Reinventing Federalism:

Governing Decentralized Institutional Experiments in Latin America

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March 2000

Second Draft
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Prepared for the Finance, Private Sector, & Infrastructure Division, World Bank.

Over the past decade, Latin American governments, as in many transforming societies, have undertaken dramatic efforts to reorganize the institutions governing and supporting their economies in the hope of revitalizing growth. The most common observations have been the growth in private sector participation, both through privatization and liberalization of whole sectors, in the provision of services and finance and the management of assets, and the decentralization of resources and authority from central governments to sub-national governments to manage areas such as social services, health care, education, infrastructure, and small firm development. While these steps aimed at increasing efficiency and improving fiscal management, they opened a process of institutional experimentation in which the key question became how governments at all levels could make the transition from being a provider of services and administrator of economic assets to being an overseer of service provision and facilitator of socially productive private activity.[1]

Much of this experimentation has taken place at the sub-national level, because of both the processes of decentralization and the loss of confidence by local actors in existing government programs and pure market forces to deliver the needed services. Yet two problems have arisen that have hindered both the ability of analysts to learn from the experiments and the ability of policy-makers to sustain and duplicate them. First, the resulting innovations in solving collective action problems often concern organizational and institutional forms that do not easily correspond to the received analytical categories of that which is private and public. Second, because of the history in Latin America of extreme, often authoritarian, centralization of policy-making power and of *Caudilloismo*, these societies tend to lack not only the experience and capacities to manage new institutional responsibilities at the sub-national level with transparency, but also the political, financial and general institutional linkages between the local and national levels to facilitate coordination and accountability.

This paper attempts to clarify the main governance principles guiding some of these local innovations and in so doing explores how alternative national institutional structures may be crafted to further the experimental process at all levels of society. The first part of the paper

[1] For recent overviews on this issue, see, Aucoin (1990), Piore (1995), McDermott (Forthcoming), OECD (1998), Shuman (1998), Salamon (1989), and Rodwin and Shon (1994).

reviews the growing debate about the role of decentralized development strategies in emerging market economies. Examples of these strategies can be found in recent research on the incentive structure for local governments in China fiscal federalism, development and social welfare councils in Brazil, municipal public-private partnerships across Latin America, and provincial environmental and SME programs in Mexico. Similar to partnership programs Ireland and the NIST network of manufacturing centers in the United States, these strategies stress the ability of new institutional forms to combine innovative methods of collective problem solving with public-private risk sharing. While these forms conflict with our traditional concepts of private property rights and Western-style federalism, their abilities to harness new resources and information derive from a governance structure based on frequent deliberations over specific projects between the various civic, public and private business participating actors.

Scholars, however, often overlook the continued important role of the central government. Central governments (vis-à-vis provincial governments) become vital to decentralized development in the ways that they monitor the activities of provincial governments, coordinate the experiments across provinces, share some of the risk with private and provincial public actors, and improve the institutional capacities of provincial governments. In short, central governments are critical for inducing local experiments, creating methods of inter-regional comparisons and learning, limiting the opportunities for local self-dealing, and ultimately enabling the local and regional experimental bodies to connect to the financial markets.

The second part of the paper focuses on the case of Argentina in its attempt to construct a federal institutional structure that assists and monitors administrative reforms in the provinces. This experiment is largely the result of efforts to overcome two barriers to balanced development that are quite common to other emerging market democracies: a history of local politics built on clientelism and patronage and policy reforms based on the centralization of power in the hands of large national bureaucracies. The strengths and weaknesses of this experiment in fiscal reform-cum-institution building help highlight the ways that both central governments and multi-lateral lending agencies can induce and maintain the monitoring and learning necessary for sustained decentralized development across provinces.

The third part of the paper concludes with a discussion of a few strategies multi-lateral lending agencies can pursue in promoting decentralized development while avoiding common traps of commitment and fragmented regional growth.

I. Partnerships and Decentralized Development

The benefits of decentralized development strategies have been viewed in largely two ways. The first way emphasizes the way decentralization creates strong incentives for sub-national governments (SNGs) to raise revenues through business-friendly reforms. A good example is the growing literature seeking to explain the vibrant economic growth in Chinese provinces and townships despite the lack of an extensive system of private property rights and democratic accountability. Much of this literature argues that critical institutional incentives emerge from the way Chinese federalism produces relatively hard budget constraints, sources of self-financing, and competition for SNGs.[2] The combination of a fiscal-contracting system between adjacent levels of governments that allows SNGs to retain substantial public revenues above a predetermined amount and the relative autonomy of SNGs over economic activities (e.g., pricing, firms) creates strong incentives to pursue active local growth strategies. At the same time, the central government's rules to maintain the free flow of goods, material and human resources, and capital not only broadens markets but also creates competition among SNGs for investment, notably FDI. The ideal examples for this work are the townships and villages, which apparently face strict budget constraints since they have no authority (like provinces) to manipulate bank loans or local trade barriers and thus protect loss-making firms.

Although this approach is helpful in recognizing the importance of institutional structures that limit the predatory behavior of central governments, promote a common market, secure control and cash-flow rights, and harden budget constraints for SNGs, it gives little insight into how, for instance, townships are able to improve the performance of enterprises in their jurisdiction, SNGs in general govern economic activity, or successful institutional innovations in the provision of infrastructure and support services are selected, sustained, and replicated. A

[2] For overviews, see Montinola et al. (1995) and Oi (1992).

complementary literature that has attempted to address these issues is the growing work on what can be broadly termed "partnerships."

Partnerships can largely be defined as organizational or legal joint initiatives of the public agencies in conjunction with business and civic sectors to initiate new methods of public-private problem solving for such issue areas as health care, education, poverty, infrastructure, firm formation, and environmental management. Membership includes a combination of public and private actors that may be stakeholders or direct operators of the particular issue. For instance, in the development of small and medium-sized enterprises (SMEs) members include local or regional government agencies for industry and SMEs, large established firms, banks, NGOs, and representatives from educational, R&D, and labor organizations. Each of these actors provides a variety of resources and participates in the decision-making process.[3]

While decentralization of resources and responsibilities to SNGs have opened a political and organizational space for the formation of such initiatives, the demand for partnerships has come from the virtual institutional vacuum in the local public and private sectors for the provision of vital services. On the one hand, simple market led solutions suffer from problems, such as incomplete information and low equilibrium traps, that inhibit private actors from investing into relatively risky ventures, be they new firms or public goods.[4] For instance, established banks find it too costly to gather the relevant information on SMEs and cultivate specific products and personnel for SME activity relative to the size of the loans. SMEs also can rarely provide the collateral that banks demand to offset the relatively high failure rate of SMEs. On the other hand, SNGs often lack the skills, resources, and accountability to administer or even supervise effectively the provision of common goods. The collective and public-private characteristics attempt to fill the deficiencies of pure market and bureaucratic solutions in by linking collective problem solving with new ways of creating financial and social capital.

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[3] For two excellent overviews of partnerships development in different regions of the world, see Fiszbein and Lowden (1998) and Sabel (1996). Forerunners to this literature were the works in advanced industrial nations on industrial districts (Piore and Sabel, 1984; Sabel, 1992) and secondary associations (Cohen and Rogers, 1992; Piore, 1995).

In general, by bringing relevant users and potential providers of a particular service from the moment of conception, detailed knowledge is pooled to identify priority problems, potential solutions, and a method both to develop the solutions and evaluate the actions of the participants. While public financing or guarantees are often used to reduce the collective action problems of initiation and experimentation, they are usually used as co-financing to instill responsibility. But the obvious potential moral hazard and adverse selection problems are further reduced in three critical ways through collective problem-solving. First, the pooling of knowledge and skills enables partnerships to develop gradually more sensitive methods of project evaluation performance criteria that can reduce the likelihood and costs of ex post default or project failure. Second, and as one expert on community financial vehicles and infrastructure puts it, "by involving local stakeholders throughout the various phases of the project cycle, the objective of ensuring that projects correspond to the needs of the local community is more likely to be met, thereby increasing community willingness to pay, as well as their long-term interest and involvement in the operations and maintenance of these assets."[5] Third, structured, iterative interactions among participants through reciprocal review of one another's actions builds a commonly defined set of rules and social capital that induce further information sharing. In turn, expectations are created for participants that even failures inherent in experimentation will fairly evaluated, and that when basic criteria are met, they will receive additional resources, even i.e., in the absence of collateral. I will now briefly illustrate how the participatory structures of collective-problem solving enhance risk-sharing and capital creation, on the one hand, and knowledge and capacity building on the other.

New forms of risk sharing and financing

In combining the resources from the different members, partnerships help create new forms of risk sharing and financing that are linked with demand driven goals. (See Exhibit 1 for an overview of community financial institutions.) These forms facilitate investments during periods and in areas that individual actors would otherwise avoid not only because of individual risk or cost reduction but also because of the way the specification of needs helps focus the use

[4] The incomplete markets approach was developed by Joseph Stiglitz. For an excellent overview of this work and its application to institutional development, see Cui (1995). See also Ellerman (2000), McDermott (Forthcoming), Sabel (1996) and Moreira (1995).

