them more productive (desalination, cleaning).

Some of its administrative partners are more critical. According to some opinions, the federal government has gradually come to neglect the maintenance of dams and major networks, which has led to deterioration, leaks and a loss of irrigation capacity. User agencies, which are not able to maintain dams, have not been able to store the anticipated volume of water and collect the revenues expected.

For this decentralised system to achieve better results, it would have been necessary to decentralise all of the responsibilities involved, except for land regulations and the management of supply through large basins (cuencas), which would continue to be the responsibility of the central government. The failure to allocate responsibilities in a clear and coherent manner led in fact to a loss of efficiency in the system. This is why, under these circumstances, some states have explicitly asked to be given overall responsibility for the management of surface water and related infrastructure. A more decentralised method of infrastructure management would no doubt make it possible to isolate the problems and their causes.

As regards the management of drinking water, Article 115-III of the Constitution lays down that each municipality must organise its own water supply services. Municipalities have the choice of managing these services directly or of appointing a service provider, which will operate autonomously but under their supervision. Depending on whether this service is paid for through taxes or user charges, it is supervised either by the states or directly by the municipality. The lack of maintenance and renewal of infrastructure in many cities compromises the quality of basic services, such that even if water is drinkable when it arrives in distribution reservoirs, this is not necessarily the case when it arrives in households. Moreover, revenues are insufficient, either because the prices charged are too low or simply because users are not required to pay for a service that they consider to be a right.

With regard to drinking water, then, the problem is no doubt less the way the responsibilities have been allocated than the conditions in which they are exercised. Since the network provided by the federal government was in poor condition, distribution costs are high, which makes it that much more difficult for municipalities to make users pay. Consequently, it seems that

major investments are called for, as well as a strategy to involve users and make them more responsible. It should be pointed out that both PRONASOL and BANOBRAS have been highly active in this field, not only by contributing the necessary funds but also by preparing technical studies approved by the CNA and by defining coherent pricing strategies.

Electricity

In the field of electricity, the National Electricity Commission has a monopoly on distribution at prices that are set in agreement with the federal authorities. Electricity production, however, is not a government monopoly, although in practice the National Electricity Commission does have a virtual monopoly:

- some public actors, such as the State of Sonora and later the State of Nuevo León, have begun to produce their own electricity, primarily as a means of creating local jobs;
- as for initiatives by the private sector, they do exist, but they are hampered by the fact that they must comply with the sale price of electricity set by the government. These private actors consider that this price is in fact lower than the production cost, which means that electricity production is in fact subsidised by the federal government and is virtually closed to private initiative.

It seems unlikely that there will be any change in the way these responsibilities are allocated in the foreseeable future, and in any case there does not appear to be a problem with the electricity supply. States or municipalities can try to influence electricity infrastructure and distribution plans by negotiating with the National Electricity Commission. This is true both for electricity for lighting in individual households or for street lighting. Given that Mexico will be self-sufficient at least until 1998 based on current production patterns (50 per cent of electricity is of thermal origin, 28 per cent is hydroelectric and 4 per cent nuclear), it does not appear that electricity supply is a crucial issue. The only new factor would be that a growing number of states might wish to produce their own electricity and would then try to negotiate lower prices.

Transport and transport infrastructure

In the field of transport, the main challenge facing Mexico today is the problem of *urban transport*. This responsibility is allocated to cities, and the federal government limits its role to promoting the implementation of programmes to modernise facilities and vehicles, for example, through BANOBRAS. The main problem is that, because of insufficient funds, cities find it extremely difficult to organise a transport system that is in fact provided by a plethora of small private companies, both formal and informal. As a result, the service is of poor quality for the following reasons:

- the average speed is only 16 kilometres an hour;
- vehicles are of poor quality;
- terminals either do not exist or are of poor quality, although they are obviously of great importance both to cities and their respective regions;
- prices are low and relatively uniform.

In addition, problems of air pollution are linked to transport conditions.

The most frequently used approach is to try to help these cities to organise and rationalise their systems, not necessarily by organising new services, but by trying to combine and co-ordinate existing services. This also makes it possible to transform some informal companies into formal ones and to provide stable jobs;

- by creating parking areas reserved for urban public transport, including appropriate terminals;
- by planning toll roads.

To carry out these programmes and support cities' efforts, a number of financing strategies have been decided, in particular based on resources provided by the federal government and/or funds loaned by the World Bank and BANOBRAS. Over \$60 million have already been spent on these programmes. BANOBRAS has mainly focused on municipalities with a population of over 400 000, while SEDESOL has focused its efforts on cities

with fewer than 400 000 inhabitants. But still these are central government initiatives.

As regards *roads*, the allocation of responsibilities is clearly defined. Toll roads are divided between the federal government and the states based on their regional or interregional importance, but there is currently a trend towards transferring responsibility for an increasing number of roads to the state level. The ratio of federal to state roads would eventually be 1 to 5. The most important development is no doubt the process of privatising roads, and a further 5 800 kilometres of toll roads will be added to the existing 3 500 kilometres over the next two years.

In the field of *railways*, the trend also seems to be towards privatisation rather than decentralisation. Long a symbol of national unity, railways have nearly 100 000 employees on their payroll, (of which 55 per cent are retired). This network is used mainly to transport freight, while passengers travel mostly by road.

Today the privatisation programmes underway primarily concern the main freight transport lines, which are also the ones that are most profitable. The proceeds of privatisation would be used to set up a retirement fund so as to relieve the federal government and the new owners of the burden of paying retirement benefits. Nevertheless, one may well wonder whether the federal government will not be left with the least profitable lines and whether the federal government or states will have the power to require private operators to maintain or improve certain services. It would appear that a solution has yet to be found to these problems, which involve privatisation, deregulation and decentralisation.

As regards *maritime ports*, the country's four largest ports have been privatised. However, this privatisation is complex for the following reasons:

- it was necessary to reorganise some transport routes in order to make these ports at least potentially profitable;
- supervisory councils, of which both local and federal authorities are members, were set up to ensure that this infrastructure operates in accordance with regional and national interests.

As regards *airports*, their number (56) is no doubt too great to make it possible to manage most of them effectively. The federal government is therefore considering reducing the number of airports so that they can become profitable once the necessary investments have been made.

Environmental protection

Environmental protection should be discussed in a very broad sense, ranging from wastewater disposal and treatment to clean-ups and disposal of waste of all kinds.

Today, precise regulatory provisions and human resources and technical know-how are lacking in these fields. Of course, this does not mean that there are not pressing needs, for they are all too obvious, nor that there is not considerable pressure to address environmental protection issues. Today there are nearly 500 non-profit organisations active in this field, although nearly half of them, it should be said, are located in the capital. Thus, the demand for environmental measures primarily originates in the most prosperous areas of Mexico. However, users do not always make pressure felt in this field, and are not willing to pay for such services, since they consider that they have already been paid for by taxes. As for hazardous risks, which are generally caused by large companies, these firms are more willing to pay their share of clean-up costs.

Disposal and processing of solid waste

Consider solid waste disposal. There is no ambiguity as to where responsibility lies, since it is clearly assigned to municipalities. There are a number of rubbish collection services, which are generally owned and operated by municipalities, although this service is all too often an informal activity that is the livelihood of a substantial number of people. The main problem is that the processing of this waste is not organised, the most usual solution being simply to dump it in open fields. Thus, a distinction must be made between rubbish collection, on the one hand, and waste processing on the other.

As regards rubbish collection, programmes already underway (Acapulco) show that there are two closely related problems:

- the poor quality of the service provided;

- the difficulty of getting citizens to pay for a service that they consider has already been paid for through property taxes.

It is best not to try to solve this problem “from the top down” and become involved in a difficult debate over taxes, but to approach it “from the bottom up” by showing users the value of the service that can be provided and the possibilities of recycling that will then be seen as beneficial to the community in question. For this approach to be successful, three conditions must be met:

- rates must neither be set too high, since in most cases municipalities do not have prior experience in this field, nor too low, given the need to provide high quality service from the outset;
- this service must be managed by an autonomous body;
- there should be a campaign of public information so that people understand why they are paying for services,
- whenever possible, people already working in this sector on an informal basis should be hired.

As regards the establishment of waste processing units, this is not always economically feasible because of many municipalities’ small size.

Consequently, solutions must be found at the regional or state level, and a programme is under way in this field (the Regional Council for Waste Treatment), in co-operation with BANOBRAS and the World Bank. Under this programme, an information system is established (which is currently lacking) to provide data on the origin, make-up and possibility of recycling such waste, and then the necessary waste processing units are set up. Moreover, as this programme is implemented, individuals already working in this sector can be given more formal employment, at least in collection services, and their services would thus become more easily marketable. It is by no means impossible that “green markets” might develop.

Wastewater disposal and treatment

What has just been said of solid waste disposal and processing generally applies to wastewater disposal and treatment. Although there seem to have been more initiatives in this area, they have not been significantly more successful (Tijuana). Two obstacles in particular were encountered:

- the poor quality of the bodies providing water supply and disposal services in many municipalities, which need to be highly efficient in order to keep down the costs of these services and the prices charged;
- the unwillingness of users to pay for these services, given that they have never paid for them before and that the prices charged can easily become prohibitive.

Public services

Education

Decentralisation of primary education has been envisaged as part of an overall strategy to improve the quality of education. This process was initiated in March 1992 with the signing of a number of agreements between the Ministry of Education and 31 states, covering three points:

- the modernisation of educational programmes;
- the upgrading of teachers' jobs and work;
- the federalisation of primary education.

At the outset of this reform, two systems of primary education -- the federal and state systems -- coexisted within each state, in proportions that varied from one state to the next. This resulted in many mismatches and inconsistencies both in the way services were provided and in the treatment of educational resources, especially teachers. By unifying this system, it was possible to make schools more homogeneous and to ensure better progress of pupils and improve the quantity and quality of the educational services

provided, etc. There are a number of indicators that can be mentioned in support of this reform:

- there has been considerable progress in meeting needs at the primary level, particularly as regards the indigenous population (+6.2 per cent), compared with an average of +0.3 per cent;
- the primary school completion rate rose from 71.6 to 77.5 per cent between 1992 and 1995;
- moreover, regional characteristics and needs are taken into account in defining the curriculum.

Today, another decentralisation process is under way in the field of school construction, although it remains very cautious and is more appropriate to speak of the “deconcentration” of construction and infrastructure expenditures. This is currently the responsibility of CAPFCE, which has some 2 400 employees, of whom some 700 work in its regional offices. Without decentralising its budget, CAPFCE plans to negotiate directly with the states on the basis of proposals they make and to sign financial agreements with them. This will give “users” some say in decision-making, although the central level will still supervise the overall process and will monitor compliance with standards. If this procedure works satisfactorily, it could lead to a complete decentralisation of construction by 1997, in which case CAPSE would provide each state with a lump sum and would no longer supervise how each state used its budget, although it would still be responsible for monitoring compliance with standards.

Lastly, there is the issue of the diversification of curricula and programmes, at least for vocational training, to make them better adapted to the labour market. It is true that, in the first stage, the goal was to set standards (*Sistema Normalizado de Competencia Laboral, Sistema de Certificación de Competencia Laboral*) and that, in the second stage, the goal could be to undertake what is being done increasingly in the other OECD countries, i.e. a partial decentralisation of programmes to take into account the specificities of the labour market and to be more responsive to demand from firms.

This decentralisation plan is well-suited to the real situation in Mexico and to the need to co-ordinate the services provided and to improve their quality. However, one may ask if this decentralisation should not be taken further. However, the main difficulties remain the relevant financial

arrangements, especially the importance of maintaining an ongoing balance between the allocation of responsibilities and the allocation of resources. In the view of the administrators of states, (which is not shared by the Ministry of Education), this decentralisation has given rise to difficulties, some of which are mentioned below:

- the amount of the subsidy now paid by the federal government to the states was not large enough to cover the costs incurred, a view that the Ministry of Education rejects;
- this transfer increased too rapidly the number of civil servants employed by the states, which raised human resource management problems for which they were unprepared;
- since the federal government continues to negotiate teachers' wages with the teachers' union, it signs agreements that raise costs; while the Ministry of Education considers that it covers these extra costs, some state argue that this is not the case.

Although it is incomplete and all problems have not been solved, this pioneering process of decentralisation of education has made it possible to learn a number of lessons and to understand the reasons why certain measures succeeded; it also proves that decentralisation can generate the adaptations and innovations necessary for its success.

Health care

Health care spending amounted to 4 per cent of GDP in 1996. The needs are great in this field, despite the fact that some policies have been highly successful in recent years, such as the policy aimed at reducing still births in those states which had obtained a partial decentralisation of federal resources.

At present, a process of cautious decentralisation is under way in this sector. Although some sectoral programmes have already been decentralised (such as the anti-cholera programme), the federal government intends to ensure that the decentralisation of hospitals and medical care is an opportunity to rationalise health care rather than the cause of an increasing duplication of services. To achieve this goal, it is necessary to co-ordinate the three sub-sectors that make up the health care system:

- some hospitals are the responsibility of the federal government;

- others are the responsibility of the Mexican Social Security Institute (IMSS) (although a distinction must be made between the IMSS health services for workers and IMSS-Solidarity, which primarily provides care for rural populations in outlying areas);
- others are the responsibility of the states and the government of Mexico City.

