

## Decentralization and Democracy: A Continuing Challenge for Venezuela

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Given the current political strife in Venezuela, the idea of convening a seminar on decentralization in Caracas would seem to be a secondary concern at best. The increasing polarization of society into pro- and anti-Chávez camps continues to threaten one of Latin America's most stable democratic regimes. In such an environment, decentralization as a policy issue might seem to be better set aside for a time. President Hugo Chávez's authoritarian governing style, moreover, has hardly been a fertile ground for the redistribution of power toward Venezuela's states and municipalities. Despite the early optimism surrounding the process of constitutional reform, the Venezuelan president appears to have no interest in loosening his grip on the reins of centralized control.

At the same time, scholars and policymakers interested in the impact on governance of landmark reforms in intergovernmental relations have ignored the case of Venezuela, even now, to their detriment. In 1989, Venezuela launched a series of political, administrative, and financial reforms that promised to radically reshape the intergovernmental system. This so-called "new federalism"—the country had long been operating in essentially a unitary fashion—was aimed at breaking up the monopoly of control held by the central government for decades. It was to help breathe new life into a political system that was rotting from within. Today, some thirteen years later, the degree of success of Venezuela's decentralization, which has now come to a halt, is debatable. There is little question, however, that had decentralization not more evenly divided political authority among the three levels government and given gover-

nors and mayors their own bases of power, President Chávez would have effectively taken control of the entire state apparatus.

On June 13, a seminar entitled "Decentralization and Democratic Governance: A Challenge for Venezuela" was held at the Institute for the Advanced Study of Administration (IESA) in the capital, Caracas. The continuing significance of decentralization for Venezuelan governance and public policy was the center of debate. The day-long event, sponsored by IESA, the Center for Development Studies (CENDES), and the Intergovernmental Fund for Decentralization (FIDES), with the support of the Woodrow Wilson Center's Decentralization Project, was extraordinarily well-attended. The audience included policymakers from across the political spectrum.

### THE INSTITUTIONAL FRAMEWORK: PROPOSAL FOR A FEDERAL COUNCIL OF GOVERNMENT

Carlos Mascareño of CENDES opened the seminar with a discussion of the current institutional setting for decentralization in Venezuela. He explained that successful federalism involves the principles of separation—or the sharing of government functions among different levels of government—as well as governmental autonomy within a constitutional framework and a degree of participation that



Dr. Rosa Amelia González, of IESA, during a visit to the Wilson Center.



ensures the representation of territorial units in the federal government's decisionmaking. In Venezuela, in Mascareño's view, many of the complex issues that characterize intergovernmental relations for all countries have yet to be resolved. There can be no doubt, he continued, that the election of governors and mayors changed the rules of the game of the territorial distribution of power. The president can no longer give orders in the regions without facing the counterweight of locally legitimate public authorities. Yet, the mechanisms for regulating differences among levels of government need to be institutionalized.

One such mechanism is the Federal Council of Government, created by the 1999 Constitution, supported by a fund for inter-territorial compensation (FIDES). Today, some two-and-a-half years later, the Federal Council exists in law only. A variety of legislative proposals have called for the Council's creation, but these efforts have only highlighted the divergent visions of its role. The Council should be, Mascareño argued, an intergovernmental entity that promotes equitable conditions among all levels of government—not a means for the central government to negotiate (or impose) conditions on states and municipalities. Meanwhile, as the infighting among opposing groups of mayors and between states and municipalities continues, the question remains: What can the Federal Council do to overcome centralist ideas and ensure the installation of a federalism in Venezuela characterized by increased cooperation?

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José Julián Hernández, the decentralization director for the state government of Carabobo, also addressed the issue of the uncertainty surrounding the Federal Council. One of the problems is the lack of political incentive to create the Council, which, given sufficient authority, would allow the presentation of new initiatives favoring decentralization. Venezuelan states must be represented on the Council, Hernández further argued, and the Council should be an entity for deliberation, consultation, and consensus building. However, the central government control's has increased in recent years, further confusing states about how to take on functions that have formally been transferred to them and undermining their motivation for assuming additional responsibilities for public services. The mayor of the Los Salias municipality in the State of Miranda, Juan Fernández, emphasized that the Constitution charges the Federal Council with planning and coordinating policies and practices for decentralization at the state and municipal level. In this regard, Venezuelan municipalities must take on the central government and work together through the National Mayors Council to strengthen the municipal system, particularly its financial autonomy. Mayor Fernández also highlighted the importance of urban development planning. One of the key tools of his administration has been the use of planning methodologies to create policies, establish objectives, and ultimately set out a strategy for addressing infrastructure and public service needs.

### FINANCING DECENTRALIZATION

Beginning with the moderator, Armando Barrios of IESA, and continuing through to the last panel, fiscal issues were a central theme as well. Barrios raised a number of critical questions that have yet to be adequately addressed in the policy discussion on decentralization. One of the fundamentals of fiscal federalism—that financing levels should always be determined precisely by the functions to be carried out by subnational authorities—has been given little attention. In addition, Venezuela cannot afford to discount the importance of accountability, the dangers of debt and weak fiscal discipline, and the value of cooperative intergovernmental fiscal relations.