[5] Jeff Ruster, 1999, "Private Financing for Community Infrastructure," mimeo, April 6, p.5.

and evaluation of resources. For instance, much of sociological work on Chinese township enterprises highlights the importance of pooling resources among local agricultural and manufacturing cooperatives.[6] Analysts view the pooling of resources, such as through sharing labor and facilities or the creation of common revenue funds, as vital for the ability of localities to make two types of adjustments – in smoother transition from agricultural to manufacturing activities and in relatively rapid restructuring of firms, such as during the 1986-88 austerity program. Indeed one observer has argued that the sharing of labor and facilities and the use of common adjustment funds during downturns reflects many of the practices in advanced western industrial districts.[7]

The common use of existing or new resources can come in forms beyond loan programs, as has also been noted local poverty reduction and firm creation programs in Latin America. In some cases, such as in El Salvador, the district government allowed the U.S. subsidiary, CONELCA, to use four primary schools for developing infrastructure and environmental projects as CONELCA upgraded the facilities and financed community outreach programs. In Venezuela and Colombia, consortiums of large firms have constructed municipal schools and developed scholarship programs as part of their contribution to the development of regions of subcontracting firms. Communities also contribute to risk sharing. For instance, in order to expand rapidly the construction of basic infrastructure, districts in Argentina and El Salvador entered multi-faceted agreements with private companies whereby the companies and local governments shared labor, training and machinery costs and residents became the primary employees.[8]

When finance does take a more direct role, it comes about not simply through government guarantees, but pooling mechanisms similar to those founding in Rotating Savings and Credit Associations (ROSCAs) in underdeveloped rural regions and in advanced industrial districts in Europe.[9] For instance, as the dominant steel mills closed and downsized in the municipality of Palpala, Argentina, former employees pooled their severance payments (about $1

[6] Cui (1992), Walder (1989, 1992), Oi (1999), and Qian and Xu (1993).
[7] See Cui (1992). For more on industrial districts, see Piore and Sabel (1984).
[8] For reviews of these cases, see Fiszbein and Lowden (1998, Chapter 1)

million) to create an investment fund (in which the federal and municipal governments and an NGO invested as well) for SMEs. In such regions the lack of banks, let alone the lack of lending history to start-ups, severely impedes SME development. In the department of Santander, Colombia the Sepas-Coopcentral has built a membership of over 200 cooperative with 250,000 affiliates since the 1960s and has pooled savings of over $1.5 million.[10] This pooled savings forms the basis of a common fund for the creation of training institutes, audit agencies, marketing agencies, and a university of over 1600 students. Note that in these and the above cases, the pooling of resources focuses on providing key common resources and fixed assets for initiating growth, maintaining and expanding firm performance, and facilitating adjustment. Tendler has also noted that aid in these areas can come in forms of public procurement that can be more efficient than loan programs. In her study of the Brazilian state of Ceará (see Exhibit 2), she shows that rather than providing cheap loans for SMEs, local governments procured, e.g., school furniture, uniforms, and wheelbarrows directly from SMEs with an advance payment of 50% of the contract. In so doing, the government not only provided cheap initial capital to firms that they would otherwise not receive but also hooked them into initial jobs that private firms may not be willing to give to new firms. Moreover, the procurement process forced the government agency to develop a strict monitoring regime, which is often lacking in simple loan or job guarantee schemes.[11]

Knowledge and capacity creation

Local partnerships overcome the deficiencies of pure market or government solutions to development by also creating complementarities or synergies between the knowledge and resources of participating actors. The result is often a multiplier effect for both the region and the actors in terms of better productivity and the creation of new capacities. Fiszbein and Lowden (1998) argue that synergies are best captured when a "network mentality" prevails. For instance, in their case of Palpala, mentioned above, displaced workers, specialized NGOs, and the local government fused their knowledge and resources to identify areas, such as regional transportation and packaging, in which the pooled investment fund could be best used. While

[9] An excellent collection of articles on ROSCAS and micro-lending programs in the developing world can be found in a special issue of *World Development*, Vol. 27, No. 7.
[10] For these two cases, see Fiszbein and Lowden (1998, pp. 130-131, 140-143).
[11] See Tendler (1997, pp. 102-108, 115-128).

the NGOs provided targeted consulting services and the government provided administrative and "brokering" support, the former employees were able to identify the optimal use of their existing skills and commercial contacts in the region. The initial successes led to the creation of a citywide laboratory, run by all secondary schools, of SME support services and training. The SMEs and NGOs, in turn, helped the government develop a professional staff for business affairs that focused on demand driven programs and built ties to agencies in the provincial and national administrations as well as to Argentine business and banking communities.

For the local government, building synergies through cluster or network ties also means learning how to facilitate the direct participation of other, more qualified actors. For instance, after securing important outside funding and building a coalition of agents for a program to move the economy away from dependency on coffee production, the local government of Pensilvania, Colombia allowed the National Training Service a key regional business group, and a regional technical college to develop and manage a Center for Wood Production.[12] The Center has grown since its inception in 1992 to become a nexus point for a vibrant community of furniture SMEs, providing training for managers and craftsmen, quality enhancement programs, equipment leasing, and a micro credit agency. In turn, the Center helps reinforce the capabilities of each area and participant by facilitating cross learning between otherwise arms-length professionals. Another example of a knowledge-building network is in Guadalajara, Mexico, where local and national governments with World Bank aid created a partnership to mentor SMEs in environmental management services.[13] (See Exhibit 3.) The key actors were a consortium of "leader" large companies, regional universities and research institutes, and a well-known consulting company specializing in environmental issues. Together, these actors created methods for selecting SMEs within supply networks, training and consulting program for the achievement of ISO 4001, and human and material resources. As these actors developed their individual and collective roles, they initiated a dual learning process. At one level, SME participants learned how to identify and solve efficiently current and potential environmental problems that affected both the firms' balance sheets and the region. At another level, the combination of intensive fieldwork and coordinating forums helped the participants improve

[12] Fiszbein and Lowden (1998, pp. 150-151).
[13] World Bank (1998).

monitoring, modify the program for the conditions of Mexico, and generate regulatory and implementation recommendations for other parts of the country.

As Sabel reveals in his analyses of community partnerships in Ireland and of the national network of Manufacturing Technology Centers (MTCs) in the United States (see Exhibits 4 and 5), the participatory structures that facilitate dual learning between public and private actors and between the partnerships and their users are as much a part of local institutional experimentation in the advanced industrialized countries as in developing countries. In Ireland, for instance, the iterative processes of participatory exploration of goals and means as in the successful Plato network in the Tallaght Partnership has not only enabled SMEs to learn how to incorporate ever more efficiently best practices for continuous organizational and production improvements and large firm mentors to develop new methods to select new suppliers and incorporate them in ever more complex projects. But the Plato network has also acted as a vehicle for the Partnership itself to help connected public agencies to determine which SME training programs are most effective and how then to improve them. Similarly, engineering and vocational training schools associated with MTCs and their field offices have revised their syllabi to emphasize more team-based problem-solving skills by having students spend more time working with groups of SMEs on specific process and product innovation projects. At the same time, the field offices have worked with both the schools and the firms to improve their selection and certification methods.

Notice that in all these cases from Latin America to Ireland to the United States, the combination of treating the group as the operational unit and including the different participants in all phases of project creation, execution and evaluation generates resource synergies as well as new approaches for strategy and monitoring. The latter become especially important in order to use limited finances more efficiently and solicit new sources. An innovative application of these principles is in the aforementioned program of Ceará, Brazil where alterations in public procurement became a vehicle to help finance and build the capacities of SMEs. (See again Exhibit 2.) On the one hand, by combining revenue sharing contracts with product quality criteria, the program pushed both the public agencies and the firms to work more closely to develop new training procedures and on-site monitoring methods to improve regularly the production methods and product designs. On the other hand, by having the support agency contract with associations of producers and not individual firms, the program gave incentives to SMEs to collaborate more on forward and backward linkages and to develop methods of monitoring one another and common asset use. In turn, the associations had the organizational means and the performance record to lobby for and justify to the local government for expanding training facilities, creating a local trade council, and attracting new banks.

The monitoring principles

Implicit in the preceding discussions about risk sharing and value/knowledge building synergies is the experimental process. Participants are experimenting with creating new products, solutions to bottlenecks, managerial and administrative capacities, as well as methods of finance. Discussions of partnerships often lead to highlighting a third major product of collaboration – social capital formation which enhances the ability of otherwise distant actors to cooperate on joint projects and thus expand their ongoing experiments.[14] But productive social capital does not come simply from close interaction among actors, as it can lead as much to self-dealing. Rather social capital should be understood as a "vigilant trust" – part of a collective governance structure based on delegation and rule-based deliberation.[15] That is, the ability of partnerships to bridge pure market and bureaucratic solutions to development and thus promote risk sharing and synergies is based on a social capital that is created and maintained via a local experiment in public-private governance.

In general, delegation is the first step.[16] Local governments come to recognize their own limitations and start to transfer limited public authority to civic and business actors to manage certain assets. Delegation is distinct from pure ownership solutions in that the recipients must take on responsibilities and meet certain criteria that the other public and private participants define; it is distinct from pure government imposed solutions in that the government gives latitude to the other actors to innovate on their mandate and must respect the actors' decisions and even integrate these decisions into the framework of the original project. In a sense, delegation is vital for trust building and experimentation since it creates space for new solutions

[14] See, for instance, Fiszbein and Lowden (1998), Ostrom (1995), and Tendler (1997).
[15] See Sabel (1992, 1993).
[16] The following builds on Sabel (1994) and McDermott (1998, Chapters 1 and 6).

to be tested by all parties and general rules for their evaluation according to goals of the project and the standards of one another.

The second, though often simultaneous step, is linking the general agreements of delegation to rules that foster frequent deliberations among the parties over both the details of their respective actions/performance and potential revisions to the initial framework of goals and means. Using the initial outline of tasks and criteria, rules of deliberation forces the parties to demonstrate concrete results and difficulties in meeting them. In doing so, they reveal information to one another as well as points of further negotiation and problem solving. In revealing more information over time and through structured comparisons with one another, the parties learn not only about how to improve monitoring but also the potential depth and limits to an emerging social capital. In turn, the parties are learning at two levels – about how to develop their new roles in the partnership and about how to combine individual accountability with experimentation.

The intricate system of monitoring of the aforementioned procurement program in Ceará is a good example of the governance experiment based on delegation and deliberation. First, the procuring agencies (of Agriculture and Education) delegated general purchasing responsibilities via a revenue sharing contract to two public SME support agencies, which in turn delegated certain monitoring and coordination duties to different SME associations. At each level, the delegates had more detailed knowledge about operations than the superior actor and were given more particular procurement criteria as well as discretion on meet the goals. In turn, the monitor duties were simplified while lower level coordination and asset development capacities were empowered. Second, the contractual rules and the structure of the relationships among the support agencies, SME associations, and the individual firms fostered collective monitoring via deliberations. Often with the guidance of an agent of a support agency, the associations met regularly to solve common production and quality problems and thus develop more refined methods to monitor one another's performance and joint-investments. In contracting with and contributing to the formation of SME associations, the support agencies did not simply pass the buck to the associations but had to create evaluation and technical assistance procedures that both reflected and improved the capabilities of the SMEs. In turn, the support agencies took on a new role as well as interlocutors between the procurement agencies and supply groups in solving bottlenecks, improving capacities, and revising common goals and criteria.