The principle behind this decentralisation will be to combine at least the hospitals run by the states and the federal government, while the institutions run by Social Security, because of their special characteristics, will be examined on a case by case basis. However, at least part of their establishments should be combined with institutions run by the states, in particular those of IMSS-Solidarity. This process should be carried out during the 1994-2000 period. Thus, the federal government would turn over its hospitals to the states, which would then be responsible for managing the overall hospital system.

The purchasing of pharmaceutical products is another challenge in this field. Although the principle of a complete decentralisation has been decided, each state would have the option of either placing its orders directly or through federal purchasing offices. This would open the market to greater competition.

However, the situation is even more complex in the field of research. The fact that research facilities and staff are concentrated in the Federal District has meant, it would seem, that research has been oriented towards cardiovascular disease, diabetes and cancer, rather than towards infectious diseases. Thus, it must be determined whether a more equitable distribution of research would not result in more being done on the health problems of different areas. If this were the case, decentralisation might lead to the desired shift towards research in the field of epidemiology. But in the long term socioeconomic changes will give greater importance to problems linked to life patterns, such as cancer.

Finally, two points should be mentioned, which can provide an example for decentralisation in other sectors:

- The principle of health care reform is to go beyond policies that were often designed for target groups, which led to increased duplication of services, bureaucracy and inefficiency, it can be

useful for the government to be able to implement such policies in emergency situations, but it is preferable for these policies to be better integrated over time. This requires a more comprehensive approach, which also requires that functions be better defined (i.e. regulation, financing, production of services) and that an entity ensures their operational integration in the field, i.e. the central government.

- Another point should be mentioned, which shows how intelligently the decentralisation policy has been implemented in this case. To implement two specific programmes -- one to support community clinics (*Programa de Apoyo a los Servicios de Población Abierta*, PASSPA) and another to extend health care cover (*Programa de Ampliación de Cobertura*, PAC) -- it was decided to rely heavily on contracts with local resources to ensure the operation of these health care centres or teams. In this way it is hoped to involve local inhabitants in order to meet communities' needs better and, ultimately, to ensure that the necessary human resources are available. The first programme made it possible to provide more than 1 000 health care workers with the necessary skills between 1991 and 1995, and the second programme should make it possible to train 4 600 workers in 380 highly marginal municipalities.

Local public policies

Urban planning

Here too, the responsibilities seem to be clearly assigned, for municipalities have responsibility for preparing development plans in the field of land resources, installation of services, community facilities, etc. What are the most frequently encountered problems in this field?

- Property values are poorly and often inappropriately assessed, and in some cases are not even assessed at all. It is true that, in order to levy property taxes, the authorities do at least set reference values, and some municipalities, in particular Mexico City, have established more efficient systems.

- Many services are still provided on an informal basis, and often considerable hidden power or financial interests are at stake; in such cases, it is difficult to co-ordinate these activities without becoming involved in often bitter struggles with those who in fact organise this so-called informal sector.
- Co-ordination between public authorities and private partners is far from being effective, even though these partnerships are an indispensable aspect of urban planning since they make it possible to analyse needs, to try out possible responses and to set up the relevant financial programmes.

The “One Hundred Cities Programme” (*“Programa de 100 Ciudades”*) has called attention to these problems, while at the same time helping to solve them. This programme, established and managed by SEDESOL, has tried to find solutions to problems of local infrastructure provision and urban planning in the largest cities.

In fact, the minimum population initially chosen was later lowered, which made it possible to allow a substantially larger number of cities to benefit from this programme (116 at present). The purpose of this programme was as follows:

- to assess property values more accurately in order to increase the yield of property taxes and thereby open up new financing possibilities;
- to co-ordinate work in the field of service installation and local infrastructure;
- to develop transport systems more rationally;
- to undertake urban renewal in inner cities;
- to improve the environment.

Its implementation was subject to two conditions:

- local residents had to be consulted;

- partnerships with the private sector had to be established in the fields of information, expertise and financing.

The programme has achieved relatively impressive results:

- it now encompasses 34.3 per cent of Mexico's total population and 51.4 per cent of its urban population;
- 116 local development plans have been prepared, of which 109 have been approved, 75 published and 72 implemented;
- most of the projects have involved the renewal of inner cities or the renovation of urban monuments, followed by the installation of city lighting and the updating of real estate assessment rolls.

Two lessons can be drawn from this programme:

1. There has been genuine consultation with local residents and local actors, and it has tended to grow as work progresses. The urban development councils that were set up have played a beneficial role by bringing together the various parties concerned, for 46 per cent of council members were actors from the private sector, 16 per cent were officials and staff of municipalities, 11 per cent were representatives of local federal offices, 5 per cent were from universities and training institutions, etc. This made it possible to overcome the usual sectoral and vertical or hierarchical approaches to urban problems and to implement a more comprehensive and horizontal approach.
2. Private financing can effectively be raised for clearly defined projects. For each \$100 spent by the federal authorities, the private sector spent the following amounts:
 - \$18 in the field of new road construction;
 - \$6.2 in the field of transport;
 - \$5.4 in the field of renewal of inner cities;
 - \$5.3 in the field of the environment.

Furthermore, this participation of the private sector was not limited only to actors within the municipalities involved, since the national federations of some business sectors joined in this partnership.

Housing

While housing might not ordinarily be considered true infrastructure, it may be referred to here as quasi-infrastructure, given the extent of its tie-ins with the infrastructure already discussed:

- The quality of housing depends on existing infrastructure.
- The distribution of housing affects the planning and management of infrastructure and public services.
- Housing is a crucial component of a territory's living standards and level of productivity.

Moreover, it is probably for that reason that Article 123 of the 1917 Constitution already acknowledged the importance of housing to the lives and rights of Mexican citizens.

Despite this already long-standing acknowledgement, it was only gradually that a number of mechanisms were set up to promote the development of housing. Banks, such as BANOBRAS, were brought in to stimulate construction, while at the same time, a large number of specialised housing lenders began sprouting up, each tending to serve a specific segment of the population. Together with the development of a certain form of household savings, all these mechanisms played an undeniable role in increasing the number of dwellings from 8.2 million in 1970 to 16.2 million in 1990 and 17.8 million in 1995.

But the situation is still unsatisfactory, given the demographic outlook: the population will continue to grow, from 91.6 million in 1995 to 99.2 million in the year 2000; today, 67.7 per cent of the population is under 30, suggesting that there will ultimately be great demand for family housing. Even so, it is a fact that the size of the average household is tending to decrease.

Therefore, and given the need to renovate nearly a quarter of the existing dwellings, the National Housing Plan for 1995-2000 projects that over that period it will be necessary to build 1.8 million new dwellings and to improve 2.2 million others. What obstacles will have to be overcome in order to accomplish this?

- a lack of co-ordination among the parties involved, which is due to the fact that most interventions are conducted group by group;
- lenders' problems recovering their financial investments, which discourage them from getting involved in new loans; for financial institutions, this means a thinly developed mortgage market;
- land-use planning problems (80 000 hectares of the desired land have a complex status stemming from community or municipal ownership);
- the problems created by the existence of a large informal sector, which could however be enlisted into the effort and make an undeniable, predictable contribution to quality;
- the weakness of the links between real estate, housing authorities and financial institutions.

All of these obstacles suggest the need for proper decentralisation. It is probably at the municipal level that it would in fact be possible to:

- co-ordinate actions taken, theoretically, to benefit certain groups, but not on the basis of more highly integrated planning, which in this case could only be that of a territory;
- find a more satisfactory solution to the problem of recovering funds invested (although here, political arguments could have the opposite effect);
- find an effective solution to land-use planning problems;
- enlist the informal sector in a "positive" manner.

Unfortunately, this is not the case, and, for lack of clear authority, neither of the two organisations that could carry out much of this integration -- COPLADE and the municipal housing offices -- is put to good use.

Policies For Combating Inequalities

In Mexico, there have always been policies aimed at combating inequalities and that have had one characteristic in common, i.e. they have all emphasised the close relationship between the individual and territorial dimensions of poverty. This does not mean that individuals are rich or poor solely because of the territory in which they live, but that within a given territory there are often pockets of poverty or wealth that may in fact be quite close to one another. These policies are by no means new, but they have significantly changed in recent years because of the major programme known as the National Solidarity Programme (PRONASOL). Before describing in detail this policy, which is essential for an understanding of contemporary Mexico and how it works, mention can be made of several policies implemented previously:

- The Family Integral Development Programme (DIF): this programme was established over fifty years ago to assist poor children under the age of five, older disabled children and pregnant women. This programme is in fact highly decentralised since it encompasses nearly 1 700 services nationwide at the state or municipal level. It has always undertaken anti-poverty programmes, particularly through food assistance programmes. With the implementation of PRONASOL, this programme was given major financial support, but it should be pointed out that some of the principles on which PRONASOL was based had already been put into practice by DIF from the very beginning.
- The Programme for Indigenous Populations: this programme is managed by the National Institute for Indigenous Populations (*Instituto Nacional Indigenista*). Although there were major policy and funding changes in this programme with PRONASOL, its primary purpose was to combat poverty among indigenous populations through a community approach to their problems. This programme now includes both economic programmes (such as the programme of aid to coffee planters), aid programmes to finance local infrastructure (regional funds), cultural programmes and programmes to protect these populations and defend their rights.

However, after the 1980s, it is necessary to launch a major nation-wide solidarity programme that would go beyond the attempts to alleviate poverty made until then. The solidarity programme was aimed at introducing “social liberalism”, which would make it possible to reduce the social costs of modernising the country.

It was based on several basic principles:

- the comprehensive approach of initiatives: they must integrate all aspects of the problems encountered;
- a targeted approach: rather than trying to help everyone systematically, it is better to focus initiatives on those most in need of assistance;
- the participation and shared responsibility of all actors concerned;
- respect for community initiatives and involvement of members of the community;
- transparent management of financial resources.

Thus, this programme is intended to combine the initiatives aimed at alleviating the poverty of territories, communities and individuals, all of which are intimately connected in Mexico. Because of this programme’s magnitude, it can be viewed not only as a true anti-poverty programme, but also as a programme for promoting basic community initiatives and for managing social and territorial conflicts.

This programme was so successful that, having started with an initial \$680 million in 1989, its funding rapidly rose to 950 million in 1990, 1.7 billion in 1992, 2.5 billion in 1993.

This programme in fact consisted of numerous successive or combined programmes that are often implemented in co-operation with other ministries, which makes it difficult to describe as a whole. Some of these programmes have been recognised as having a very major impact, such as “Education and Society”, the Hundred Cities Programme, programmes on

behalf of indigenous populations, etc. This programme has also been called into question and criticised, which is only to be expected given the magnitude of the sums involved. The main criticisms raised are as follows:

- Over-regulation is sometimes considered to be a possible source of dirigisme and federal intervention in local affairs. In general, this criticism is aimed at the complexity of budgetary procedures, which is often justified, rather at an excess of regulations which are considered to be inhibiting. But in a few cases there are genuine problems, such as the procedures used to designate priority areas for programmes to combat extreme poverty. The discussions are often based on criteria set in advance by the central government, which considerably reduces the scope of the discussions with representatives at the local level.
 - this programme has led to more rapid action than earlier programmes, centralisation having worked as a factor of greater efficiency;
 - this programme is much more than simply an anti-poverty programme, for it has transformed the fight against poverty into a real development programme;
 - spending was higher in areas where there were intense political power struggles, but not necessarily in areas in which the majority party controlled the local executive government.

Two positive features of the programme should be continued, with a certain number of adjustments:

- this programme has never made a distinction between redistribution and development aspects: this approach, which combines the reduction of inequalities with the implementation of new economic activities and does not limit itself merely to redistribution operations, is a feature that should be preserved in the future;

- this programme has always attempted to enable local communities and populations to participate in defining programmes; this is certainly a factor for greater effectiveness, provided that these community bodies does not compete with democratically elected bodies, as been indicated above.

However, some changes must be introduced into this type of programme in order to adapt it to decentralisation.

- Not only must financial resources be decentralised, which has largely been done in the 1996 budget, but over-regulation must be avoided. Even though this over-regulation has by no means been shown to exist, it may be a source of costs, dysfunctions and delays, and even lead to accusations of political favouritism because of the great difficulty of obtaining expenditure authorisations. One may even wonder whether the representatives of the central government should not be limited to an advisory and support role, while the role of monitoring performance regarding the major objectives would be entrusted solely to the legislative and judicial branches.
- The respective responsibilities of the federal government and the states in combating poverty and marginalisation should be clearly delineated. Although it is the federal government's responsibility to ensure that no citizens are marginalised and to take measures enabling them to be integrated into society, it seems inappropriate for the federal government to designate single-handedly the territories within states in which systematic policies of combating extreme poverty should be implemented. There seems to be a growing awareness of this problem, for officials such as those of SEDESOL recognise that this kind of anti-poverty initiative cannot be undertaken by the federal government alone. Nevertheless, the power to launch such initiatives and to designate the appropriate territories should be the responsibility of the state concerned, since it is in the best position to know its needs and to ensure the coherence of its own territory. Consequently, anti-poverty policies should be the responsibility of the states when they have a territorial dimension within a state, and the responsibility of the federal government when it is necessary to help certain groups of individuals.