Rodrigo Cabezas, a member of the finance committee of the National Assembly, explained that just

### Principles of a Well-Designed State Finance Law Adapted from Remarks of Rodrigo Cabezas, National Assembly

1. *Ensures macroeconomic stability.* The macroeconomic pressures faced by Brazil and Colombia, for example, demonstrate the peril of unregulated, poorly defined subnational financial regimes.
2. *Fiscal co-responsibility should be targeted.* All levels of government as well as civil society need to become engaged in developing and preserving an effective, transparent subnational fiscal system.
3. *Efficiency and effectiveness should be twin goals.* Financing should be allocated according to clearly defined subnational functions. Allocations should establish appropriate incentives.
4. *Pursue transparency and accountability.* In the absence of open, participatory government and effective oversight mechanisms, waste and corruption prevail.
5. *Work to achieve territorial equity.* In the absence of measures to promote horizontal equity across state governments, some of them will have tremendous advantages under decentralization and inequality may well increase.
6. *Simplicity as a rule.* Simple, easily understandable formulas for the distribution and use of financial resources help preclude inefficiency and corrupt practices.

as political decentralization has become a part of Venezuela's political culture, it is now time to move toward fiscal decentralization. The 1999 Constitution provides for a state public finance law, and the Assembly has been developing this legislation and other key fiscal measures required to achieve these ends. According to Cabezas, the state finance law, which has been a central issue for more than a decade, is warranted for four reasons. This law is needed, first, as a major first step toward consolidation of the fiscal autonomy of states. Second, in order to engage the community in the affairs of government, states must have the resources to act on local demands; otherwise, state legitimacy will suffer. Third, Venezuela needs to move away from the centralized, oil-dependent economy and government financing that has perpetuated intergovernmental conflicts. State governments rely on central fiscal transfer for some 98% of their revenue. Finally, a new law would promote the development of a culture of tax payment, increased fiscal coresponsibility, and ultimately better accountability.

Didalco Bolívar, the governor of Aragua, explained that problems in Venezuela's public

financing system have acted as obstacles in developing greater fiscal co-responsibility among the levels of government. Difficulties include an inadequate budget structure, debt constraints, declining revenue, and a fall in government spending on public investment, among other areas. The management and control of public debt as well as intergovernmental budgeting issues also pose problems.

### DECENTRALIZATION AND PARTICIPATION

Rosa Amelia González, of IEASA, opened the panel on participation with a review of the importance for democracy of positive relations between citizens and their local governments. She noted in her remarks that more advances could result from the newly proposed laws on participation, federal-state government relations, and the system of municipal governments. Clemente Scotto, a former mayor and current advisor to the National Assembly, subsequently emphasized that decentralization builds space for the development of collective responsibility among the levels of government and its citizens. In this sense, decentralization demonstrates confidence in civil society and faith in its ability to exercise power.



## SEMINAR ON DECENTRALIZATION AND DEMOCRATIC GOVERNANCE: A CHALLENGE FOR VENEZUELA

CARACAS, VENEZUELA - JUNE 13, 2002

## The Institutional Framework for Decentralization: The Proposal for a Federal Council of Government

- o Carlos Mascareño, CENDES
- o José Julián Hernández, Carabobo State Government
- o Juan Fernández, Mayor, Los Salias Municipality, State of Miranda

## Financing Decentralization

- o Armando Barrios, IESA
- o Rodrigo Cabezas, Finance Commission, National Assembly
- o Didalco Bolívar, Governor, State of Aragua

## Decentralization and Participation

- o Rosa Amelia González, IESA
- o Wilfredo Febres, Deputy, National Assembly
- o Clemente Scotto, National Assembly
- o Jesús Puente, Rafael Landívar University, Guatemala

Without political accountability or the capacity and desire of civil society to respond to local authorities—the community's needs will go unmet and corruption will follow. Ultimately, effective citizen participation entails a continuous process of cultural change. In discussing the variety of formal mechanisms for participatory government, Wilfredo Febres, a deputy in the National Assembly, pointed out that decentralization and participation are receiving considerable attention throughout Latin America. In Venezuela, the Congress is considering a citizen participation law that is aimed at developing a participatory and representative democracy. The proposal includes a variety of mechanisms, such as open meetings, popular consultation, and citizen assemblies. One of the most important provisions, Febres noted, is a process for citizen oversight of the execution and

administration of local resources, including the power to remove elected officials should problems arise.

Jesús Puente, a political science professor at Rafael Landívar University in Guatemala, provided a comparative perspective. Puente discussed the institutional framework, subnational finance system, and nature of participatory government in Guatemala. Despite the differences across countries, he argued, most have a number of central problems in common. Puente hypothesized that the creation of mechanisms to ensure democratic participation can erode representation. In addition, he argued, without adequate political, economic, and human resources, decentralization does not necessarily lead to good and legitimate government and may contribute to a crisis of institutional legitimacy.

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