Ia. Institutionalizing Local Innovation

Decentralized development via partnerships can indeed be the source of many institutional innovations for both public and private actors. Yet there is no intrinsic characteristic of partnerships that supports their durability or expansion within or outside the initial locality. Barriers to sustainability and duplication emanate from inter-related problems of merging monitoring and learning – generalized rules of accountability and public administration that do not stifle experimentation. On the one hand, the very conditions that open up the experimental process of partnerships – informal discretionary powers with few administrative rules and a lack of formal sanctioning by voters or elected representatives – also open the door for self-dealing in regions with strong histories of clientelism as well as for popular and bureaucratic resentment toward partnerships when failures – legitimate or not – occur.[17] For instance, in their survey of relatively successful partnerships in Latin America, Fiszbein and Bowden note that progress has been undermined when non-participating bureaucrats and governors create turf battles with localities to block the authority and flow of resources to other public actors and private ones.[18] Similarly, Tendler showed that despite the success of decentralized pilot programs to combat draughts in Ceará province, renewal of the program faltered when previously marginalized mayors and provincial bureaucrats gained more power over the program and sought to renew their patronage systems.[19] On the other hand, expansion and sustainability are undermined by the lack of professional skills, historical reputation, and capacities at all levels of government. Even in the successful case of procurement to SMEs in Ceará (discussed above), Tendler notes that duplication in other districts within the province failed since the high demand for such a program stretched the SME support agencies too thin.

What then are the roles of national and provincial governments to overcome the political and administrative limitations of partnerships? The quick answer from advocates of decentralized federalism is greater decentralization and economic incentives. For instance, in

[17] See Sabel (1996).
[18] Fiszben and Lowden (1998, Chapter 2).
[19] Tendler (1997, pp. 48-54, 148-154).

their analysis of China Montinola et al. (1995) argue that a limited central government is needed enhance incentives of self-interest -- not only through curbing predatory behavior of central officials but also through strengthening regional competition and hard budget constraints with strict central rules on the common market and lending. This approach is questionable for two reasons. First, a central part of partnerships is experimentation with the organization of resources as well as with institutional rules that may emanate at the local level but demand adjustments and coordination at higher levels. In turn, imposing a priori bright line rules from above not only creates barriers to the institutional experiments but also assumes that little experimentation is needed at a national level. Second, as mentioned above, decentralization in and of itself does little to produce new local administrative capacities, pull localities out of existing low-equilibrium traps, and guard against clientelism and corruption, as noted not only in Latin America but in many regions of China itself.[20] In the end, if one remains within the economistic tradition, one is forced to reply that then strong central control is needed to curb self-dealing and enforce hard budget constraints.[21] And so the dog chases its tail.

An alternative approach to the role of central governments focuses instead on the ability of central governments to merge monitoring and learning through vigilant safeguards against capture by entrenched interests while providing material and legal support to build new collective governance structures that enhance participatory democracy. For instance, Tendler highlights two related factors for successful programs in Ceará, such as the procurement case mentioned above. First, new centrally created rules of authority and performance simultaneously removed exclusive control over resources from traditional local and provincial operators and brought them under control of collective councils and partnerships. While clear goal-oriented, performance criteria were established for programs, the inclusion of previously excluded stakeholders and new participants not only brought forth new resources and information but also created new coalitions of actors to monitor one another and counter the resistance of the old guard. Second, by separating the formal responsibilities of procurement and SME support, the program separated the new vehicle for financing transactions and SME development

[20] For an excellent review on these problems in China, see Oi and Walder (1999) and on Latin America (Jones, Sanguinetti and Tommasi (1997), Tommasi and Saeigh (1998), and Mainwaring (1999, Chs. 5, 6).
[21] Despite many insightful observations, a recent paper on the fiscal performance Argentine and Brazilian provinces does as much. See Dillinger and Webb (1999).

(particularly through the 50% advance in contracts) from the vehicle for capacity and skills building. But just as rules of participation enhanced accountability after breaking entrenched interests, these rules combined with revenue sharing agreements still gave a framework in which the two separate vehicles could discuss common problems and learn from one another's respective positions (i.e., one as procurer and ultimate financier with a focus on results and one as a services developer with a focus on process).

Notice that just as the rules of delegation contribute to initiating experiments and clarifying responsibilities of demand (results) and supply (process), they must be combined with rules of participation and deliberation to sustain experiments and link efficiently results with process enhancement. Sabel deepens the role of participatory governance structures as a conduit to enhanced performance and experimentation in his criticism of the central government of Ireland in their inability to further the gains made by partnerships:

> The partnerships … have been better at creating new things than at building stable institutions that embody and extend their innovations. In part this is because the Irish state has been better at allowing innovation than at learning from its protagonists about how to generalize local successes and incorporate changes they suggest into the organisation of the functional administration. Thus many experimental projects undertaken by the local development groups may succeed, but the experiment as a whole may fail. For now the drumbeat of potentially successful projects often drowns out the discord in the relations within and among local development groups and between them and the administration. As the drumbeat fades into the background, the discord will become more and more audible, and the public will likely tire soon of the performance. … So far the partnerships and their progeny have benefited from a limited and provisional dispensation from normal administrative and democratic controls because of the patronage of the Prime Minister's office, the support of the social partners, and public recognition of the urgency of the problems they address. Shielded by this exemption, and adding to their national patronage the local political support that comes to the party "in motion," the partnerships have substantial informal power to direct funds from state agencies to the benefit of their own projects. In some areas, the regional directors of the state training and economic development authorities implicitly grant the partnerships authority to disburse funds allocated to their localities. Formal authority for the use of the funds continues, however, to rest with the functional agencies. It is hard to see how the agencies could make this temporary arrangement permanent without fundamentally redrawing their internal lines of authority.[22]

In criticizing the central government's inability to learn from the partnerships, Sabel is arguing that that the central government must embrace the principles of delegation and deliberation at a national level in order to merge learning and monitoring above the local levels and build durable political support for reform experiments. That is, if central governments are going to be able to break down jurisdictional disputes, adequately monitor and change local governments with weak structures of accountability, and identify and provide the needed (initial)

[22] Sabel (1996, p. 85).

powers and resources to improve local institutional capacities, the central government needs to experiment with a policy governance structure that helps its own administration simultaneously learn new roles and be more responsive to the different needs and concerns of sub-national governments.[23] In both broadening the experimental process and engaging new methods of monitoring, the central government also opens local or regional projects to the private financial markets, which become critical as the EU grants expire. Only with a national set of vehicles that mimic in many ways those at the sub–national levels can the local actors make intelligible and credible their undertakings to international financiers.

Is this a dream? Perhaps not. In what follows, I present a federal governance experiment-taking place in a country with a strong history of *Caudillos*, over centralization, fiscal mismanagement, and great disparities in regional development – Argentina. In what began in 1994 as a method to improve provincial fiscal management has evolved into a vehicle that aids provinces learn how to build their institutional capacities for the provision of social services and become supervisors of out-sourcing to the private sector instead of the traditional manager of assets. Although, this experiment contains many flaws, as we will see, it possesses many of the governance and organizational qualities that merge learning and monitoring at several levels of government – qualities that can help the Argentines overcome existing flaws and utilize the experiment for other areas of development.

II. Governing Provincial Reforms in Argentina

In the midst of the political and economic turbulence after the presidential election of Carlos Menem 1989, an ad hoc forum of Ministers of Economy of the Argentine provinces initiated a series of meetings with the Federal Ministry of Economy and with the IBRD and IDB to develop a federal program to support structural transformations in the provinces.[24] In 1991, the first loan with the IBRD was signed to initiate the Financial Rehabilitation and Development Program for the Argentine Provinces (PDP). The program aimed at assisting provinces generate fiscal

[23] For variants of these arguments in East Europe, see Hayri and McDermott (1998), McDermott (1998) and Ellerman (1998, 1999).

[24] The following is based on the author's consulting work for the Ministry of Interior from September 1997 to December 1999. Overviews of the program can be found in monthly reports (in English and Spanish) that are filed by the UEC with the IBRD. Other supporting documentation included loan agreements between Argentina and the IDB and IBRD in 1991, 1995, 1996, as well as the program manuals from 1994 and 1996.

savings and reform their public administrations. The program was unprecedented in two ways: the loans were collateralized (with the provincial share of federally shared, *coparticipación*, tax revenues) and distributed at the provincial level, not through distinct federal ministries; the administrative reforms were to be managed at the provincial level, thus cutting across jurisdictions of other federal ministries.

As can be seen in Table 1, provincial fiscal matters actually worsened in the initial subsequent years, and then greatly improved after 1995. While I do not have the latest consolidated and disaggregated date, I am told that the consolidated fiscal balance of the provinces was still in the black as of the end of 1998 and that almost two-thirds of the 24 provinces (including the capital city of Buenos Aires) produced surpluses. While a recent IBRD study on the fiscal strength of the Argentine provinces relative to Brazilian provinces attributes this turn around to certain rules in the Argentine coparticipación system and improved national controls on provincial finances[25], one should not overlook the institutional innovations initiated in PDP after 1995.

After several years of heavy central control over the program by the Federal Ministry of Economy and the relative exclusion of the provincial economic ministers from its management, the program was moved to the Secretariat of Financial Assistance to the Provinces of the Federal Ministry of Interior. The move aimed to incorporate the provincial ministers more directly into the governance of the program, improve the demand driven management of projects at the provincial level, strengthen a central coordinating and monitoring unit (UEC) within the Secretariat. Although it is difficult to specify exactly the impact of these changes relative to other factors on the fiscal performance of provinces, the positive outside evaluations of the program and the UEC reinforce the significance of these changes. For instance, after positively reviewing the overall performance the program, the IBRD renewed and increased the original loan.[26] Moreover, the IBRD and IDB have significantly increased both the amount of loans and the scope of projects for the provinces (from fiscal reforms, road construction, and emergency and preventive flood management to economic development and public administration reforms

[25] See Dillinger and Webb (1999).

[26] The original 1991 loan was Ln. 3280-AR for $200 million. The renewal came in December 1995 (PDP II, Ln. 3877-AR) for $ XXXmill. The Funds were released in June 1996. Specify new loan with IDB too.

in municipalities) managed by the UEC.[27] The following two parts examine some of the main motivations in developing an internationally backed federated program management structure and then how the monitoring arrangements facilitate learning and improved collaboration with private non-government bodies. Along the way, I will focus on PDP since it is the longest running and largest program managed by the UEC and has hence become the model for the other more recent programs just mentioned.