- In order to reduce inequalities between territories as large as states, it is necessary to find solutions that will provide for a more global use of this funding. A regional development fund should be created at the federal level (see below) that would sign contracts with various states so that they could carry out projects aimed at reducing imbalances.

2.3 How Should Responsibilities Be Allocated?

Firstly, it would be illusory to try to attain a clear-cut decentralisation in which each field would be allocated in its entirety to a specific level of government.

- It is normal for some fields to be shared, such as education and health care, since these services have both a national and local dimension; the challenge, then, is to ensure that these different dimensions are apportioned coherently between the different levels.
- In the case of Mexico, where management and supervisory responsibilities are often centralised, the system can only be changed gradually, even though there are logical arguments in favour of these changes.

Secondly, the apportionment of powers laid down by the Constitution already seems to be relatively logical. Consequently, the Constitution and legislation do not need to be amended as extensively as might have been initially thought.

In general, the Federal government:

- should conserve, in addition to the traditional prerogatives of the central state, those public services having nationwide external effects and services in which economies of scale can be realised at the national level (energy, transport, environment);
- should also retain the possibility of implementing policies aimed at correcting inequalities between territorial units or groups, whatever the sector involved;

- should, lastly, take responsibility for the overall assessment of projects and policies implemented at all levels, for the circulation of information and the dissemination of experiences, a function which at present seems underdeveloped.

In general, the municipalities:

- should have responsibility for all “local” distribution networks and, if appropriate, for production networks (which will be the case less frequently);
- should be responsible for local public policies in fields such as urban planning, housing and combating poverty;
- should have responsibility for services such as basic education and health care, depending on their resources and size.

Lastly, the states:

- should co-ordinate municipalities and their programmes, since this is naturally their responsibility;
- should manage or co-ordinate (if some of these services are already managed at the municipal level) services in the field of health, education, irrigation and, to some extent, the environment;
- should implement territorially-based solidarity programmes to offset some of the differences between municipalities and to combat certain forms of poverty that have a territorial dimension;
- and, from a more technical standpoint, should take responsibility for the production or management of goods that have limited external effects.

Thirdly, the ability of local authorities to exercise these responsibilities fully from a political, financial and organisational standpoint seems to be a major problem. Some municipalities are really in a very different condition from others.

Consequently, it would be better to undertake decentralisation as soon as local authorities meet certain basic conditions that are solely their responsibility, such as keeping government accounts that make it possible to

assess the situation, establish accountability and impose sanctions. Thus, methods of decision-making, management and sanctions are the keys to decentralisation and to the various benefits that it can be expected to provide.

2.3.1 *Criteria for an optimum allocation of responsibilities*

Normally, the optimal distribution of responsibilities is a function of a given geographical setting; for example, road maintenance is a public good for those who use the roads being maintained, but not for those who live far away and never use these roads. Thus, it is better if those immediately concerned are allowed to determine the quantity and quality of the service to be provided. If it costs the same to produce a service at the central level as at the specific geographical level concerned (i.e. there are no economies of scale or scope), it will be more efficient to produce it at the local level. On the other hand, if it costs more to produce it at the local level than at a more centralised level (diseconomies of scale and/or negative external effects), it is better to take advantage of the economies of scale obtained and to organise production at the central level. However, to this must be added the following:

- the problem of external effects: production or consumption may be interdependent with other levels than those at which production seems to be optimal from the standpoint of the three previous criteria;
- the problem of merit goods: the territorial units involved may wish to influence the level of allocation of a good for reasons that are not strictly economic, but are related, for example, to problems of redistribution or protection.

Tables 13 and 14 summarise the totality of theoretical contributions in this field, both as regards the magnitudes to be taken into account, but especially as regards the allocation of decision-making, executive and regulatory functions (the latter only applying when the federal government does not have the decision-making function).

Table 13. Levels of organisation to take into account

Public service	Type of public good	External effects	Economies of scale or scope	Merit goods
National defence	F	F	F	F
Foreign relations	F	F	F	F
International trade	F	F	F	F
Monetary policy	F	F	F	F
Domestic trade	F	F	F	F
Natural resources	F	F	F	F
Industrial policy	F	F	F	F
Air transport	F, S	F	F	S
Railway transport	F, S	F, S	F, S	F, S
Public transport	F, S, M	F, S, M	F, S, M	F, S, M
Post office	F	F, S, M	F, S, M	F, S, M
Redistribution	F, S, M	F, S, M	F, S, M	F, S, M
Environment	F, S, M	F, S, M	F, S, M	F, S, M
Industry and agriculture	F, S	F, S	F, S	F, S
Education	F, S, M	F, S, M	F, S, M	F, S, M
Health care	F, M	F, S, M	F, S, M	F, S, M
Water	F, S	F	M	F, S, M
Urban planning	M	F, S	S	F, S, M
Housing	M	S	S	F, S, M
Urban lighting	M	S	M	S, M
Waste disposal	M	S	S	F, S, M
Markets	M	S	S	F, S, M
Slaughterhouses	S, M	S	S	S, M
Culture	F, S, M	F, S, M	F, S	F, S, M
Libraries	M	S	S	F, S, M

Source: Gamboa, 1996; Musgrave, 1990; Greffe, 1995.

Table 14. **Division of powers**

Public Service	Decision-making function	Executive function	Regulatory function
National defence	F	F	
Foreign relations	F	F	
International trade			
Monetary policy	F	F	
Domestic trade	F	F	
National resources	F, S	F, S	
Industrial policy	F	F, S	F
Air transport	F, S	F, S	F
Railway transport	F, S	F, S	S
Public transport	F, S, M	F, S, M	F, S
Post Office	F	F	F
Redistribution	F, S, M	F, S, M	F, S
Environment	F, S, M	F, S, M	F, S
Industry and agriculture	F, S	F, S	F
Education	F, S, M	F, S, M	F, S
Health care	F, S	F, S, M	F, S, M
Water	F, S	F, S, M	F, S, M
Urban Planning	M	M	F, S
Housing	M	M	S
Urban lighting	M	M	S
Waste disposal	M	M	S
Markets	M	M	S
Slaughterhouses	S, M	S, M	F, S
Culture	F, S, M	F, S, M	F, S
Libraries	M	M	F, S

Source: Gamboa, 1996; Musgrave, 1990; Greffe, 1995.

Based on all these criteria, responsibilities would be allocated as follows:

- certain functions would be automatically attributed to the municipal level, such as water supply, street cleaning and waste disposal, electricity distribution, communal road maintenance, the registry office, etc.;
- other functions would be attributed to the federal level, such as certain traditional prerogatives of the central state (army, police, justice, foreign relations); macro-economic and fiscal policy and overall development planning; regulatory activities; the

protection of individual welfare; major communication and information networks;

- the state level would be responsible for services in which economies of scale could be achieved or which have external effects, such as collection of local taxes, the fight against extreme poverty in specific geographical areas, certain regional communication and information networks, cultural activities, etc.

In fact, this criterion is problematic if functions such as education and health care are considered. Some aspects of these functions can be managed at the municipal level, such as basic education or primary health care. However, other aspects of these functions must be managed at the federal level, such as autonomous universities and research, which is consistent with the criterion described above. Consequently, this criterion cannot be used to classify all responsibilities among the various levels of government, and we must look to other criteria.

In any case, there are significant differences between the actual allocation of responsibilities found in Mexico and the balance and the distribution listed above, since municipalities and states seem to be less involved in decision-making functions than they should be, although they are actively involved in execution functions, as they should be.

The constitutional division of powers

The constitutional division of powers is laid down in a number of articles of the Constitution, in the following order:

- Article 115 lays down the functions of municipalities, which mainly encompass local services as a whole, such as water supply and disposal, street lighting and cleaning, cemeteries, slaughterhouses, gardens, police, etc., and any other functions assigned by the states;
- Article 117 gives the federal government responsibility for international treaties, issuing currency, fiscal policy, borrowing abroad and borrowing other than for investment;

- Article 124 assigns to the states those responsibilities that the Constitution does not explicitly allocate to the federal government and the municipalities;
- Lastly, a number of other articles lay down joint responsibilities in the field of education (Articles 3 and 73), health (Articles 4 and 73), urban planning (Article 73) and environmental protection (Article 73).

The current division of powers is far from being unfavourable to decentralised authorities, whether they are states or municipalities (Table 15).

Municipalities have a role to play in most of the fields concerned. Once the given infrastructure extends beyond the limits of a municipality, the state takes responsibility, as is logical. Finally, for some public services, such as education and health, which are both national and local public goods, the federal government continues to have primary responsibility, although in recent years the states and the Federal District have played an increasingly important role.

Table 15. **The intergovernmental division of powers**

Public Service	Management and current expenditures	Investment and capital expenditures
Urban planning		
- Land use control	M	
- Tenure regularisation	M	
Local public utilities		
- Water supply and irrigation	F	F
- Water distribution	S, M, FD	S, M, FD
- Drainage	M, FD, F	S, F, M, FD
- Street lighting	M, FD	M, FD
- Street cleaning and rubbish	M, FD	M, FD
- Markets and wholesale distribution centers	M, FD	M, FD
- Public open spaces	M, FD	M, FD
- Cemeteries and funeral services	M, FD	M, FD
Transport and communication		
- Urban transport	F, S, FD	F, S, FD
- Urban roads	M	M
- Highways	F, S	F, S
- Turnpike motorways	F, S	F, S
- Railways	F	F
- Postal and telecommunication	F	F
Social expenditure		
- Health (affiliated)	Federal social security	Federal social security
- Health (non-affiliated)	F, FD	F, S, M, FD
- High risk population	F	F
- Public education (basic)	F	S, FD
- Public education (higher)	F, S	F, S

Legend: F: Federal Government; S: States; M: Municipalities; FD: Federal District.

Source: Gamboa Gonzales Rafael (1996), Perez Gonzales Hugo (1994) and García del Castillo Rodolgo (1995), and analysis of the constitution.

Obviously, there are problems regarding the division of powers, as in the field of water supply. But this initial presentation will show that the real problem is less the formal apportionment of powers than the capacity of municipalities or states to exercise these powers.

Moreover, the contrast between planning and executive functions reveals a certain imbalance (Table 16) since municipalities less frequently have planning and decision-making responsibilities than executive ones.

Table 16. The division of planning and executive functions

Public service	Policy and Planning functions	Executive functions
National defence	F	F
Foreign relations	F	F
International trade	F	F
Monetary policy	F	F
Domestic trade	F	F
Natural resources	F	F, S
Industrial policy	F	F
Air transport	F	F
Railway transport	F	F, S
Public transport	S, M	S, M
Post office	F	F
Redistribution	F	F, S, M
Environment	F, S	F, S, M
Industry and agriculture	F, S	F, S, M
Education	F, S	F, S, M
Health care	F, S	F, S, M
Water	F, S	F, S, M
Urban planning	F, S, M	F, S, M
Housing	F, S	F, S, M
Urban lighting	S, M	S, M
Waste disposal	F, S, M	F, S, M
Markets	M	M
Slaughterhouses	M	M
Culture	F, S, M	F, S, M
Libraries	M	M

Legend: F: Federal Government; S: States; M: Municipalities; FD: Federal District.

Source: Gamboa Gonzales Rafael (1996), Perez Gonzalez Hugo (1994) and García des Castillo Rodolgo (1995), and analysis of the Constitution.

The overall situation of local actors

A major survey on municipalities (*Encuesta nacional de Gestión Municipal*, 1995) gives an overall picture of the problems encountered in the management of public services or local infrastructure, and provides a highly reliable introduction to this subject.

Of the different methods of managing these services (direct management, concessions, agreements with another public institution, fideicomisos and partnerships), the first of these, direct management, predominates. The figures for its use are as follows:

- 57.9 per cent of water supply services;
- 48 per cent of sewerage services;
- 70.2 per cent of street lighting services;
- 66.7 per cent of street cleaning services;
- 72.6 per cent of municipal garden and park maintenance services;

However, it is less prevalent for the management of the following two services:

- 36.4 per cent of slaughterhouses;
- 34.2 per cent of street maintenance.

Direct management is a method that is both difficult and costly. For it to be effective, municipalities must take the following steps:

- lay down and enforce regulations;
- manage the required human resources;
- maintain equipment;

- and, most importantly, ensure that users pay for these services, despite the fact that they often consider that they have already paid for them through property taxes.

Municipalities encounter serious difficulties in meeting these requirements, and levels of service provision are frequently unsatisfactory. Municipalities admit this fact readily enough, but argue that the primary cause is financial in nature; indeed, they insist that the financial problem is the greatest they face whatever the service in question (Table 14). This problem is due both to the difficulty of collecting adequate user charges and the low level of their own resources.