II a. Opening a Space for Collaboration and Experimentation

Exhibit 6 outlines the basic features of PDP and the governance of the programs. There are two main features. First, to gain access to a common loan fund for both administrative/fiscal reforms and public works projects from the IBRD/IDB, provinces must follow a set of rules on co-financing, collateralization, fiscal discipline benchmarks, information disclosure, and project classification and management. Second, the UEC, subject to certain rules and reviews from the IBRD/IDB, evaluates provincial projects and performance, monitors compliance, and also offers technical assistance and training programs to the Provinces and the UEPs, the Provincial counterparts of the UEC. By combining demand driven project financing and technical assistance with a central evaluating body that was subject to review by both the provincial governments and the multilateral lending agencies, the government created a vehicle that could nurture collaboration among domestic and international actors for institutional experimentation

First, provinces had strong incentives to participate not only due to the potential access to relatively cheap loans to finance fiscal adjustment and politically popular public works projects, but also due to the organization of the program. The direct disbursement of the loans and demand driven management of the projects at the level of the provinces coupled with a new one-stop-shop administrator meant that the provinces no longer had to bargain with various functional national ministries and their distant, top down bureaucratic norms. Rather, the provinces could generate and manage projects according to their own priorities, but within the general framework of financial, functional, and contracting standards. Initiatives and experiments had the potential for flowing up as much as down. Moreover, in taking into account

[27] Between 1995 and the end of 1998, the amount of loans and programs managed by the UEC increased from about $300 million to over $1.2 billion. In addition to the PSF y DEPA, the largest program, the UEC manages eight other programs for both municipalities and provinces.

the institutional deficiencies at the provincial level, the program purposively provided technical assistance to over the classic Catch-22 problem of decentralization – one needs decentralization to find new solutions to existing policy problems and to build new institutions but one can not take on the responsibilities and efficiently use new resources of decentralization without initial institutional capacity.

Second, in accepting the loans and assistance, provinces opened themselves to new disciplines of fiscal management and monitoring. On the one hand, the rules of collateralization, co-financing, and fiscal progress for gaining access to loans tied the provincial administrations to the financial prudence and quality of management of both their budgets and the particular projects. On the other hand, in presenting their semi-annual financial reports (PAFIs) and their procedures for public works projects, the provinces revealed key information on a regular basis to the UEC (and in turn the national government and the IBRD/IDB) that could potentially be used to improve monitoring and assistance. In turn, improved capacity came with the price of improved accountability.

Third, the UEC could become more than a simple accounting agent for the national government and multi-lateral lending institutions, but rather an active intermediary – horizontally between provinces and vertically between the provinces and the national government and creditors. With increased information and the authority to act on it, the UEC could become the key agent in building the "vigilant trust," as discussed earlier, among the different participants. This can not be undervalued in a country with a strong history of conflict and suspicion between the Buenos Aires center and the interior, between rival provincial *Caudillos*, and between Argentine operators and the Washington DC establishment.

However, the ability of the program to realize the lofty goals of improved fiscal management and institutional capacity for the provinces as well as of strengthened operational, social and political ties for the benefit of accountability and experimentation would depend on the governance innovations that went beyond simply "following the rules".

IIb. Merging Monitoring and Learning

Beyond the rules and periodic reviews by the IBRD/IDB of the program via the UEC, two governance innovations were introduced. (See again Exhibit 6 and Figure 2.) First, the Ad Honorem Consultative Board, constituted by the Forum of Ministers of Economy and Finance of the provinces and the City of Buenos Aires (GCBA) as well as the Secretary of Financial Assistance to the Provinces (of the Federal Ministry of Interior) and the Executive Coordinator of the UEC, was strengthened in mid-1996 to enhance participation by stakeholders and act as a non-partisan forum for the deliberation of key policies. The representatives from the UEC must report regularly to the Board and follow-up their suggestions on program modification, local grievances, and special negotiations with the IBRD/IDB. The Board also developed rules for the annual election of a Creditors Committee, which approves PAFIs and monitors the UEC and the evaluation of projects. The rules always ensure representation by the main parties and large and small provinces. Second, the UEC gradually gained greater discretion in modifying evaluation procedures and technical assistance methods, approval of certain projects and changes within them, and initiating new program pilots. The strengthened formal and informal roles of the UEC and the Board have allowed for enhanced monitoring and learning at two levels.

At a more micro-level, one finds three main developments in UEC-provincial relationships. First, in monitoring and assisting the development and execution of PAFIs and projects, the UEC has adopted modern *benchmarking* methods to conduct periodic, structured comparisons over time and between provinces. By analyzing the relative failures and successes of provincial fiscal and public works projects, the UEC improves its ability to monitor provincial activities and quicken the rate of learning of the provinces. That is, by using its informational advantages and active project development experience, the UEC not only to identify weaknesses in provincial activities, but also to make recommendations to provinces about what approaches, say, to tax collection, expense reduction, out-sourcing, and contracting, may or may not work. This also applies to the managerial capacities of the UEPs. The UEC continually makes recommendations to the provinces, Board, and the Banks in Washington to improve the capabilities of the UEPs. In doing so, the UEC can help the UEPs play greater monitoring and assistance roles, freeing the UEC to concentrate to manage broader issues and develop new areas of assistance. More recently, with the addition of new programs in economic development, infrastructure and environmental planning, the UEC is attempting to get provinces to work directly on common problems and regionally overlapping projects, like road construction and flood prevention.

Second, enhanced monitoring and learning allows the UEC to get the provinces to attack problems before they develop into full-blown crises. For instance, PAFIs are rarely formally rejected since the UEC works with the respective provinces throughout the year in preparing for the next one and thus pushing provincial administrations and the UEPs to attend to problem areas on an ongoing basis.

Third, the UEC is becoming vital nexus point and intermediary in this federal-cum-international development experiment. On the one hand, its experience and formal powers have allowed the UEC to build up its reputational capital in dealing with actors outside the program. This has become critical in aiding provinces negotiate with other ministries but also with private creditors in times of crisis. For instance, the UEC is increasingly called on to act as a credible and knowledgeable third party when provinces need to restructure or refinance their debt with private banks. On the other hand, the UEC helps induce cooperation and learning among the provinces and the IBRD/IDB. At Board meetings, the UEC presents its comparisons of provincial activities, highlighting common problems and potential solutions. In so doing, it helps guides the debates among ministers about how to advance the program and what to change or investigate back in the provinces. In turn, it helps focus the ministers' criticisms or concerns that the UEC can take to IBRD/IDB and to other national ministries. For instance, the UEC has become increasingly involved in shaping the ongoing negotiations between the provinces and Federal Ministry of Economy about revisions in the *coparticipación* agreements by having the Ministry focus not just on a new revenue-cost sharing model but including institution-building programs for fiscal management in the provinces.

At a more macro-level, the UEC and the Board enhance learning and monitoring in three ways. First, through its collective membership and information sharing rules, the Board allows members to effectively monitor one another. Increased interaction on specific problems builds a sense of fair-mindedness and rule compliance among the actors – permitting some to experiment with fiscal and project management in new directions and pressuring others to improve their performance.

Second, compliance and experimentation are enhanced via demonstration effects within the Board. That is, the UEC and Sec. of Financial Assistance to the Provinces consciously and tactfully show members which provinces and types of projects appear to lagging or progressing -- both in substance and in provincial politics -- in a number of areas. In forcing members to discuss the reasons behind their successes and failures, the UEC and Secretary try to turn increased accountability and social pressure within the Board into positive behavior back in the provinces.

Third, in discussing their common problems in an increasingly disciplined and informed way, Board members advance the improvement of rules guiding the program, in general, and project management, in particular. For instance, the Board is increasingly debating how to formalize certain internal rules on voting and project approval that up to now have been informal. Also, the Board often charges the UEC to negotiate with the IBRD and IDB on changes in the rules governing loan repayment, contracting, and the expansion of permissible projects.

III. Towards a New Federal and International Partnership

In combining delegation and deliberation as the principles of governance, the Argentine experiment has developed two vital capabilities for the UEC and UEPs. First, the combination of rules for performance and multi-actor, iterative reviews have allowed the UEC to learn how to improve frequently its procedures both to evaluate and monitor provincial projects and to identify new areas of institution building and technical assistance. In so doing, it has also learned and tried to "teach" the UEPs how to integrate process-oriented improvements into results oriented transactions. That is, the UEC, and to some degree the Provinces (via the UEPs and the Board), have begun to use different channels of collective problem-solving to define and execute both goals and the means to meet them. Second, in learning how to use delegates as interlocutors, all participants, including the IBRD/IDB, have developed a structure that can monitor and initiate programs that allow local responsiveness without micro-management from above. As evidenced in its recent abilities to mediate between provinces and private creditors as well as channel new initiatives in institutional reform from the provinces to the IBRD, such as in streamlining the provincial courts system, the UEC creates a conduit for new financiers and project participants, like NGOs, to connect to regions in a more profound way than in the past.

However, similar to Sabel's critique of the ability of the Irish government to build on the advances made in partnerships, one finds that the Argentine experiment with delegation and deliberation is also weakening for common political and bureaucratic reasons. Take three major problems for example. First, several provinces, notably Tucuman, Tierra del Fuego, and Corrientes, are virtually bankrupt, for reasons of mismanagement and corruption. While neither the UEC nor PDP can be held responsible for this, the continued strength of *Caudillos* reveals not only the weakness of democratic institutions in provinces but also the limits of PDP's ability to induce change. Specifically, active participation in PDP, and in the governance experiment in general, comes only from a political decision at the provincial level – either due to desperation or enlightenment. Provincial politicians in many areas still can ignore PDP and the UEC, seek other sources of financing, and mock the local demonstrators as line their allies' pockets with public funds. Second, and relatedly, the performance of several UEPs is plain awful. This shows a weakness again in the powers of the UEC, PDP, and the Board, since the financing and hiring of UEP employees is made at the provincial level, with little or no decision-making powers in this area by any of the higher bodies. Only when outright disaster strikes can the Ministry of Interior and IBRD/IDB informally pressure the province to make personnel changes. Third, continued delays in project formation and execution occur not only because of a lack of provincial co-financing (read commitment), but also because the rules do not adapt fast enough to new situations – projects are denied because of jurisdictional disputes or because they fall out of the exact wording of the program, projects are held up because new contracting or bidding methods/problems do not conform to the program manual and thus must be sent for a lengthy review in Washington.

These three problems continue to undermine the credibility of the PDP and UEC as well as any movement toward reshaping federalism and decentralized development programs in

Argentina. Similar to the situation in Ireland, their resolution appears to come from the need to formalize and deepen the hitherto informal mechanisms of delegation and deliberation at the national level and with the multi-lateral lending agencies.

First, without a formalization of the decision-making powers in the Board and legislation for the UEC/Board structure that manages PDP and the other new provincial and municipal programs with international funding, critical political support will evaporate. Provinces will see little reason to participate in the Board or any program with central government coordination without formalized powers that give them rights to decide on critical problems. Moreover, with the apparent change in national administrations to the opposition, lack of legislative backing will have provinces wondering whether the new president will abolish the Board and simply return the program to centralized ministerial control. Indeed, although the new administration has supported the continuation of the UEC and its structure, it has attempted to re-centralize fiscal powers vis-à-vis certain problem provinces and transferred particular programs to newly created ministries as political patronage. Such conflicting signals only weaken provincial commitment to the experiment. A major litmus test will be whether the national administration includes by way of legislation a con-federal coordinating body and provincial institution-building programs into current proposals for the revision of *coparticipación* tax-sharing agreement and the development support centers of small- and medium sized firms. The common talk has been the usual incentive models based on hard budget constraints and decentralized responsibilities for provinces.

Second, the IBRD and IDB need to recognize PDP and its sister programs not simply as one more aid project but rather as a profound experiment institutional learning that can greatly aid its own ability to develop and induce fiscal reforms and decentralized development. Progress with PDP has occurred not simply because of tight central control of spending or a priori clear rules of contracting, but rather on the ability of the UEC (directly and via the Board) to work with the provinces, conduct structured comparisons, and learn how to improve both its role and the rules guiding projects. This points to the IBRD and IDB recognizing that they too must learn about the UEC's evolving capabilities and formally delegate to them and the Board greater powers to experiment with changes in the governance rules. The fact that the UEC periodically conducts self-evaluations, is cognizant, with the Board, of the problems mentioned above, and has written detailed recommendations for their solutions is evidence of their capabilities of disciplined learning. For instance, the UEC has not only outlined deficiencies in the performance of the UEPs but also has proposed an elaborate new benchmarking method of evaluating UEP personnel. Such improvements cannot even reach serious discussion without the IBRD/IDB and national government considering more formal powers for Board members, as provinces would not relinquish control to the UEC or Washington without credible political compensation.

Presumably, the IBRD and IDB have themselves learned how to better monitor the UEC through new benchmarking criteria and without probing every detail. By learning how to delegate more powers to the UEC and the Board and how to monitor these actors periodically through structured deliberations between themselves, the UEC and the Board, the IBRD and IDB will improve the capabilities of the Argentine actors to improve management of institutional experiments and conflict resolution and, in turn, allow the their task managers to explore new strategic initiatives. This does not mean imposing organizational structures on Argentina or other countries, but rather to take stock of local experiences with specific development policies and initiate a framework that would support their exploration. If they follow this path, the IBRD and IDB could develop a monitoring-cum-capacity building structure that would be credible to, for instance, international financiers and thus relieve the multi-laterals of direct support for the same old programs.

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Table 1. Trends in Provincial Revenues and Expenditures in Argentina, 1991-97
(in percent of GDP)

Type of Revenue	1991	1992	1993	1994	1995	1996	1997
Current Revenues	8.19	9.62	9.59	9.45	9.34	9.39	9.52
Provincial taxes	2.59	3.25	3.41	3.42	3.27	3.27	3.21
Provincial nontax revenue	0.40	0.52	0.58	0.62	0.66	0.55	0.77
National transfers (*aportes*)	5.20	5.85	5.61	5.42	5.42	5.57	5.55
Current Expenditures	7.77	8.80	9.24	9.10	9.22	8.68	8.25
Capital Expenditures	1.21	1.07	1.28	1.40	1.52	1.58	1.55
Primary Surplus (deficit)	(1.34)	(0.65)	(1.30)	(1.34)	(1.61)	(0.20)	0.11
Overall Surplus (deficit)	(1.48)	(0.80)	(1.48)	(1.55)	(1.86)	(0.50)	(0.29)

Reproduced from: Dillinger, William, and Webb Steven. 1999. "Fiscal Management in Federal Democracies: Argentina and Brazil." World Bank, Washington, D.C.

Source: For 1991-94, World Bank 1996c; for 1996-97, Republic of Argentina, *Informe económico regional*

Exhibit 1
Community Finance Institutions (CFIs)

CFIs have emerged in underdeveloped countries to provide poor communities with means and incentives to participate directly in and finance partially the building of public goods, usually local infrastructure. Similar to other partnerships, they are a response to common government, market, and collective action failures. Top-down government programs tend to introduce technical and social solutions that have little in common with local needs, and thus tend to give weak incentives to local actors to participate in, pay for, and monitor the creation of new services. Traditional private financiers and service providers tend to avoid poorer segments of the population because of the perceived credit risk associated with lower-income groups and because of the information and transaction costs associated with numerous, small borrowers and projects. Also, because of the lack of resources and knowledge, poorer communities suffer from collective action problems in organizing themselves effectively to identify their needs, lobby political authorities for them, and monitor one another's use of and contribution to a particular service.

CFIs have taken on various forms across Africa, Latin America, and South-East Asia. They have been able to overcome the above problems by embedding themselves into communities in two ways. First, by involving local stakeholders throughout the various phases of the project cycle, the objective of ensuring that projects correspond to the needs of the local community is more likely to be met, thereby increasing community willingness to pay, as well as their long-term interest and involvement in the operations and maintenance of these assets. Second, in providing quick and convenient access to small, short-term loans, they rely on non-traditional forms of collateral such as joint liability between solidarity group members and providing additional incentives for on-time repayment through the promise of continued access to larger loans. CFI credit officers also have often either lived or worked in the communities they serve, and thus are familiar and comfortable with the social and economic realities of their client base. Often charging interest rates well above those of local commercial banks (but less than those in informal markets) to cover their operating and funding costs, CFIs feature on-time repayment rates of 95% and higher and have reached tens, and sometimes hundreds of thousands, of low-income clients.

An emerging base of *commercially oriented* CFIs tends to follow three models of lending.

Microenterprise Model: The CFI issues a working capital or investment loan to a small-scale infrastructure service provider. The microentreprenuer then charges users for the service provided, with corresponding revenues applied to repay the CFI loan. This model has been applied in Guatemala, Mexico, Kenya, and Paraguay for such services as water, waste collection, rural telephony, gas distribution, and road maintenance.

User Group Model: Technical assistance providers, often the CFIs, mobilize and assist user groups in the design, implementation, operations and maintenance of the community infrastructure project. The CFI then provides a loan to cover part of the subproject investment (between 30 to 70% of the total cost), with remaining funding secured via a subsidy provided by a government or donor agency. In Guatemala, the NGO, Genesis Empresarial, and a commercial bank apply this model for the development of rural electrification and water supply.

Individual Household Model: Individual families based on combined household income, receive a *consumer loan* from the CFI. The household then applies the loan proceeds to cover its cost-sharing of an infrastructure asset, whether for private use or shared application among the community. Similarly, home improvement loans are provided under commercial terms and conditions to support household service connections fees, addition of on-site water and sanitation facilities, and purchases of plots with basic services. This model has been applied in Indonesia, India, Bolivia and Mexico for a broad range of economic and social infrastructure services.

CFIs, however, face two strong barriers to sustainability and generalization that in turn call for creative financial support and institution building by governments and donors. First, Most successful CFIs apply underwriting standards that do not allow borrower monthly loan payments to exceed 25 to 30% of combined-family income. These limitations may effectively preclude full community financing of even small-scale infrastructure assets. Therefore, some level of subsidy will be required and even justified, especially since many of the infrastructure-related services to be provided are of a common good nature, with benefits accruing to the community in general.

Second, CFI lending methods, organizational principles, and services often run counter to those in the formal banking sector. For instance, CFIs use cash-flow credit analysis, are highly decentralized, and often attempt to offer project creation assistance to communities. When combined with issues of economies of scale, all these approaches demand substantially periods of learning and represent high costs for typical commercial banks.

Exhibit 2
Reforms in the Brazilian Province of Ceará[28]

In 1987, the newly elected reformist governor of Ceará, Tasso Jereissati, initiated a set of reforms that would radically improve this poor Brazilian province's fiscal health and economic growth by 1993. A key set of reforms included innovative, decentralized programs in preventive health, public procurement from informal-sector producers, and a large emergency employment-creating public works program. In addition to decentralizing operations and integrating more private sector participants into the programs, the provincial government utilized two key methods to improve the governance of the programs.

First, the provincial government used its political authority and financial power to break the traditional hold over program management by clientelistic stakeholders while empowering other, less powerful local groups. For instance, in the preventive health care program, it held an iron fist over the selection, training, payment, and socialization of local outreach agents that implemented the program. Also, although the municipalities had the power to select nurse practitioners as supervisors, the provincial government defined the selection criteria in such ways as to limit patronage by the mayors and to include a broader set of nurses for other tasks. In both ways, mayoral power was not simply curbed, but repositioned, as mayors were forced to work with new sets of empowered actors not under the direct control of municipalities. Another example is in the public-works employment program for draught emergencies. Such programs were traditional sources of patronage for existing mayors and the landed interests. To break this pattern, the governor first moved the program administration from the Department of Agriculture to the Extension Service and Department of Social Action, which gained prominence by becoming a cabinet-level Department with a new, active director. The government then authorized the formation of local program management Councils, which included not only the old actors (mayors and landed interests) but also less powerful community groups, such as churches and civic associations. To limit intimidation by the old actors, an outreach agent of the Department for Social Action chaired each Council. Moreover, to offset the relative resource power of the old local actors and minimize terf battles between provincial-level departments, the provincial government defined project selection criteria to promote small, easily monitorable projects. Such projects eliminated the need for resources that only the landed interests and clientelistic provincial Departments had, while giving the new integrated local groups a greater opportunity to participate.

Second, the provincial government defined the rules of program management to promote participatory monitoring by both service providers and users. For instance, the fore-mentioned Councils had to take decisions together and coordinate their separate responsibilities on a continual basis. On the one hand, such rules forced deliberations among Council members about specific projects and methods and brought to light a variety of interests by members that realigned local coalitions and broke the old alliances of patronage. On the other hand, multi-party deliberations and interdependencies for project execution fostered increased information and resource disclosure. In turn, the different members could monitor one another more effectively. Also, the provincial government used extensive publicity campaigns to inform local

[28] This draws on Judith Tendler, 1997, *Good Government in the Tropics*. Baltimore: Johns Hopkins University Press.

citizens of the new programs, of their responsibility to hold providers and the mayors accountable, and of the channels to report deficiencies and advances in service to their district.

These two methods were at the core of a demand-driven procurement program that fostered sustainable backward linkages between large customers (in this case government procurement agencies) and vibrant networks of SMEs. The most celebrated achievement was the transformation of the backward district of Sao Jao do Aruaru (SJA). Within 5 years SJA became a leading center for the production of agricultural tools and school furniture, turning four simple sawmills with three employees each into a cohesive network of 42 sophisticated sawmills employing directly and indirectly over 1,000 persons.