2.3.2 *The problem of “unequal capacities”*

The problem of allocating responsibilities is necessarily connected with that of the unequal decision-making and management capacity of states and/or municipalities in particular, which can lead to problems of policy coherence. Most importantly, however, the Constitution itself recognises the fact that some municipalities may have difficulties in carrying out the responsibilities allocated to them, and lays down that in such cases the states may intervene. Thus, the issue is to determine how responsibilities should be allocated between these two levels.

The first argument in favour of the states is the principle of federalism. In a federal system, a state is more than just an administrative framework or a group of communes. It is a setting in which policies can be developed with a view to promoting economic development and meeting citizens' needs.

Another argument in favour of the states is the fact that communes are often quite numerous, since there are over 2 400 of them throughout the 31 states of the Republic. Some communes are small and obviously cannot carry out the functions required of them if the strict principle of subsidiarity were respected. In some states, such as Oaxaca, the ratio of the smallest to the largest communes is 1 to 1 000 (ranging from 300 to 300 000 inhabitants), which clearly suggests the disproportion in their ability to ensure the same services.

In favour of municipalities, there is the principle of subsidiarity and should permit a decision-making process that is much more closely in touch with citizens' needs and expectations than has previously been the case. Moreover, there is the fact that the municipality is the only possible setting in which it is possible to help the communities of which it is constituted: in most states, apart from large cities, communes are made up of numerous localities. This in itself makes it difficult for inhabitants to express their needs, but this would be even more difficult if policies were made at a higher level.

Consequently, there is no overriding reason for allocating responsibilities to one level rather than another, and it is better to consider them as constituting a coherent whole. The commune remains the most important setting for decentralisation, but in a federal state, the states also have a role to play. In addition to their role of ensuring that municipal policies are coherent, they also help the communes to obtain the necessary means to exercise their responsibilities.

In a number of states, policies aimed at developing communes' managerial capability have been implemented:

- in the State of Morelos, the governor has implemented a human resources training plan that has been welcomed by mayors;
- in the State of Guanajuato, an even larger programme has set as its ultimate goal the complete decentralisation of services towards municipalities, although it recognises that they have unequal or inadequate human resources (Proyecto Municipalización Guanajuato). This principle behind this programme is to determine whether the way municipalities are managed meets a number of criteria, such as:
 - their ability to find out inhabitants' needs;
 - their ability to ensure that the commune functions democratically;
 - their ability to co-operate with community associations or non-governmental organisations.

If a municipality is unable to meet these criteria, major training programmes are implemented. This extremely elaborate project aims at transforming radically the relationship between states and municipalities, based on the concept that the principle of subsidiarity should be promoted as fully as possible.

However, this reasoning can be taken a step further. Should communes be grouped together, or at the very least should some services should be managed jointly? The idea of grouping communes together is not really being considered, but the possibility of joint management is being looked at much more seriously. In a state such as Oaxaca, which has the largest number of communes (some 570, or more than one-fifth of all the municipalities in Mexico), there are numerous intermediate structures, such as tax collection districts (30), local state offices to make it easier for citizens obtain various services (20) and equipment stations where communes are provided with the necessary equipment to maintain streets or roads (20).

The joint management by communes of one or more activities or of a comprehensive programme should also be eased by financial incentives at the federal level, which would be all the more justified since they should lead to more efficient management of public services. In light of the experiences of the other OECD countries, these incentives might take a number of forms:

- guaranteeing a progressive increase in the relevant financial resources over a number of years;
- providing municipalities' budgetary resources in block grants to give them greater flexibility to organise these forms of co-operation once a number of functions were involved.

On the other hand, there is an instance in which communes were “divided up” in the State of Tlaxcala. Based on the argument that some communes are too large to ensure an adequate distribution of services among all their inhabitants, the governor of this state decided to reduce the size of some communes, thereby increasing their number. This would bring the number of communes in line with the actual number of small communities, of which there are some 300, since the 44 municipalities into which this state is currently divided make it difficult to establish real local democracy.

To correct this system, this state's Congress therefore laid down 21 conditions that a community must meet in order to establish itself as a commune; these conditions concerned geographical coherence, possible administrative capabilities, etc. Some 42 applications were filed with the Congress, but only 26 were approved and led to the establishment of new municipalities. At the same time, it was also decided the federal funds channelled to municipalities by the state should be distributed proportionately to the number of inhabitants so as better to meet citizens' needs. Lastly, in the same spirit, it was decided that in those municipalities large enough to have local state offices, these state officials would become municipal civil servants and would take on responsibilities in the field of public security, the registry office and local infrastructure.

According to the governor of this state, this experiment has been a success. Does it provide lessons for implementing decentralisation? In communes situated in a conurbation which has become too large to be managed by a single municipality, this strategy may be appropriate, and in Tlaxcala this was the case of two-thirds of the new municipalities created. In rural areas in which communes are often poorer, this strategy seems to be less appropriate.

3. HOW DOES DECENTRALISATION CONSTITUTE A FAVOURABLE DECISION-MAKING PROCESS?

What method of decision-making, management and financing in the field of public services can best meet the needs of Mexico? Will centralised or decentralised management be more effective? Today, the method of “producing” this infrastructure remains essentially centralised, for, even though the basic responsibility for most local services lies with municipalities (Article 115 of the Constitution), in fact, because of the methods of financing, these services are either “organised” at the central level or simply remain inadequate at the local level. However, it is not enough to justify decentralisation because of the shortcomings of centralised management, for it must be shown why decentralisation provides a more appropriate method of decision-making.

3.1 Decentralisation Improves The Decision-Making Processes

- by enabling a better analysis of needs;
- by stabilising decision-makers’ environment;
- by allowing diversity and differences to be taken into account.

By enabling a better analysis of needs

Bringing the place where decisions are made closer to the needs of people and territories enables a clearer perception of those needs and better control over the adequacy of the resources that are harnessed to meet them. This point is universally accepted in OECD countries, but putting it into practice requires successful decentralisation. But other illustrations of this can be given in Mexico as well.

Consider the example frequently cited, both at the central and the local level, of the relationship between water quality and health care. A centralised approach to these problems leads to a separate and disconnected development of health care facilities and water treatment programmes. Unless these are co-ordinated and developed at the same pace, there will be local situations in which hospitals and dispensaries are created, but without the necessary measures in the field of water purification and sewage disposal. A decentralised method of management would make it possible to define more coherent strategies at the local level and to develop mutually supportive health care and water treatment programmes. In the event of an emergency, such as a cholera epidemic, this decentralised approach to solving problems would be even more effective.

Another example concerns the food aid distributed by the Family Integral Development Programme (DIF). This aid, distributed in kind, was long planned and distributed using a centralised method; even those in charge of the programme admitted that as a result the aid was poorly adapted to the needs or specific uses of the people who received it and, consequently, a significant part of it went unused. By decentralising this programme to the state level, this waste has been reduced.

A final example illustrates changes in health care policies in the State of Oaxaca. With the introduction of decentralised health care funding, this state was able to reduce its rate of stillbirths by over 50 per cent in less than five years, from 39 to 15 per cent. According to this state's officials, this can be explained by the fact that it is now possible to solve problems in close contact with local needs, while years of centralised policies had not succeeded in lowering this rate.

By stabilising decision-makers' environment

All too often, the fact that local officials do not have the actual capacity to make decisions and trade-offs regarding resources, even though they may have certain formal responsibilities, has a negative impact:

- because of the constant changes in legislation or regulations, they are deprived of the information they need to act, and they are not in a position to obtain this information;

- because of the constant changes in specialised budgets, they cannot know the amount of resources they can expect over time.

For these reasons, it seems necessary to stabilise local actors' environment so that they can make more relevant decisions in a flexible manner and not be subject to over-regulation or insufficient funding, even though the implementation of public policy does require at least some regulatory functions and centralised budgetary resources.

By allowing diversity and differences to be taken into account

In many countries, centralised decision-making can have the effect of favouring areas that are most strongly represented politically or that have the strongest economy, which can only widen the gap with less fortunate areas. It has also been pointed out that the distribution of the civil service throughout the country could lead to distortions in the distribution of infrastructure. A better distribution of services makes it possible to avoid the costs of congestion on the one hand and of depopulation on the other. Until recent years, nearly 40 per cent of schools (other than universities) were concentrated in the conurbation of Mexico City. This was an abnormal state of affairs that could only be explained by centralisation and by the Federal District's management and initiative capabilities. A more decentralised system of funding and decision-making--such as the system currently being introduced -- will certainly result in a better distribution of schools, and in an improvement of the curriculum in order to respond to local and regional needs.

3.2 Decentralisation Leads To Improved Implementation And Management Of Infrastructure And Service Programmes

- by providing better conditions for monitoring construction projects and performing tasks;
- by saving on administrative costs whereas centralisation increases these costs;
- by making the participation of local inhabitants a genuine resource that combines with other resources to increase their effectiveness.

By providing better conditions for monitoring construction projects and performing tasks

For many years the central authorities were responsible for the monitoring and acceptance of construction work in the health care sector, a practice that is currently being eliminated. This had a number of negative effects, not to mention the fact that this infrastructure was not always adapted to local needs:

- contracts were signed with firms known only to the central authorities, to the detriment of local enterprises;
- work was not monitored, since local authorities were not responsible and the central authority could not monitor the vast number of construction projects scattered throughout the country;
- final acceptance of work was based on written statements or reports, which can conceal faulty construction or unfinished work.

In addition, many construction projects remain unfinished—nearly 4 000 according to the Ministry of the Budget. It is doubtless true that construction projects decided upon at the local level can also encounter difficulties of this kind. But this is much more likely to happen when the authorities responsible for monitoring and acceptance are located at a great distance from the actual site.

By saving on administrative costs whereas centralisation increases these costs

The situation of the Family Integral Development Programme (DIF) provides an example. According to estimates, most of the centrally managed aid never reaches those for whom it is intended; on average, it is likely that no more 40 per cent of aid reaches the actual recipients. There are three reasons for this state of affairs:

- excessive regulation;
- the number of intermediate stages, each of which raises operating costs and provides an opportunity for funds to be diverted;

- the fact that some of the aid that reaches the local level is distributed to individuals who do not necessarily need it.

The last of these cases does not apply only to centralised decision-making, since the same thing can happen in a decentralised system because of patron-client relationships. However, this kind of abuse is less likely when local residents participate in decision-making and monitoring than when decisions are made at the central level, which local inhabitants or target groups have little chance of influencing.

By making the participation of local inhabitants a genuine resource that combines with other resources to increase their effectiveness

In Mexico, the participation of local inhabitants is both an important reality and a genuine resource for carrying out development. To mobilise effectively the human resources decentralisation can provide, decision-makers must enter into a dialogue with community members and define together with them the exact kind of infrastructure that can be built--which in turn is a guarantee that it will later be cost-effective in social and financial terms--and decide in consultation with these local inhabitants how they will participate if a given amount of funding or equipment is provided.

Mayors have stressed the importance of this local participation and said that far from decreasing over time, it can become a key factor in public management, provided, of course, that this management is decentralised.

3.3 Decentralisation is a source of efficiency and economic development

Decentralisation can thus create favourable conditions for development by creating leverage or acting as a catalyst for development. Three situations in particular illustrate how decentralisation can act as a catalyst.

- In the first case, decentralisation makes it possible to provide work for highly labour-intensive local firms, while centralisation mainly benefits large highly capital-intensive companies. This means that there is a broader distribution of incomes, which trickle down to other activities, thus creating jobs at the local level. This then helps create or stabilise a network of small and

medium-sized enterprises that strengthen the local economic fabric once the specific project is completed.

- In the second case (transports, rubbish collection), decentralisation makes it possible to combine what had formerly been informal activities into more stable and better organised activities providing public services under better conditions than had previously been possible. Services can then be modernised on the basis of more stable and higher expectations.
- In the last case, decentralisation can create financial leverage. As soon as local authorities have been provided with a minimum amount of funds, this can trigger a process that will attract other public funds, as well as private funds. This effect will be reinforced by the fact that it is generally the local authorities that will set user charges either directly or indirectly, which gives those providing funds the guarantees they seek.

This explains why there has been a general trend towards decentralisation across OECD countries over the past twenty years, which does not mean that there is only a single path and uniform recipes for achieving decentralisation. Quite to the contrary, there has been a wide range of experiences and choices, for each country must adapt its approach to its specific realities, and the pace of decentralisation may often vary within one and the same country.

However, based on the lessons learned from these experiences and on the arguments just presented, there is reason to believe that decentralisation will be all the more efficient and successful to the extent that:

- it is based on the principle of the accountability of the actors and decision-making centres concerned;
- it can generate leverage and the partnerships on which it is based;
- it consists less of knowing who will have a given power currently held by someone else than of knowing who is accountable for what, and who pays for what.

Although many analysts would agree that decentralisation has some of the virtues described above, they also think that it would generate major administrative costs by multiplying decision-making levels. A well designed

decentralisation can lead to gains in efficiency and productivity at a time when these are vital to the economy. If well managed, decentralisation can, for an equal amount of public spending, create additional jobs and open up new markets.