The Ceará government first broke the hold of large out-of-province suppliers and of stakeholders, like large banks, in supply-driven SME programs by having the public procurement departments, the Departments of Agriculture and Education, seek SME suppliers with the aid of two traditional SME support agencies. At the same time, rather than using subsidized SME credit schemes and long-term procurement contracts, the procurement departments had the support agencies offer a 50% advance on each contract with a supplier for a particular order, with full payment based on customer satisfaction (criteria of quality, delivery time, and price). In so doing, the government not only provided cheap initial capital to firms that they would otherwise not receive but also offered them a reliable customer base if the firms could meet procurement criteria. Success with a relatively simple order brought larger, more complicated orders. Moreover, the support agencies contracted not with individual SMEs but rather sought out existing SME associations and aided the formation of associations of potential suppliers located in one place. Over time, these associations became an organized political group that could pressure the government to expand the program and facilitate the development of new banks and training resources as well as counter the power of traditional large suppliers interested in re-cooping their patronage.

The next crucial success factor was the government's development of a multi-tiered, collective monitoring system that fused information sharing, risk sharing and learning. First, the government separated customers from suppliers, using performance-based contracts. The procurement departments contracted with the SME support agencies to supply goods and services and supply SMEs with technical assistance. The support agencies received a 5% commission on each contract, the revenue from which became an increasingly source of finance for the agencies. The agencies, in turn, contracted with SME associations, which became responsible for finding the relevant member to manufacture the product and meeting the terms of the contract. Each subordinate had more detailed knowledge than the superior of adequate suppliers and operations and thus simplified the monitoring tasks. Each superior had the right to select, reward, and penalize the subordinate and all had revenue sharing incentives.

Second, the substance and structure of the contractual rules fostered collective information sharing, resources development, and problem solving. For instance, the support agencies formulated product warranties with the producers, which, coupled with the collective nature of the contracts, in turn, forced the members of SME associations to learn how to improve sub-contracting regimes, information disclosure, and production processes. The contractual responsibilities and financial incentives forced the support agencies to move training and collaborative trouble shooting directly to the firm level. The result was that each actor learned from and monitored one another more closely and became effective interlocutors between its subordinate and superior about trouble-shooting, revisions in performance criteria, expansion of product groups, and identification of new support resources.

Exhibit 3
The Guadalajara Environmental Management Pilot

In 1996, eleven large companies (domestic and multinational) in Guadalajara, Mexico signed a two-year voluntary agreement with Mexico's *Secretaria de Medio Ambiente, Recursos Naturales y Pesca* to mentor small suppliers in implementing environmental management systems (EMSs). Each company invited two to three small suppliers to participate in the Pilot. The large companies and the World Bank provided the SMEs funding for EMS training and implementation support, which a team of consultants – from two local universities and a foreign environmental management consulting firm – delivered. The aim was to implement the ISO 14001 EMS model for the SMEs and evaluate the applicability of the model as well as the sustainability and replication of the Pilot partnership.

As of late 1998, the Pilot has been rather successful, with virtually all participating SMEs making major advances in the implementation of ISO 14001 without modifications, the reduction of pollutants, and their ability to use general management systems. Moreover, the national government has used this experience to develop the substance and implementation methods for new environmental protection legislation.

There appear to have been four critical success factors. First, most SMEs indicated that the invitation from the Mentor Company, rather than simply from the government or university, was a vital source of motivation and cooperation. While a sense of "ownership" of the Pilot was important for all firms, the presence of a large company "champion" was important. Second, the use of the consultancy network provided resources otherwise unavailable to SMEs and many large firms, a rapid response system to local and firm conditions, and a diverse group of experts who could draw on one another's wide range of skills and knowledge. Third, although invited mainly as observers to the Pilot's sessions, representatives of local and national environmental authorities not only raised the profile of the initiative for managers but also engaged managers directly to learn about the benefits and drawbacks of different standards and enforcement actions.

Fourth, beyond the training in technical issues, the use of benchmarks and iterative collective review progress fostered two critical developments. On the one hand, participants at all levels gained a dual sense of empowerment and collaboration, which improved further information sharing and management motivation for achieving their next milestones. On the other hand, the use of benchmarking methods to monitor actions and help actors learn through temporal and cross-sectional comparisons introduced managers to management systems frameworks that could be applied to other areas of business.

In sum, beyond the Pilot facilitating changes in both EMS and management methods, it has build potentially long-term capacities for EMS and management assistance in Guadalajara by constructing a viable network and implementation method.

For more information, see: "Mexico: The Guadalajara Environmental Management Pilot," World Bank Report No. 18071-ME.

Exhibit 4
Partnerships in Ireland[29]

Since 1991, the Irish Government and the EU Structural Fund has sponsored 38 Area-Based Partnerships (initially 12) to devise and experiment with programs to combat un- and under-employment. The development of the partnerships was a response both by local actors in their pessimism with the effectiveness of existing governmental bodies and by the central government to develop alternative measures for economic and social policy without threatening the gains already made in fiscal reform and opening the Irish economy to international trade and investment. Despite the dramatic growth in GDP and the MNC sector since the late 1980's, unemployment remained high and indigenous Irish firms failed to make substantial gains in productivity. In addition to its social agenda, the partnership program began to address the problems of the lack of durable backward linkages of MNCs into the local economy and of the need to steer the unemployed into stable employment opportunities of skilled, flexible work groups, the key unit in competitive, flexible business organizations.

Legally, the partnerships are independent corporations under Irish company law. Their boards include representatives of local community interests, including the unemployed, of the national social partner organizations of labor and business, and of national social welfare, training, or economic development administrations. Through this structure, the partnerships not only have de facto authority over a significant share of local activities and expenditures of core national agencies but also can provide services and build institutions not contemplated by the statutory bodies. OECD and EU reviews of the partnerships have been largely positive. For instance, urban partnerships have developed innovative techniques for retraining and placing the long-term unemployed and for building potentially self-sustaining firms that provide both training and jobs for those out of work. They have also established new programs to help early school leavers and single mothers and to encourage community policing and the management of housing estates by their tenants.

A noteworthy example of SME assistance is the Plato program of the Tallaght Partnership in a suburb of Dublin. Plato, built on a model from Belgium, is a business training network in which small business owner/managers learn form one another and from managers of large firms, who act as facilitators of small working groups. As of 1996 the Plato network included 60 small local firms and 10 large "parent" firms, including ABB, Gallahers, Hallmark Cards, Hewlett Packard, Hoechst, Irish Biscuits, and Johnson & Johnson. Plato staff interviews and selects prospective SMEs based on their desire to expand, reach new markets, commercialize new products, and above all compete directly or indirectly in export markets. Plato then groups firms with similar dimensions or sectors to ensure that issues discussed are of general interest.

Plato networks help SMEs and parent firms in two key ways. First, their collective learning has heightened the ability of SMEs to incorporate new production methods and the ability of the large firms to find new supply partners. Second, although Plato is not equipped to provide training for SMEs in areas like ISO 9000, the partnership does provide a framework in which member firms can obtain training services through the statutory bodies as well as purchase consulting services collectively to obtain better terms. A recent independent survey of Plato

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[29] This draws heavily on Charles Sabel, 1996, *Ireland: Local Partnerships and Social Innovation*. Paris: OECD.

revealed marked improvements in the operation, marketing and financial management of the member SMEs. Moreover, member firms exhibited an average increase in turnover by 19% and in employment growth by 24%. This success led to the Plato model being adapted recently to fit particular contexts. For instance, in the rural South Kerry Partnership, the lack of large firms and an industrial base has forced the model to focus on the developing a network of start-ups in complementary activities that mentor one another with the Partnership's guidance. In Dundalk, one of Ireland's six most deprived areas, project groups are comprised of new entrepreneurs mentored by managers of existing SMEs within a center created by the partnership. A recent product of the partnership is Eros Ltd., a company that grew out of the closure of a branch plant of a British clothing firm. The partnership aided a former manager with consulting and office services to utilize a workforce skilled at producing short batches of quality garments in various fabrics to customer specifications and turn Eros Ltd. into an exporter of swimwear and lingerie.

The Dundalk Employment Partnership has also combined this network mentoring approach with the retraining of the long-term unemployed. For instance, in close collaboration with the Guinness Company, it created Paksort, a firm that employs and trains an increasing number of the long-term unemployment for collecting and sorting bottles for the Guinness Packing Plant. After the partnership hired a manager with wide experience in the field, it worked with Guinness to design the production line, define the demanding quality standards, and get the operation running. In doing so, two benefits have accrued to Dundalk. First, employees learned how to work in a team to high quality standards. Second, with its board composed of members of the partnership board as well as outside business advisors, Paksort helps the partnership identify new ways to grow the company and to develop unemployment programs. For instance, the partnership created a program that helps unemployed persons create their own businesses while still receiving unemployment benefits, which are gradually reduced with each passing year. This innovative way to use unemployment benefits as partial seed capital works because the partnership and not the Department of Social Welfare determines eligibility, thus allowing the program to utilize the partnerships local knowledge and coordination experience.

A further variant of the combining firm mentoring with retraining and job placement of the long-term unemployed, is Speedpak, a firm created by Dublin's Northside Partnership. With the aim to demonstrate to firms in the region that local residents are worthy employees, Speedpak hires and retrains some of the most disadvantaged unemployed and then places them in regional firms. The Partnership helped create Speedpak in two key ways. First, it hired a consultant with long experience in the packaging and food processing industry to identify a line of business that could give people with little work experience skills to increase their chances of long-term employability elsewhere. The consultant found that firms valued, above all, people who could work in teams to solve problems like work set-up and organization. Given the limits of the Partnership's start-up capital, the consultant then focused on niches whose production processes demanded such skills but used simple technologies. In turn, Speedpak, focused on short-run, contract packaging and subassembly. Second, the partnership members used their combined contacts and knowledge to develop an initial customer base for Speedpak, such as manufacturers of toys and household cleaners. Speedpak, with its average employment of 30 persons, has been so successful in placing its employees in other jobs that it recruits around 30 new staff every six months.

Exhibit 5
The Manufacturing Technology Centers of the National Institute of Standards and Technology (USA)

In 1987 National Institute of Standards and Technology (NIST) of the United States Department of Commerce launched a diffusion-oriented technology policy by establishing the Manufacturing Extension Partnership that coordinates Manufacturing Technology Centers (MTCs). This policy marked a shift from concentrating public investment in basic R&D towards aiding firms, notably SMEs, to adopt or effectively use best-practice technologies and practices. The program has grown from 36 to 66 centers in all fifty states, the District of Columbia, and Puerto Rico and has assisted more than 62,000 firms by 1999. Each center has several regional field offices. The centers are funded mainly by state and federal moneys, with the initial 36 formed by an amalgamation and reconfiguration of previously independent state and local organizations.

The regional field offices provide services. They are usually located at local engineering schools and constituted as separate non-profit corporations, each responsible to a local board of directors with substantial power to perpetuate itself by co-optation. The headquarters of each MTC can shape the behavior of field offices through the power to appoint regional directors, to review the composition of the regional boards, and, especially, to establish incentive systems that determine the funds available to each field office and the compensation of each field agent. NIST, in turn, shapes the MTCs through the power to approve the composition of center boards, the power to disapprove their recommendations for managing director, and the power to withhold or redirect funds allocated to them. The MTCs maintain by annual contributions a Modernization Forum that coordinates exchanges of experiments among them and represents their joint interests to NIST, to organizations pursuing similar or complementary ends, and to Congress and administrative agencies. The states co-finance resident MTCs by matching certain federal government funds, are represented on their governing boards, but often monitor operations sporadically except in periods of reorganization in distress.

The evolution of services that the field offices provide in conjunction with local educational institutions and private consultants has become a dilemma in effective governance of the Partnership. First, the MTCs and field offices have increasingly focused on helping SMEs learn how to adopt new technologies and organize themselves in decentralized, collaborative fashion to accelerate their innovation of products and processes. This has taken several forms, usually taking a group or network of SMEs and perhaps some large firms as the unit of operation to: focus on a common technical process or sector, create self-help networks among competitors, coordinate supplier development and certification processes of large companies that are major customers of SMEs in a particular industry or sector, and consortia-based (rather than firm-specific) training programs. By grouping firms together in different ways, the MTCs attempt to combine learning with competition: experimental learning is accelerating by drawing on the knowledge and experience of one another, mentoring large firms, and the MTCs links to other national and regional successes and failures; at the same time, by facilitating the disclosure of detailed information about the participants, the MTCs reveal what firms are advancing and why.

Second, disciplined, iterative deliberations within the various groups, in turn, help external organizations connected directly and indirectly to the MTCs improve their commercial and service relations with SMEs. On the one hand, SMEs have a vehicle via the MTCs through which they can demonstrate to large firms and financial institutions their potential capabilities. The risk of becoming a partner with or financier of these SMEs can then be reduced not simply through relationship building and gaining more information, but also through the creation of new ways to evaluate SMEs. On the other hand, collaborating technical and vocational training schools, applied research institutes, and trade associations have learned how to enhance their own programs by having members or students work with the field and participating firms in particular projects – be they the reorganization of production or the development of new project-selection mechanisms.

The strength of the MTCs has been to facilitate cooperation among the various public and private actors so that they may understand one another's needs and capabilities and thus utilize the collective knowledge and resources to create otherwise unforeseen forms of organization and innovation. This decentralized, fluid process, however, creates serious barriers for super-ordinate units of the Partnership to monitor and coordinate their subordinates. Studies have shown that conventional methods of comparison and evaluation, such as financial, employment, and productivity indicators, often fail since the output of the MTCs and centers is not only contextual but also of an unknown, often un-quantifiable value. To move beyond this barrier, the Partnership and MTCs have begun to learn from their collaborators and students, namely large firms and financiers that are engaged in highly innovative, turbulent businesses, to develop benchmarks and discursive governance mechanisms that focus on process outcomes. This approach, as suggested above, was not completely foreign to the field offices and MTCs, as their main activities have been to help SMEs master the managerial and organizational disciplines for continuous improvements by using discursive standards (such as the ISO 9000 framework) both to certify SMEs for participation in joint projects and/or projects with third parties and to help SMEs learn to apply the best practices in the actual projects. In both areas MTCs were both evaluating and assisting SMEs through a combination of trouble-shooting and a disciplined comparison of alternatives – a comparison of the means and consequences of pre-registration and project management activities of different centers with one another and with those, if available, of outside organizations, like purchasing departments of large firms. The Partnership has attempted to incorporate such methods into an institutional method of evaluating the MTCs.

First, multiple comparative reference points can be generated by distinguishing the different types of environments and the different types of strategies to address them while discerning the generic similarities in some of the core services provided by the centers. Second, two comparisons are created: one about the particular elements of the centers' program (i.e., the types and organization of certain projects); and the other about the architecture of the centers as a whole (i.e., selection of clients, ability to cooperate with other organization pursuing similar ends). Any center can then be compared to a like center with regard to the suitability of its strategy and the performance of its service providers. Third, the institutional structure to initiate and develop such a system of comparisons emerges through linking representation with the definition of program elements and metrics of comparison. Each field office creates an assessment group comprised of field agents, managers and representatives of firms and SME user groups. Delegates from this group would then convene at each MTC with delegates from other field office groups, representatives of the headquarters and MTC level stakeholders (such as the state government, and educational institutions) to arrive at a common reinterpretation of their experiences by reciprocal review. Next, delegates from these commissions would join a national program assessment council with representatives from NIST and related agencies to agree on a common protocol for data collection and survey analysis. The results of the survey would then be used to frame discussion of the performance of regional field offices, MTCs, and the entire system.

Two major benefits accrue to participants. One the one hand, the national council is not micro-managing evaluation of field offices but creating a set of criteria and rules about how the MTCs should guide and monitor their respective field offices and how the national council should evaluate the MTCs. On the other hand, two levels of learning and coordination occur. The structured comparisons help the super-ordinate organs use their informational advantages to have subordinates learn from the failures and successes of the others, and ideally, coordinate the subordinates to communicate directly with one another. Moreover, the participatory governance structure combined with reciprocal review enables MTCs, for instance, to identify needed revisions in both the evaluation criteria and the priorities of the program.

For more information on the MTCs and NIST see:
http://www.mep.nist.gov/
Charles Sabel, "A Measure of Federalism: Assessing Manufacturing Technology Centers." In *Research Policy,* Volume 25 (1996), pp. 281-307.
Maryellen R. Kelley and Arora Ashish, "The Role Of Institution-Building In US Industrial Modernization Programs," *Research Policy* (25)2 (1996) pp. 265-279.

<u>Exhibit 6</u>
The Federated Coordinating Structure for Provincial Reforms in Argentina

The simplest way to grasp the way the Central Executing Unit (UEC) functions with respect to its provincial counterparts (UEPs), the Consultative Board of provincial ministers, and the multilateral agencies is to focus on PDP, as it is the longest running and largest program managed by the UEC and has hence become the model for the other more recent programs just mentioned. Figure 1 presents a basic schematic of the program. The IBRD and then the IDB contributed low interest, long-term loans to a general fund to be used by the provinces. There are two types of loans: those for administrative and fiscal reforms and those for public works. While the loans were initially earmarked to provinces according the needs and size of provinces (i.e., using coefficients from the *coparticipación* tax sharing scheme), the respective provinces soon were able to access as much of the fund as approved projects needed, thus creating a certain level of competition between the provinces. There are three general rules set by the multi-lateral agencies that govern the fund. First, provinces must offer a share of its *coparticipación* tax revenues as collateral to the general loan fund, co-finance (50%) of any public works project, and finance and staff the UEPs. Second, for a participating province to have access to loans for public works project (new or in progress), it must meet two strict criteria – a current account fiscal surplus and a level of debt service that is less than 15% of current revenues – which is revealed formally to UEC by the province in their their Financial Action and Investment Plans (PAFIs). If a province fails to meet these two criteria, it must work with the UEC to develop and implement a new financial plan (which includes debt refinancing, improved local tax revenues, restructuring of expenditures, etc.) before gaining access to the loans for public works. Third, public works projects must conform to certain categories (e.g., schools, hospitals, sanitation, infrastructure, etc.) that improve the capacity of provinces to take on the programs that are being decentralized to them from the national government and follow certain standards of accounting, financial management, bidding, and contracting.

The UEC, financed mainly by a small percentage of the loans, acts as an agent of multilateral lending institutions as well as a monitor and service provider for bothe the national and provincial governments. First, the UEC is responsible for monitoring the fiscal performance and projects of the provinces via the PAFIs as well as presenting recommendations to the Creditors Committee (see below) on the approval or rejection of PAFIs and projects. All projects are demand driven and implemented by the provinces, with the UEC monitoring whether they meet the standards outlined above. Second, with its staff (currently of about 100 persons) of provincial experts and technical/functional experts (accounting, contracting, architects, engineers), the UEC provides free technical assistance to the provinces. The line between monitoring and assistance is often blurred. For instance, when a province is unable to meet the above-mentioned fiscal criteria, the UEC assists the province in reorganizing its finances and identifying solutions to, say, improve the revenue base, and thus aids in the development and implementation of a new PAFI. Third, the UEC organizes and co-finances (with the provinces) training programs for UEP managers and, occasionally, relevant civil servants of the provincial administrations. Note that while the UEC is in frequent contact with the provincial administrations (namely the Ministries of Economy/Finance), its principle contact is with the UEPs, which help their respective provincial governments prepare and present the PAFIs and loan projects.

The keys to the UEC to facilitate learning between provinces, improve both its monitoring and technical assistance methods, and act as an effective interlocutor between the provinces, multilateral lending agencies, and the national government have been in the innovations in the governance structures and the incorporation of benchmarking.

As can be seen in Figure 2, the supreme governing body in Argentina for the program is the Ad Honorem Consultative Board, constituted by the Forum of Ministers of Economy and Finance of the provinces and the City of Buenos Aires (GCBA) as well as the Secretary of Financial Assistance to the Provinces (of the Federal Ministry of Interior) and the Executive Coordinator of the UEC. This board was strengthened to harness the participation of the provinces in the management of the programs and thus their willingness to share information with one another and the national government about both their needs and capabilities. Since mid-1996 the Board meets monthly and performs three important tasks. First, it elects each year to the Creditors Committee 3 of its members, who are joined by the Sec. of Financial Assistance to the Provinces (Chair of the Committee) and the Executive Coordinator of the UEC. Informal rules of election have been used to enhance the representation and cooperation between the different participants. The three elected ministers together must come from the national ruling and opposition parties (mainly two) and from large and small provinces. The Creditors Committee is charged with approving the PAFIs and monitoring the approval/rejection of loans for public works projects (from the central Fund), which is mainly conducted by the UEPs, UEC, and IBRD/IDB. The Committee reports on these issues back to the Board. Second, the Board monitors the work of the Creditors Committee and the UEC, using mainly information gained from these two organs and from their respective UEPs, which as one may recall are employees of the provinces. Third, the Board has the power to criticize the behavior of other members, request the removal of certain UEC directors (though it has not), and charge the UEC to negotiate with the IBRD and IDB over changes or additions to the loan contracts or rules guiding public works projects.