As an example, the European Union's 1993 White Paper on "Growth, Competitiveness and Employment" emphasised that decentralisation can facilitate three major macroeconomic goals:

- Efficiency: public finances must be rationalised by making actors more accountable, which means that decisions must be made at the level at which the problems arise, i.e. decentralisation;
- Productivity: today, competitiveness is as much a matter of quality of products and services as costs, which means that territories must be innovative and able to organise the necessary infrastructure;
- Solidarity, which means that resources must be better adapted to goals, which also implies a more decentralised approach to problems.

The effects of decentralisation will not come about automatically, since its success will depend entirely on how it is organised. Furthermore, to be coherent, the implementation of decentralisation must not, because of its costs and expectations, upset the overall macroeconomic equilibrium.

This being the case, decentralisation can and must be considered as a means of developing an infrastructure system that better meets the needs of the country. But for it to do so, the following must be determined:

- how can decision-making levels or centres best be made accountable?
- how can the necessary human resources be managed effectively?
- how should infrastructure and related services be financed?

- how is it possible to ensure that the distribution of infrastructure and services throughout the national territory will not simply follow previous patterns, but will instead correct inequalities or mismatches in the interest of all concerned?

Before examining these problems in detail, an important comment must be made. The argument, to the effect that decentralisation can only be implemented if all concerned have already mastered the necessary skills, is questionable for the following reasons:

- it neglects the positive contribution that can be made by territorial units, which already possess a number of assets and skills, particularly in terms of human resources;
- those who do not have the necessary skills have little chance of acquiring them unless they are allowed to try their hand at decision-making; it is by gaining practical experience that these actors will gradually master the necessary skills, and, in any event, there is little to be expected from the current system, in which no one is accountable, either the local authorities, who are unable to try to tackle these responsibilities, or the central authorities, who are not required to justify their action directly to citizens.

4. MANAGING LOCAL INFRASTRUCTURE: THE PRINCIPLE OF ACCOUNTABILITY

Decentralisation will only produce its expected benefits if the responsible authorities make completely transparent decisions and are accountable both to their constituents and their various partners. For this to be possible, the following conditions must be met, among many others:

- legal responsibilities must be clearly defined;
- human resource management must maximise potential;
- there must be an effective system of funding.

Above all, local authorities must be accountable for their decisions and therefore the public must be involved in establishing both objectives and the means by which they should be attained.

4.1 The dimensions of accountability

4.1.1 *The political dimension*

The first dimension of accountability is political, i.e. do the local authorities make choices that clearly meet the needs expressed by citizens, and are they accountable to them? Can voters show that they approve or disapprove of action taken by re-electing officials or by voting them out of office?

If we look at the current systems and practices, this accountability is far from being the rule, which can be explained by several reasons.

- The limitations of the system of information on social needs, even though the efforts of the INEGI have made it possible to obtain

clearer data on a number of the country's socio-demographic characteristics;

- The representativeness of some community organisations and decision-making bodies has been called into question. Is the current system of governing municipalities able to take into account the geographical diversity of communes? This does not seem to be the case, which has led to the establishment of municipal development councils; on the other hand, the growing variety of political parties now makes it possible to present and discuss a number of approaches to meeting the people's needs;
- Decision-makers' choices are not subject to the judgement of voters. There can be no political accountability unless elected officials are held accountable for their actions, which are either approved or disavowed by voters. This raises the question about the one-term limit.

This final point should be clarified, for a re-election process has a two-fold effect:

- it allows all citizens to evaluate the quality of management;
- it makes it possible for elected officials who are effective administrators to serve another term.

It is understandable that, for reasons largely explained by its history, a country may not want its officials to stand for re-election, with all the predictable problems that this would entail (courting votes, nepotism, corruption, lack of democratic life). On the other hand, one could argue that elections, whether or not a second term of office is possible, provide an opportunity to set a clear political agenda.

Too short a term of office raises several problems: it does not give elected representatives sufficient time to design, fine-tune and see their plans through to completion. Sometimes, this means that no-one can really be held accountable for major projects, either because they were not responsible for the initial decisions or never really had a hand in implementing them, which results in keeping responsibility in central government. Furthermore, too short a term carries the risk that elected representatives will not be fully committed to carrying out their responsibilities, if only because they are preparing for their "professional career" (always assuming that they have actually stopped all

professional activities). Too long a term probably raises other problems. But, a balance must be struck. In Mexico's case, a three-year term of office is very short and can no longer be justified when mayors are being asked to assume substantial responsibilities. A pluralistic system, offering the electorate a range of policy choices, should also foster support for long-term projects in the community interest.

4.1.2 *The financial dimension*

The second dimension is financial, i.e., are the actions undertaken by elected officials competently managed in terms of the financial flows that they generate, such as taxes and contributions, borrowing and repayment, user charges and collection of anticipated revenues and expenditures of all kinds? Such programmes must be accountable for how public funds are used. Here too, there are a number of obstacles that stand in the way of financial accountability, whether they are rules or practices:

1. *The lack of clear and rigorous financial information.* All too often, government accounting is either incomplete or inaccurate at the local level; as a result it is not possible to establish the real budget of each jurisdiction of the various programmes implemented (this problem is by no means limited to Mexico, since all countries have the same problem of combining cost accounting with government accounting);
2. *The possibilities of excessive indebtedness.* This is a very serious problem, especially in some states. State debt has increased substantially since 1980. This debt now amounts to 31.3 of the total funding received by the states from federal government (Gamboa Gonzalez, 1996, p. 91). In real terms, moreover, state debt has quintupled over the period 1988 to 1992, which shows how significant it is (Gamboa Gonzalez, 1996, p. 104 and Bank of Mexico).

The mechanism of "fund guarantees" contributed to this state of affairs. Until 1995, in fact, the federal government could guarantee loans taken out by states: at the request of the state concerned, the federal government could agree to guarantee loans made to the states by undertaking to set aside funds payable to the state for its creditors. In other words a state could agree to secure a loan against future funding from federal government. All that

was required was a decision to that effect by its congress. The same procedure allowed the states, in turn, to guarantee loans taken out by the municipalities. Taken to its logical conclusion, this system can lead to situations in which territorial authorities are not accountable for the financial consequences of their decisions, which only makes the lack of political accountability that much worse.

The phenomenon had another undesirable effect: it led development banks as well as commercial banks to relax their standards as to the quality of projects since there was now a “lender of last resort”. Thus the banks had no more incentive to develop the requisite financial engineering skills than the local authorities did to exert tight control on their projects or to raise the revenues that they were expected to bring in.

3. *The failure to collect taxes due or user charges.* These problems have already been discussed above and need only be mentioned briefly. Too many municipalities do not collect the full amount of taxes or revenues due from activities, either because amounts are not clearly determined (through tax assessment of property values or evaluation of the cost of using or producing certain services), or because of lack of capacity.
4. Lastly, although this is an area that should be approached with a degree of caution, *the control of corruption.* While there are controls, they could benefit, at any rate, from being strengthened and being brought up to date to match changing practices.

4.1.3 *The economic dimension*

The third dimension of accountability is economic. Assuming that projects accurately reflect peoples’ wishes and are soundly financed, are they effective and efficient in economic terms?

In the case of Mexico, it would be best to start by setting economic priorities and to see whether decision-makers incorporate them into their policies. The following two priorities should be emphasised:

- *The productivity of territories.* Do the projects implemented make the territory more productive both within the Mexican

economy and the global economy? These criteria should be borne in mind, for example, when installing a transport or communications network or establishing a local training programme for young people.

- *Employment.* Do the projects implemented make it possible to create local jobs? Take an example already mentioned, i.e. some infrastructure and local services are provided on an informal basis by groups of workers, and the quality is such that citizens might well be prepared to pay for better service. If the initiatives of local authorities are able to create another more formal system of employment, everyone would stand to gain.

An even greater opportunity to create local jobs arises when infrastructure expenditures entail new construction or new activities. However, to promote this job creation, authorities would do well to give preference to local tenders from local companies, rather than signing contracts at a more centralised level, which will favour larger and more capital-intensive firms that are often much more costly.

4.2 The Foundations of Accountability

4.2.1 Information

An adequate information system is indispensable if decision-makers are to be held accountable, for the following reasons:

- without information, decision-makers cannot know the state of society and its needs;
- without information, citizens cannot judge the performance of elected officials.

However, both “physical” and financial statistics currently come up against limitations and this, in itself, gives a clear indication of what some of the priority tasks of decentralisation should be.

The Under-Secretariat of the Budget itself admits that there is no reliable system of financial statistics for the states and local authorities. In the absence of a standardised government accounting system, in practice if not in

law, each state and municipality is left to do more or less as it sees fit. This not only makes it impossible to make comparisons or to compile aggregate data, but, even more disturbing, it makes it impossible to know what the precise situation is in states and local authorities.

To correct this state of affairs, each territorial entity must be able to determine the following:

- the balance of current transactions and of investments as well as resources of all kinds (taxes, revenues from property or activities and indebtedness);
- the structure, method of management and cost of its debt, both now and in the future;
- the financial accounts of each financial year.

To achieve this, the following must be established:

- a glossary of transactions making it possible to define them identically everywhere;
- a homogeneous accounting system.

This work is currently under way, and has been given added impetus by the withdrawal of federal guarantees, which has made those responsible pay much closer attention to balancing their budget. However, there does not seem to be a timetable for its completion. Before going any further, we should ask whether it would not be best to set the pace of decentralisation based on the ability of each local authority to establish a clear and reliable accounting system that can be made homogeneous with that of the federal government as soon as possible.

A relatively accurate and high quality system for producing statistics already exists, under the responsibility of the National Institute of Economic and Geographical Studies. This is the approach that should be pursued, although three problem areas that will have to be resolved. These are:

- *The time required to produce and disseminate these data.* At present it can take two or three years, in some cases, which makes it very difficult to interpret data and to make informed choices;

- *The territorial breakdown of data.* Although some data is broken down at the state level and in some cases at the municipality level, this is not always the case, or it is the result of agreements that are somewhat questionable;
- *The nature of the data.* Some data on the wealth of communes, their borrowing power or their unemployment rates or skill levels are not available at the very time when public decisions based on these data are made.

4.2.2 *Clarifying financing*

One of the major difficulties of public management in Mexico is due to the system of *de facto* guarantees by the states on loans taken out by municipalities by the states, and by the federal government on loans taken out by the states. Since the beginning of 1996, the federal government has not been able to reserve all or part of the total contributions payable to the states to their creditors: the states will therefore be wholly responsible for debts secured against their funds; they will have to justify the choices they make to the public and manage the reserves necessary to cover their debts. There are, of course, some restrictions to these guarantees.

- The municipalities' loans must be approved by the states, which in theory are able to limit or even deny them.
- Loans can only be taken out for capital investments.

Two other measures must be considered at this stage:

1. *Separating risk from risk cover.* So that banks will play their role properly and select projects only on the basis of their economic, social and financial benefits, the risks of insolvency due to poor management of public finances should be separated from the risks connected with a project alone. BANOBRAS is currently attempting to establish a new risk cover system. Under this system, an emergency line of credit is set aside for each project to cover the political risk of insolvency of the public borrower, and BANOBRAS can then use this credit line to cover losses. Thus, the risks are separated, since the bank covers the project risk,

which is its role, while the emergency credit line covers the political risk.

2. *Assigning a credit rating to local authorities and financial institutions.* To encourage the growing accountability of actors on the financial market and more effective management of procedures for granting loans and approving projects, it is important to establish a system of incentives and penalties that will encourage this process, such as a credit rating. This can be managed either:

- by the management and supervisory bodies of the banking system; or
- by public institutions themselves; however, in this case, it could not be the federal government, nor the supervisory bodies of the banking system, since this is not their role. It should be the result of analyses of financial data by independent agencies. This does not prevent the federal government from rating the states, or the states from rating the municipalities, but this should be done through direct contacts, and should no doubt not be publicly available. It seems that some states have already begun to rate municipalities in this way, which cannot be a positive development in the long run.

4.2.3 Goal-oriented management, integrated funding and funding contracts

If the principle of accountability is to work, the following three conditions must be met.

- The management of projects and related spending must be based on needs and demand, i.e. clearly identified goals.
- Local authorities should be able to combine funding from various sources to achieve a specific goal, rather than being bound by the sectoral thinking that often leads to a compartmentalisation of funding; decentralisation assumes that the traditional vertical boundaries at the level of the central government will be

eliminated in order to allow local authorities to adopt a horizontal, integrated approach.

- When funding is provided by institutions other than the relevant local authority, the precise mix of this funding and the respective commitments of the parties concerned should be laid down by contract.

If any of these three rules is not observed, the principle of accountability will be compromised for the following reasons:

- there is no frame of reference by which to judge the results;
- responsibility for failure can be shifted to others.

In the case of Mexico, as in most centralised countries, some progress still has to be made if these three conditions are to be met.