The IBRD and IDB have three main powers. First, their loan officers and task managers review and can veto projects and rule changes (such as in bidding procedures) that do not fall under the exact definitions specified in the program loan contracts and in the project guidelines. Second, they approve all PAFIs and 20%-50% of projects, according to the type and size of project.[30] Third, they conduct periodic, at least two per year, on-site reviews of the program, meeting with the UEC, Board, and the provinces themselves, potentially demanding changes in the management and personnel of the UEC and UEPs.

The UEC's principle governance activities were to monitor ex ante and ex post the financial development of the provinces as well as give approval/rejection to all PAFIs and 20%-

[30] In PDP I, there were five classifications of projects, within which the Banks review a sample of: Maintenance (20%), Rehabilitation (20%), Termination of works (50%), New investments (30%), and Technical assistance, training, and institutional development (>$500,000). The UEC had to approve all PAFIs, all projects > $1 million (>$3million for New investments), and all projects for Termination of works and Technical assistance, training, and institutional development. The UEPs had the power to approve all projects less than $1million (and those for Technical assistance, training, and institutional development up to $3 million). In PDP II, the UEC was significantly strengthened as it had approval power for all projects, with the Banks approving only those exceeding $10 million and one-third of projects for Technical assistance, training, and institutional development exceeding $1 million. (Program Manuals for PDP I and II)

100% of all projects, according to the type and size of the project (and thus the performance of the respective UEPs). In PDP II (after 1995), the UEC gained significant power in gaining the main approval powers for virtually all projects.[31] The UEC has to report regularly to the Creditors Committee, Board, and the IBRD/IDB on progress and problems within these areas. In doing so, the UEC can make recommendations to these bodies about steps to improve program compliance by provinces and the management of UEPs as well as propose new initiatives for substantive and organizational aspects of projects. .

While the participatory rules of the Board have enhance disciplined deliberations among the national, provincial, and international actors, the enhanced discretion of and the use benchmarking by the UEC have improved the UEC's methods and role as interlocutor among these actors. In adopting modern benchmarking methods, the UEC conducts periodic, structured comparisons over time and between provinces. In so doing, the UEC learns how to improve its own project and PAFI evaluation procedures and technical assistance as well as helps the provinces learn from one another and adopt preventive strategies. As it demonstrates its ability to monitor and assist the provinces, the UEC, in turn, has built up reputational capital vis-à-vis private creditors (i.e., in mediating for provinces for new non-program projects) and the IBRD/IDB (i.e., in presenting proposals for changes in project criteria and monitoring rules as well as new provincial-level programs).

[31] See ibid.

Figure 1

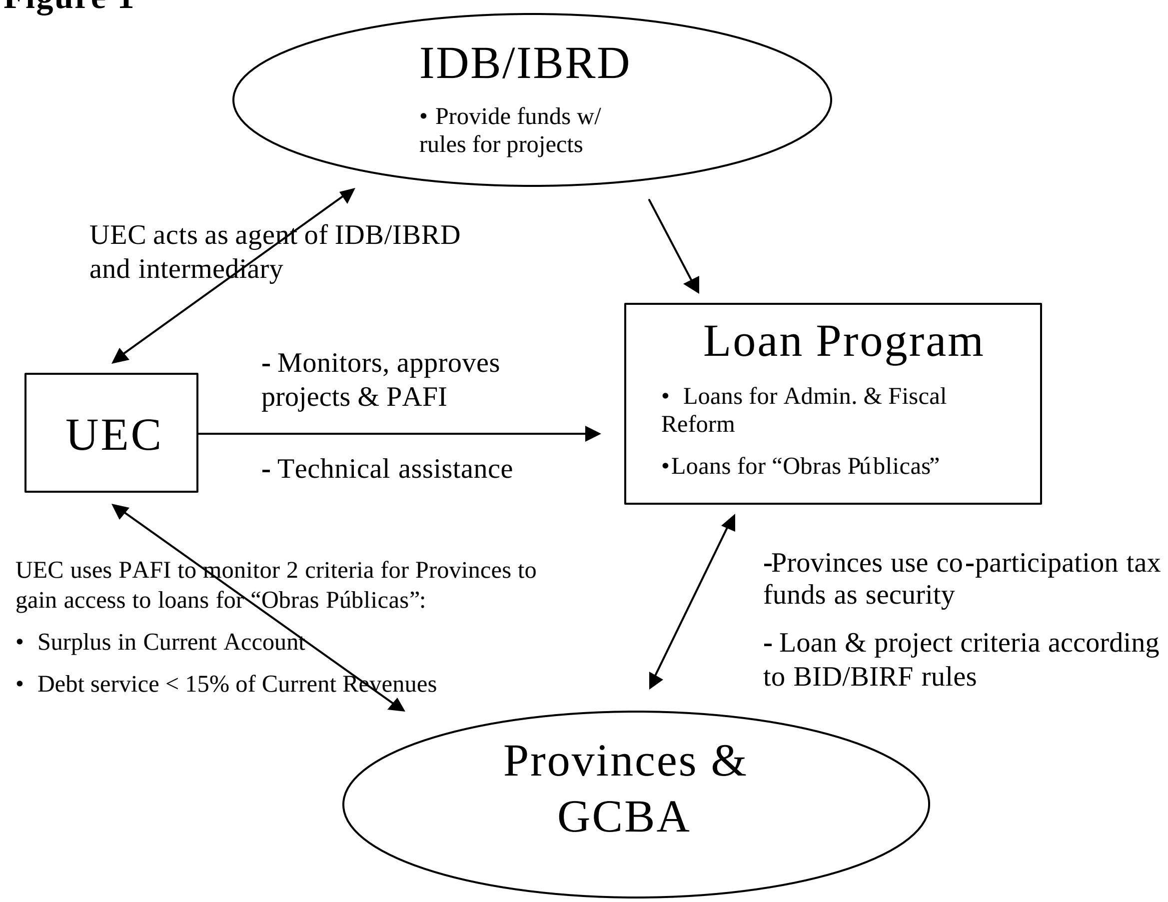
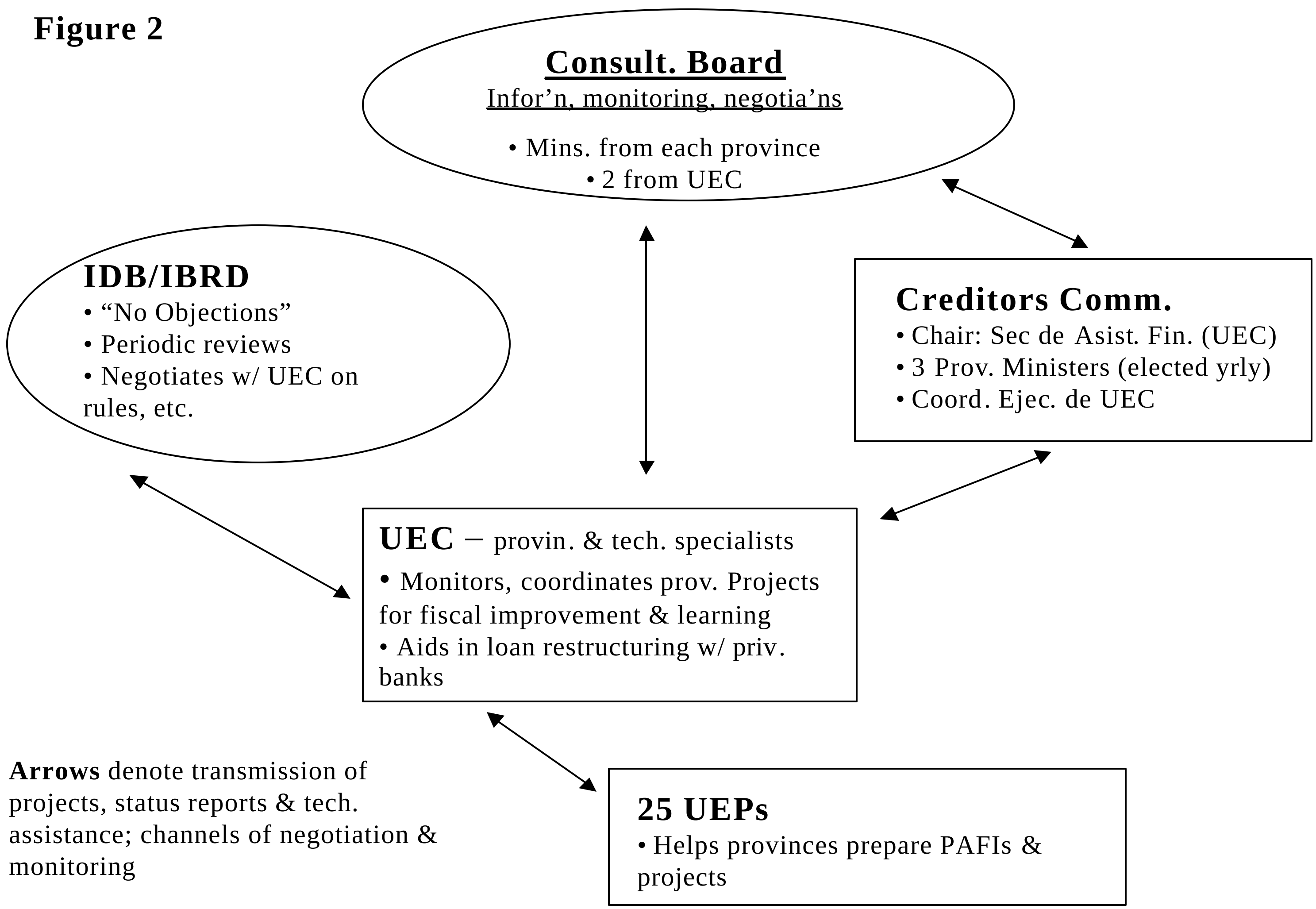

IDB/IBRD
• Provide funds w/ rules for projects
UEC acts as agent of IDB/IBRD and intermediary
Loan Program
• Loans for Admin. & Fiscal Reform
•Loans for "Obras Públicas"
UEC
- Monitors, approves projects & PAFI
- Technical assistance
UEC uses PAFI to monitor 2 criteria for Provinces to gain access to loans for "Obras Públicas":
• Surplus in Current Account
• Debt service < 15% of Current Revenues
-Provinces use co-participation tax funds as security
- Loan & project criteria according to BID/BIRF rules
Provinces & GCBA

Figure 2



Arrows denote transmission of projects, status reports & tech. assistance; channels of negotiation & monitoring