- Without accurate indicators concerning needs, it is difficult to set precise goals. However, goals are easy to identify clearly in the field of local infrastructure, and if this method of goal-oriented management is not adopted, it is because of the various constraints and trade-offs faced by local authorities that force them to use the much less satisfactory method of simply raising funds and mobilising financing as best they can.
- Even at the local level, it is difficult to co-ordinate funding for similar types of initiatives of initiatives in related fields. To co-ordinate the funding granted directly by the federal government with that provided by local federal offices is no easy matter. Let us take the example of aid to families; in some urban areas, it may be preferable to distribute this aid in cash, while in other areas, it is best distributed in kind. Thus, the resources provided by the central government must be defined and implemented based on the territorial entity concerned and its specific characteristics. Planning and Development Committees (COPLADE) have enabled at least a degree of co-ordination at state level, but they do not all operate equally well: especially if involved in projects on which there has not necessarily been any interdepartmental co-ordination at central government level, in

which case local federal offices may submit projects that have not been co-ordinated to begin with.

In one field, however, this co-ordination has been taken to a fairly advanced stage, i.e. social development. Here, the principle of social development conventions has facilitated:

- overviews of the various projects being carried out within a given territory;
- project integration;
- the definition in an informal contract of the commitments that each party undertakes as part of this integrated action.

As long as the responsibility for defining funding remains the prerogative of the central level, it will be virtually impossible for these funds to be used flexibly at the local level. The role of the central government should be to lay down broad goals and to support the efforts of local authorities according to their needs and their ability to achieve these goals.

The principle of contracts between the federal government and the states is still not widely implemented. However, there is an example of a successful policy in this field, i.e. the purchasing of pharmaceuticals. For a long time, the pharmaceutical products consumed by the public or social health care systems were purchased by the federal government. With decentralisation, it was thought best to allow each state to decide which types of pharmaceutical products were required based on its own needs. As a result, contracts were signed with some states so that these products would continue to be purchased by the federal services. In this way the states were able to take advantage of the economies of scale made possible by combined purchasing while conserving their decision-making power.

This method of management through contracts is the only way of associating the private sector with the realisation of public goals. For example, consider the transport plans implemented by a number of municipalities. The private sector can only participate if goals are clearly defined, if these private actors are included in an overall plan that goes beyond the narrowly defined service they are expected to provide (for example, establishing parking areas) and if mutual contractual obligations are clearly laid down on an equal footing. What has been done in the transport sector should also be possible in other sectors, in particular in the field of environmental protection.

4.2.4 *Direct allocation of funds*

Many states think that the direct allocation of funds would be the most rapid means of solving their problems of financial autonomy. Thus, if solutions regarding the redistribution of tax resources were not forthcoming, the federal government could simply deconcentrate funding in order to provide the states with the necessary resources to implement decentralised projects. In fact, this issue comprises two aspects:

- firstly, there is the better co-ordination of the federal government's funds with those of the states;
- secondly, there is the transfer of funds from the federal government to the states, which includes and goes beyond the first aspect.

Co-ordination of funds

A first step could be the deconcentration of credits, but this brings with it problems of coordination. For example, when the federal budget is voted in December, it is not broken down by regions, states or municipalities, although there will have been consultations beforehand and representatives of local federal offices will have submitted their projects with the governor's approval. But, because of the timing and the fact that there is no breakdown by region, local authorities do not know the amount of the funds that the federal government plans to allocate to them even though their financial year is already underway. The fact that there may be consultations between the local authorities and the officials in local federal offices should mean that this is less of a problem. However, consultations do not always take place on a regular basis and are not always based on accurate information and there is no guarantee that the proposals concerned will be approved in the federal budget.

Better coordination therefore implies some major changes in budgetary procedures. The calendar for the federal budget could be modified to facilitate the study of expenditure by cities and states, as well as of Ministerial credits by city and states. This would enable the states and municipalities, which would in any event have been consulted during the preparation of this budget over the preceding months, to prepare their own budgets more coherently and accurately. Talks between local federal offices and local authorities could then be held in November and December, so that all

concerned could each finalise their plans by the actual beginning of the financial year.

From deconcentration to decentralisation of budgets

From the standpoint of the states, decentralisation of funding would give them autonomy and enable them to carry out the responsibilities that devolve to them through the process of decentralisation.

An important step was taken in 1996 with the decentralisation the social expenditures of SEDESOL. SEDESOL from the outset has sought to fight poverty on the basis of clear funding principles and to work as closely as possible with the people concerned in order to be able to propose the solutions that best meet their needs. From 1996 on, it was decided to manage Title XXVI in a significantly different way from that prevailing practices in other ministries. This title, involved 11,000 million of pesos in 1996, i.e. 5.4 per cent of total social spending, comprises four programmes:

- The Municipalities' Social Development Fund (7,150 million of pesos), which represents roughly 65 per cent of total spending on poverty. Its budget is primarily used to finance municipalities' social and local infrastructure and will therefore be decentralised;
- The State Fund for Priority Areas (500 millions of pesos, accounting for 4.5 per cent under this title) will be allocated in its entirety to the states in order to enable them to complete or continue with projects already in hand or to finance projects which are too big to be handled at municipality level;
- The Employment and Education Promotion Fund (representing 30.5 per cent of the funds allocated under Title XXVI, i.e. (3,350 millions of pesos) which provides aid for the spending services of educational institutions, farm labourers, social enterprises and indigenous communities and temporary employment programmes.

Decentralised funds to the states and the municipalities are distributed in accordance with two combined criteria:

- an index of lagging development (“*índice de marginación*”) in terms of meeting basic needs: housing, illiteracy, electricity, etc.
- an index of income disparity in accordance with the Foster-Greer-Thorbecke formula.

First the funds would be allocated among the states, then distributed to the municipalities using a procedure that would involve all the institutions concerned (chiefly the COPLADE). The funds would then be spent by the municipalities in consultation with the municipal development councils, which would ensure that the needs of the different communities were expressly taken into account. For amounts smaller than \$40 000 dollars no prior authorisation would be necessary.

4.2.5 Conclusions

To sum up, three steps could be taken to increase local authorities’ financial autonomy:

- to provide them with a much higher level of own resources;
- to change the budgetary process;
- to combine into block grants the currently earmarked federal funds distributed at decentralised levels.

4.3 The prospects of mobilising private savings

Since decentralisation can be a policy for investing in regional development, it is natural to consider private savings among the possible sources of financing. Can private savings potentially provide the various levels of government with the financial resources they lack?

4.3.1 *Limited private savings*

If the room for manoeuvre provided by public savings today seems limited, at first glance the same appears to be true of private savings. Mexico's savings rate is currently 14 per cent, which is low in comparison to other OECD countries, but also compared to previous periods of Mexican history when savings were generally in the range of 20 per cent. Furthermore, in recent years, public savings have risen while private savings have dropped. Why is this rate currently so low? A number of reasons can be given:

- the successful policy of encouraging higher private consumption during the second half of the 1980s, and especially capital goods consumption (Banco de México, p. 183);
- a wealth effect which encouraged economic actors to reduce the share of their income devoted to savings;
- the gradual deterioration of the situation of enterprises at the beginning of the 1990s, these companies being the main agents of savings;
- the liberalisation of consumer credit at the end of the 1980s that made access to credit considerably easier.

There was also the more unexpected reason of the improvement of Mexico's public finances during the most recent period. Between 1987 and 1992, the net position of the public sector went from a deficit of 16.5 per cent of GDP to a surplus of 1.6 per cent. It appears that this improvement of public finances was interpreted by the private sector as a promise of lower long-term tax pressure and less need to save (crowding out effects). Since at the same time the public sector's improved financial position made it possible to pay back banks, which then used this inflow to provide consumer credit, all factors were combined to reduce the rate private savings.

4.3.2 *Formal and informal savings*

Any analysis of savings in Mexico must make a distinction between formal and informal savings, or, more accurately, between the formal and informal financial systems. By the formal financial system, we mean the institutions and networks conducting those transactions that are covered by existing regulations. By the informal system, we mean those institutions and

networks that carry out activities lying outside the existing regulatory framework, and that are based on “trust”, “good faith” or “social pressure”, etc.

In the opinion of the best informed observers, two conclusions can be drawn regarding informal savings:

- The amount of these savings is probably much higher than the informal indicators would lead us to believe;
- the instruments for mobilising these savings do not exist at present.

Several institutions have tried to attract these savings, but so far with little success:

- *The Cuentas de Patronato des Ahorro Nacional (PANHAL)*, under the supervision of the Ministry of Finance, has some 204 branches, of which 142 are located in post offices. These accounts try to attract three kinds of savings:
 - those from suburban neighbourhoods that lack formal financial institutions;
 - those from areas near the border, which are often in US Dollars;
 - those from rural areas.

The *Cuentas* offer two financial products designed to attract these savings:

- the *tandahorra*: it is a popular savings plan providing a guarantee against inflation and money erosion;
- the *cuentahorro*: this is a current account, but that provides comparable guarantees against inflation and money erosion.

However, this system has not been particularly successful, since interest rates are low (around 4 per cent), and transaction and operating costs are high.

- The *Cajas de Ahorro*: based on the Canadian model of credit unions, they include no less than five networks, of which we can mention two:
 - the *Caja Popular Mexicana*: based on solidarity and co-operative principles, it pays low interest rates and lends to savers depending on their length of membership in the network;
 - the *Cajas Solidarias*: were part of the SEDESOL's programs, and their capital is largely constituted through the reimbursement of loans already granted, which should make it possible for them to fund other development projects.

However, in both of these cases, the amount of savings remains marginal (Carsten, pp. 128;135-6).

4.3.3 *Towards new financial intermediaries?*

Consequently, better structures of financial intermediation must be provided if private savings are to be mobilised and used to make decentralisation policies more effective. A number of systems can be envisaged, ranging from regional banks to interest rate relief. However, as an example of what might be done, we shall consider the possibilities offered by certain social pension funds.

In Mexico, employees pay the following contributions proportionately to their basic pay:

- an initial contribution (8.5 per cent) is paid to the Mexican Social Security Institute for pensions and disability; it is still a pay-as-you-go system, but reforms are currently underway that will privatise it and change it into a funded pension system;

- a second contribution (5 per cent) is paid to the SAR; part of this is used to finance housing (INFONAVIT for the private sector and FOVISTE for the public sector) and the remaining 2 per cent is used to finance a supplementary pension fund.

This latter fund is currently deposited with Bank of Mexico on behalf of the federal government. It is equivalent to approximately 2 per cent of GNP, and is growing rapidly since it represents nearly 68 per cent of the amount of long-term investments, while it accounted for only 11 per cent three years earlier. Consequently, one may well ask whether these funds might not be used for long-term investment in local infrastructure, as is being done in other OECD countries. However, this market of very long-term investments remains weak for the two following reasons:

- the difficulty of determining the lender's risks because investors' accounts are not always accurate;
- the difficulty of determining the value of the market risk because there are few alternative uses for funds of this kind.

Consequently, the best step might be to entrust the yield of these contributions to investment funds of the SAR, known as SISAR (*Sociedades de Inversiones de los SAR*). These investment funds could manage this yield, provided that they covered the corresponding risks correctly, i.e. that they remunerated the employees-savers appropriately. This could be done as follows:

- an average yield would be calculated based on the market rate and a rate set in advance;
- if the real rate is higher than this average rate, the difference would be paid into a guarantee fund;
- if the real rate is lower than the guaranteed rate, the difference to be paid to the employees-savers would be deducted from the guarantee fund.

However, it might be advisable for this system to be regionalised, so as to be better able to meet the needs of the states and municipalities.

5. HUMAN RESOURCES AND DECENTRALISATION

If governments are to put this principle of accountability into practice and to reap the benefits expected from decentralisation, they must be able to provide the necessary human resources and train them to perform effectively. The term human resources must be understood in its broadest meaning:

- First of all, it refers to civil servants, and more specifically to those working in government administrations, for the success of decentralisation will largely depend on their ability to prepare and implement the projects entrusted to them, to listen to citizens and to continuously find innovative solutions; in addition to these considerations, there is the need to envisage staff transfers, which is an enormously complex problem in present-day Mexico;
- Citizens also have a role to play, which depends on the channels available to them to make known their needs and to be consulted by decision-makers;
- Lastly, it includes local elected officials, who find themselves in an altogether different role from that they played under a centralised system, for they are no longer dependent on or supervised by the central authorities, but must be able to take on new responsibilities.

5.1 Civil servants

Mexico does not have a true civil service as this term is understood in other OECD countries, with the exception of a few Ministries (Foreign Affairs, National Defence, etc.), but it is now undertaking to create one. The management of public employees is very complicated. There is virtually no ongoing training of employees. While this is a difficult situation for the federal government, it is even more problematic for the states and municipalities which, traditionally, hire less highly skilled staff. They do not have the

necessary human resources, although, as some mayors have pointed out, this is less of a problem in municipalities that have universities than in those that do not, which are simply unable to attract qualified staff for budgetary reasons.

How can these two interrelated problems be overcome, especially since it is obvious that the decentralisation of new responsibilities will require local authorities to hire staff with new skills or, at the very least, to step up training of existing staff? Some states (Guanajuato) have undertaken process of organising information and training meetings, and a few states are also planning to tackle these problems by establishing permanent programmes and even special universities.

- The first would consist of co-ordinating these initiatives by creating, for example, a centre for the training of “decentralised” civil servants. It would be managed jointly by the states, and would train the staff of both states and municipalities. This kind of institution would be able to take advantage of economies of scale and scope (given the broad range of training and skills required), and it would enable state and municipal governments to bypass the practical and financial obstacles that prevent them from providing their own training programmes for their staff. This body could obviously sub-contract its programmes to a broad variety of institutions (development banks, universities, private training centres, etc.). It would also be desirable for the federal government to help fund this body. The experience of INAP (National Institute of Public Administration) could serve as a basis.
- The second solution would consist of mobilising the resources and skills already acquired by the various bodies working in the field of local infrastructure, in co-operation with the states and municipalities.

BANOBRAS already tries to “train” local staff with which it deals in implementing certain aspects of its programmes. At its Project Planning and Assessment Studies Centre (Centro de Estudios para la Preparación y la Evaluación de Proyectos, CEPEP), BANOBRAS provides six-week courses in the socio-economic assessment of investment projects in collaboration with the state authorities and universities (ITAM, Tecnológico de Monterrey). In addition, in 1995, BANOBRAS set up municipal government training programme for municipal civil servants in relatively secure posts. The federal

government finances one-third of the costs and loans can be obtained from BANOBRAS for the remainder.

SEDESOL has also run programmes to train mayors and their assistants, particularly to enable them to plan their development and local infrastructure projects.

This raises the question of whether such training should continue to be provided on an ad hoc basis or whether it would not be preferable to give it a more permanent, more comprehensive structure. Based on the experience they have gained in this field, why could not bodies such as BANOBRAS or even certain ministries organise permanent support for the training of all decentralised staff.

However, such initiatives would be pointless unless they are based on a genuine human resource management policy at federal level, which would go further than the provision of training and tackle the issue of job security for civil servants at local government level. Without such a policy:

- managers will have no reason to invest in the skills of staff that they know might leave at any time;
- those who receive training may not be willing to make the effort training requires if it is unlikely to lead to career advancement.

5.2 Involving the public

Decentralisation will be ineffective without actively involving the public so that it can voice its needs and hold elected officials accountable. However, at present there are *a number of obstacles* that can prevent the involvement of the public.

- In and of itself, centralisation is a factor that makes people in general feel far removed from government and which can discourage them from taking part in public life;
- This effect of centralisation is compounded by the political tradition of a single party, which has generally confined political debate to within the party, increasing many peoples' feeling of powerlessness;

- At the municipal level, the methods used to elect the *cabildo* (the municipal council) can result in some parts of the jurisdiction not being represented, which also limits the public's ability to make its views known;
- In a number of municipalities, there are many communities that are not represented at all. This is the case of a large number of Indian communities, which often have the lowest standards of living.

How can these situations be improved so that citizens can play the role they should? At the initiative of SEDESOL, a number of co-ordinating bodies have been set up.

- The first is known as COPLADE, which aims is aimed at enabling the states and federal government to work together more effectively, and to include representatives of “the community”.
- The most important initiative consists of establishing municipal development councils; these councils include citizens' representatives from all areas of a commune, and they must be consulted during the implementation of the various programmes managed by SEDESOL, i.e. all anti-poverty programmes at the local level, including the regional funds.

The participation of non-profit organisations could help give citizens a voice in the decision-making process. In this regard, SEDESOL can again provide a good example. Clearly it can be of considerable interest to involve some of the 7 000 organisations of this kind found in Mexico. SEDESOL therefore decided to establish a council in each state and to set up a fund (Fund 26). The latter has in fact had a leverage effect, for SEDESOL's spending (22 million pesos) has attracted funding from non-governmental organisations (112 million) and even a complement from the states (15 million). The main purpose of these projects was to develop projects for consumption of own produce and for the development of local markets.

5.3 The “Status” Of Local Elected Officials

Successful decentralisation depends in the final analysis on the ability of local elected officials to assume their new responsibilities. In the past, municipalities traditionally played a more passive role and have often been able to “pass on” problems to “higher” levels. In a survey of mayors carried out by the State of Guanajuato, they stated that what they needed most to implement decentralisation was not only financial resources, but also information and training for themselves and their municipal staff. If the situation of elected officials is to improve and they are to be able to carry out their functions, the following three issues must be addressed.

- *Their remuneration*, especially that of mayors, many of whom would like to have a status enabling them to devote themselves to their tasks on a full-time basis. In fact, this problem does not concern large municipalities, but rather medium-sized and small ones in which all too often no one volunteers to hold an office that is without pay.
- *The training and assistance available*; today some states are trying to help mayors by organising meetings, providing information and furnishing assistance through technical bodies. In the same spirit, both SEDESOL and BANOBRAS have already undertaken initiatives in this field, but the most effective approach would probably be to establish a more comprehensive system along the lines we described earlier.
- The “*status*” of local elected officials; without repeating earlier arguments in this regard, the problems arising from the single-term limit and the impossibility of re-election must be addressed. Three years is not long enough to implement a policy.

5.4 Conclusion

Only a closer cooperation between elected officials, civil servants and the public will provide the support for public and private investment in local infrastructure projects that can transcend short-term economic and political cycles.

6. CONSOLIDATING AND ACCELERATING DECENTRALISATION IN MEXICO

The process of decentralisation is well underway in Mexico, and much has been done in recent years to anchor it firmly among Mexican institutions. The task at hand is therefore not so much to question the foundations of decentralisation as to ascertain how the process can be consolidated, strengthened and accelerated. To clarify this challenge and the action needed to meet it, we shall look in turn at how to approach, extend and support the process of decentralisation in Mexico.

6.1 How To Approach Decentralisation In Mexico?

Four concepts have recurred repeatedly throughout this analysis of the objectives, achievements and outstanding problems of decentralisation in Mexico:

- Decentralisation is not an end in itself, but a process intended to enhance the efficiency of decision-making -- in Mexico's case, in order to make its territories innovative and reduce inequalities.
- Decentralisation rests on the desire to make all actors responsible for economic development, allowing for their respective roles but fine-tuning their interactions.
- The pace of decentralisation cannot be uniform, given the disparities between territorial entities: between states and municipalities there are disparities of size, problems and, above all (since accountability is the main objective), capacities for action. But there is no reason to deprive states or municipalities

of that transition, providing that the minimum conditions -- all of which would ensure that the country's budget resources and tax revenues would be used judiciously -- are met:

- clear information on the state of resources and how they are to be used;
 - consultation of the local populations;
 - mechanisms for incentives and sanctions available to the federal authorities.
- Decentralisation does not mean diminishing the importance of the federal authorities or compromising the country's unity. Decentralisation means that the centre must work differently. Apart from its traditional functions in a market economy, central government must ensure balance among the various territories, not only by enacting active policies with regard to networks (energy, transport, communications) and the fight against poverty, but also by introducing nationwide information and assessment systems for all projects.

6.2 How To Extend Decentralisation In Mexico?

In view of the main obstacles to the institution of decentralisation today, three broad types of action are proposed herein -- types of action that are all mutually compatible and that would tend to stabilise and accelerate decentralisation by consolidating the principle of accountability on which it is based.

6.2.1 *Introduce a contractual principle*

It may be possible to imagine, five or ten years hence, a system of decentralisation that would be uniform throughout all of Mexico's territorial entities, but today this is not possible. And yet, to initiate decentralisation, allowances must be made for differences in resources.

Contracts between States and the federal government:

- Would combine allocation of powers, changes in the conditions for access to budget resources, and accounting practices and methods for assessing project selection and execution.
- Would be enacted between single territorial entities and all ministries.

Such contracts would include the following provisions:

- In respect of power-sharing: A number of possible measures (e.g. building schools) might be accelerated, or power-sharing could be taken further (e.g. making municipalities responsible for lower elementary education).
- In respect of budgeting: Federal appropriations could be handed over to the states as block grants, giving them genuine freedom to choose among various options for capital investment.
- In respect of taxation: *Inter alia*, a certain percentage of tax revenues could be handed over.
- In respect of public accountancy: Accounting practices must be standardised in order to produce the unambiguous financial indicators described above.
- In respect of personnel training and administration: Administrative capabilities would have to be enhanced.

6.2.2 *Create a climate conducive to such contracts*

As this contractual principle is introduced, it would be necessary at the same time to create a climate that would be conducive to it in the short term and that would ultimately make decentralisation the norm. This would require:

Changing budget policy and procedure. Here, three points are essential:

- *Starting the procedure earlier:* so that states and municipalities would be able to make their own plans properly, in line with delegations from the federal government.
- *Presenting capital appropriations by state:* to provide a clearer picture of the geographical distribution of federal appropriations.
- *Aggregating federal government expenditure for states and municipalities:* bringing the centres of decision-making closer to the problems to be resolved, so that those problems, along with their solutions, can be analysed in greater detail.

It is therefore desirable that the appropriations of the various ministries be integrated and aggregated: each year, the budget should award a capital grant which the decentralised authority could apportion among its various needs, in line with federal rules and objectives. This grant:

- should concern capital investment only;
- would not necessarily encompass all investment appropriations, since the federal government should set aside a portion of those funds in order to be certain that its own objectives are met, or to allow for investment that has to involve a number of different institutions.

It would be reasonable to assume that this grant should ultimately amount to a significant share of the capital investment involving states and municipalities.

A shift in federalism with regard to taxation:

- The revenue-sharing formula will always be controversial: if it is too simple, it will not be able to incorporate all of its desired effects; if it is too complex, it will no longer be transparent and will give rise to misunderstanding and virtually unanimous criticism. Accordingly, at least two recommendations are necessary:
 - Make the formula as stable as possible.
 - Reduce the graduated importance of the criterion of take-over by the states, as progress is made in terms of information and accountability.

It is hardly surprising, then, that some states consider that a change in the formula for tax co-ordination does not provide appropriate solutions, whereas to hand over points of VAT or income tax would have a great deal of influence. Several percentage points could be allocated to investment on a long-term basis and be tied in with the block grant referred to above.

Improvements to the rules affecting the taking of political responsibility:

To encourage people to take responsibility, reward them for doing so and make it worthwhile, consideration should be given to a number of measures:

- extending the term of office of presidents of municipal assemblies, to at least four or five years, possibly renewable;
- *amending municipal election laws*, so that territories or their constituent communities would be represented better than they are at present, but without instituting other bodies, whose “representativeness” would be more local, on top of existing democratic bodies;
- *encouraging municipalities to join together*, at least to pool certain tasks, through state and federal financial incentives;

- removing all requirements that the borrowings of public authorities be secured or guaranteed by any other political entity, and empowering those authorities to borrow freely on external markets.

Improved management of local human resources:

Here, apart from the need to ensure that staff transfers are in fact justified and do not entail additional, unfunded expenditure, two measures would be needed:

- The first would consist in standardising rules and regulations for civil servants of territorial authorities, to guarantee their stability, training and mobility. Capabilities that are trained and mobilised in one place must be able to be trained and mobilised elsewhere if genuine skills are to be harnessed to implement decentralisation.
- The second would consist in setting up a training scheme managed jointly by the states and municipalities, with federal support if necessary. Implementation would in any case be facilitated by the past experience of SEDESOL and BANOBRAS in these areas.

Implementation of a monitoring and assessment mechanism:

Such a mechanism would in fact serve four purposes:

- to assist states or municipalities not currently equipped to choose infrastructure properly;
- to see to it that projects were well monitored and corrected if they strayed too far from their intended objectives;
- to ensure that, from the federal government's standpoint, public funds were being put to the best possible use;
- to give successful experiments nation-wide publicity so that all other entities could benefit from them.

This mechanism would obviously have to be placed under the control of the federal government and probably the Ministry of Finance and Public Credit. Nevertheless, all parties involved would play a role in its implementation: other ministries, the states and municipalities, universities and research institutions and development banks.

6.2.3 *Institute a social policy for regional development*

In exercising its responsibilities, the federal government carries out certain major capital investments. But the growing autonomy of the states and municipalities poses two risks to the existence, amount and distribution of infrastructure throughout the country:

- incoherent capital investment, in particular when externalities are involved;
- a widening gulf between entities well and less well endowed.

It is the federal government's responsibility to try to reverse or compensate for these trends. But rather than do so by amending the framework that gives responsibility to the states, it would be preferable to use clear reciprocal commitments between the federal government and the states involved (or municipalities, as the case may be). In this context, a "social policy for regional development" would encompass:

- the traditional approach, leading to the correction of inequalities, i.e. the additional costs stemming from isolation or desertification; but also,
- the building of infrastructure that could enable a territory to seize market opportunities.

To achieve these ends, a Fund for Regional Development would be created, with its provision in real terms scheduled over a number of years.

Moreover, this fund could be seen as an extension and a redeployment of conditions for the use of FINFRA (*Fondo de Inversión en Infraestructuras*), which was created a year ago. Accordingly, states and municipalities would be eligible for federal funding under the conditions listed below. In a sense, there is another precedent in the Mexican system, albeit on a much more limited scale -- the Chapter XXVI project exchange, which

until 1994 enabled funds to be apportioned among various federal entities under social development agreements.

These federal appropriations would be deployed on the basis of contracts between the federal government and the states involved. To put the principle of accountability into practice, states would be required to make a contribution that would demonstrate that they were actually engaged in pursuing the given objectives. The purpose of this would be to clarify mutual commitments, not to levy a charge for services rendered. It would be wrong if the benefits of this contractual procedure were lost by forcing poor states to make excessive efforts to catch up with the others.

One possibility would be to assign different rates of contribution to states and municipalities on the basis of their respective levels of development, requiring very low contributions of the least wealthy entities. Two criteria would then be used to “classify” states and municipalities, in a partial reflection of what has just been done in connection with Chapter XXVI decentralisation: the level of development and the level of tax revenue (it would not be right to give an undue advantage to rich states that did not require substantial efforts of their taxpayers, thereby reaping benefits from efforts made in the poorest states!).

Two criteria should guide the allocation of resources:

- The need to create a proper framework for communications routes: This is in no way incompatible with prospects for privatisation, insofar as public financing could in this case have a leverage effect on the overall amount of investment.
- The need to compensate for the additional costs arising from isolation, desertification or hardships specific to a particular state: *Inter alia*, this could apply to actions concerning health care or vocational training, given the importance of human resources in these areas and people’s reluctance to leave the primary centres of decision-making.

Procedures for using these funds should be revamped with a view to ultimate recourse to private financing. In Mexico, one of the major problems in funding infrastructure is that private lenders demand interest rates that many public projects cannot initially afford. One of the ways to breach the resultant gaps has been for certain banks to lend assistance more specifically to businesses taking part in such contracts, but the basic problem remains the same.

Nevertheless, once at least some of the funding for these projects—and particularly those that will be profitable over the long term—has been put up by public sources, it becomes easier to raise private financing.

The inadequacy of long-term financial markets remains, in fact, one of the Mexican economy's chronic problems. A number of the instruments that have been developing in certain countries—venture capital, syndicated investments, securitisation of debt (*burzatisación de los pasivos*)—have not taken root in Mexico, because the possibilities held out by the federal government have been used as stopgaps where they ought to have been used to create leverage. It is therefore necessary that the Fund's organisation and management constitute an opportunity for federal financing to spur private long-term investment, so that the Fund could generate substantial leverage. Given its experience and strategic position, the fact that BANOBRAS would be involved in the Fund's management could be decisive.

6.2.4 *Plan ultimately for a uniform decentralised system*

If measures concerning the environment and the policy of solidarity for regional development became a permanent feature, implementation of a flexible contractual policy should ultimately lead to a more uniform but decentralised system.

Ultimately, municipalities should:

- take responsibility for “local” distribution networks and, where appropriate, production networks, except where problems would arise involving externalities or economies of scale;
- administer local government policies for urban development, housing and the fight against poverty;

- take charge, to the extent their resources and configurations permit, of services such as elementary education and health care.

States should:

- co-ordinate the actions taken by municipalities by virtue of the powers granted thereto;
- manage or co-ordinate -if any of these services are already provided at municipal level-health care, education, irrigation and certain environmental services;
- implement territorially based social programmes to compensate for some of the differences between municipalities and combat certain forms of poverty that can be identified in a territorial manner; and, more technically,
- take charge of the production and/or administration of goods having limited external effects.

The federal government would theoretically take care of:

- traditional sovereign functions, lawmaking (acts and decrees of application) and the regulation of markets and competition;
- macroeconomic guidance functions, including overall choices concerning levies and public expenditure;
- producing, maintaining and administering infrastructure and community property of federal scope;
- policies of cohesion and consistency, including those dealing with solidarity for regional development;
- individual welfare: the organisation of social security; the fight against extreme poverty;
- project evaluation and dissemination of codes of good practice.

6.3 Conditions Of Implementation: The Need For Support Structures

A great many states and municipalities will not have access quickly enough to the human and financial resources needed to shoulder the responsibilities of decentralisation from the outset, even if it is to be done gradually. Even the federal government will have to assume functions it has not yet been required to deal with. As a result, services should be set up in such a way as to take on growing responsibility and develop the “support” structures that would be able to deliver them.

6.3.1 *What qualities should these structures combine?*

Essentially, they should be capable of helping territorial authorities to:

- analyse their needs, in the light of mandatory standards but also innovations to be promoted;
- prepare applications for certain regulatory authorisations or suitable funding;
- train staff who will have to oversee not only the preparation of such applications, but also the infrastructure, either directly or indirectly;
- prepare calls for bids and tendering procedures;
- organise the monitoring and assessment of infrastructure, as well as of the services set up for that purpose.

In order to assume such functions, it would be important, today, to:

- have acquired experience in these areas;
- be able to intervene as close to the states or municipalities as possible, which would require an appropriate geographical base;

- be able to harness initial funding, to make it easier to obtain additional financing:
 - If the primary source were bank loans, initial funding should provide start-up capital, financial guarantees and working capital as a basis for making it easier to round up additional financing.
 - If budget funding were the source, it could be important to have specialised appropriations that could be used to secure other financing, including bank loans, which always take a long time to secure.

6.3.2 *Past experience*

In Mexico's case, at least two institutions -- SEDESOL and BANOBRAS -- have played this role and could probably play an even more important one if they refocused their tasks.

Over the past six years, SEDESOL has garnered substantial knowledge, skills and abilities in putting together local projects, whether it be a matter of analysing needs, formulating requests, bringing together public and/or private partners or establishing funding programmes and evaluating the corresponding policies. This activity has been strengthened as a result of the extreme variety of the programmes undertaken and thus of the areas that SEDESOL has dealt with: basic infrastructure, roads, schools, dispensaries, cultural activities, food programmes, etc. In addition, SEDESOL has intervened in rural as well as urban settings, although its actions in metropolitan areas may have been strategically less important, given the greater number of parties involved.

Despite this variety of actions, SEDESOL's interventions have been primarily in connection with anti-poverty programmes that were funded out of budget appropriations.

Since it was created in 1933, BANOBRAS has also amassed great skill in setting up and managing local infrastructure, serving 31 states and over a thousand municipalities—or 85 per cent of the urban population. Moreover, since the majority of its loans are for periods of longer than ten years, taking projects' economic development into account has become a mainstay of its action and its experience alike.

In a sense, its functions are somewhat akin to those taken on by SEDESOL, but with one important difference: BANOBRAS has a project-based focus which is connected with the development investments. Therefore, while BANOBRAS presumably cannot accept the constraints of certain situations that initially require budget financing, it has truly played the role of a development bank at the service of territorial development, through the building of infrastructure.

Thanks to a number of advantages -- such as managing loans by the World Bank and the Inter-American Development Bank -- BANOBRAS has been able to:

- offer research and analysis services, the quality of which has improved with the agency's increasing specialisation in this area;
- arrange long-term loans;
- offer initial credit or bridge loans until other financial institutions can effectively intervene;
- help constitute groups of private operators to define coherent production and management procedures in the areas of water, electric power and waste elimination and treatment.

In a sense, BANOBRAS has been able to accustom certain local authorities to market economics—a task that was doubly necessary in order to take advantage of decentralisation and privatisation alike. But BANOBRAS has not always been the only bank to assume such functions; others, such as BANAMEX, have done so as well.

6.3.3 *How can these institutions be mobilised even better in the service of decentralisation?*

In any event, the traditional functions of these two institutions are going to evolve in the years ahead, and this could be of use in implementing decentralisation.

Today BANOBRAS can no longer count on federal guarantees for its operations. It must therefore commit itself more effectively to its role as a development bank, drawing on the experience it has built up over time as a

laboratory for local development projects. To do this, the following changes may be necessary:

- There could be a new division of tasks between headquarters and local BANOBRAS offices. While disputes and litigation must continue to be dealt with exclusively at the central level, and while it may be considered that projects exceeding a certain amount must also be approved at headquarters, economic analysis of all projects, negotiations with political authorities and the preparation of financing schemes should be carried out at the local level by local representatives. This will require a greater transfer of resources, and of skilled personnel in particular, to local offices.
- Increased financial resources are essential. While the costs of intermediation and specialisation in the banking industry make it difficult to tap into domestic savings, it is vital that BANOBRAS be able to borrow freely on world markets, where it would appear to be held in high esteem

With regard to domestic financing, what would prevent BANOBRAS from floating major bond issues within a regional framework and with a strong regional focus? Some BANOBRAS programmes to assist northern Mexico and Mexico City reflect this commitment to regional action and synergy in both the collection and disbursement of funds.

In many states, the cost of BANOBRAS assistance is often considered high, although the facts are not always easy to ascertain. The problem would seem to stem from the fact that interest rates are set with reference to the central bank's nominal rate. Real interest rates would substantially clarify the rules of the game and, in a sense, defuse the tension. BANOBRAS should therefore begin to orient its project management along these lines. A first step in this direction was taken with the emergence of a new method of loan amortisation combining minimum reimbursements of capital with options for refinancing inflationary components of interest payments. In 1997, the development of long-term capital markets that will be brought about by the change in pension fund management will give BANOBRAS an opportunity to offer its lenders real rates of interest.

For SEDESOL, the change would probably be even greater. Most of its budget resources are being decentralised, and the states are asking that personnel be transferred to them as well. Even so, it would appear that in at least three respects SEDESOL could probably make a substantial contribution to the success of decentralisation.

- First, SEDESOL has accumulated a degree of experience and technical expertise in the fight against poverty that is unparalleled in Mexico. Potentially, then, this is a considerable resource which, if used along with counselling and support, would be of benefit to all -- beginning with the most disadvantaged communities and territorial entities, which could not possibly get banks or similar institutions to assist them with such tasks. Moreover, this would not be incompatible with a transfer of staff to local levels: such personnel could easily be made available to states or municipalities and still be backed up by SEDESOL's support, resources and engineering.
- Second, SEDESOL has built up an ability to promote and negotiate that would also provide vast resources for decentralisation. Initiatives like the 100 Cities Programme or the fight against extreme poverty, for example, have led private interests, non-governmental organisations and governments to work together, forging partnerships that will give decentralisation a chance to succeed. The fact that this promotional ability is held by the central government should in no way constitute a pretext to eliminate it; on the contrary, it should be made available to the various territories.
- Third, inasmuch as a number of anti-poverty programmes -- particularly those targeting particular individuals or groups, but not those having a territorial basis -- will remain in the hands of the federal government, SEDESOL will continue to have a role in programme design, organisation and monitoring.

All of these arguments suggest that SEDESOL has become a potential vehicle for decentralisation and that it can assume such a role more formally.

CONCLUSION

By liberalising its economy, opening itself up to the world market and undertaking major positive adjustment policies, Mexico is poised to provide its citizens and communities with new development opportunities. But it will be able to do so only if its territories -- its regions, states and municipalities -- can formulate and successfully carry out projects for development.

This in turn can come about only if these territories are endowed with appropriate, high-quality infrastructure, suitably planned and funded, which meets local users' needs for productivity and adaptability. In this way, Mexico's territories can be productive and enhance their competitiveness as the site of emerging new activities.

Given this major challenge, it would be only right to question the role of decentralisation -- one instrument among others -- even though Mexico has introduced numerous decentralisation policies in its ministries since the early 1990s and intends to pursue them. From this standpoint, two remarks bear emphasis:

- As an instrument, decentralisation is not an end in itself; there is no guarantee that it will produce the desired results unless it has been ascertained exactly how decentralisation enhances quality and the competitiveness of territories. It emerges, then, that decentralisation, as a means of making people more accountable, provides a better allocation of the resources made available to meet local needs for capital equipment, systems and services. Decentralisation must therefore be seen as a new way to administer public affairs, and not be relegated from the outset to debates -- which are frequently very costly and contentious -- over the redistribution of powers and tax revenue.
- As an instrument, decentralisation must be synchronised with other instruments, beginning with macroeconomic management. It in fact enhances economic efficiency by helping to make

territories, and thus the economic system, more efficient. In return, however, decentralisation needs to be adjusted so that its financial commitments are compatible with the constraints of macroeconomic equilibrium.

Decentralisation can therefore set the expected benefits of Mexico's integration into the world economy in motion by making it possible to:

- identify needs and the corresponding responses more clearly;
- render administration and conduct more accountable;
- develop new markets and create jobs;
- create leverage, partnerships and synergy.

If decentralisation is to play this role, decentralised territorial authorities must be accountable to their partners -- and be held accountable by those partners -- whether they be citizens, the federal government, enterprises, financial institutions, etc. To achieve greater accountability, a number of changes should be made in the system's organisation: territorial authorities must be given greater financial autonomy, relevant budgetary information must be provided, certain terms of political office need to be extended, a genuine human resources management policy has to be implemented, etc.

These measures are not always prerequisites. If some basic requirements regarding information can be met and clear ground rules established, there is no reason why a far-reaching process of decentralisation cannot be undertaken, provided that all involved are allowed to proceed at their own pace, but within an overall timetable for this development policy.

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