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Seeking Better Policies or Just Giving Up Responsibility?

The Decentralization of the Argentina's National Housing Fund (FONAVI)


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Outline

- Review of the decentralization literature
 - ✓ Definition and forms of decentralization
 - ✓ Theoretical benefits and risks
 - ✓ Golden rules for a successful decentralization
- The decentralization of FONAVI
 - ✓ Overview of FONAVI
 - ✓ The decentralization of FONAVI
 - Motivation, policy framework, implementation process
 - ✓ Main outcomes
- Conclusions

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Decentralization

A brief overview

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Definition of decentralization

- The transfer of:
 - ✓ planning, decision-making, or administrative authority
- from the central government
- to other entities, including:
 - ✓ its local administrative units,
 - ✓ semi-autonomous or quasi-public organizations,
 - ✓ sub-national governments, non-government organizations
 - ✓ the private sector

(Rondinelli, 1983)

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Forms of decentralization

- Based on:
 - ✓ the level of authority being transferred, and
 - ✓ the level of autonomy of the decentralized entity
- Four forms of decentralization can be distinguished
 - ✓ deconcentration
 - ✓ delegation
 - ✓ devolution
 - ✓ privatization

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Devolution

- It refers to
 - ✓ the transfer of authority for decision-making, finance, and management
 - ✓ from the national government
 - ✓ to autonomous sub-national units of government.
 - Given ...
 - ✓ The high level of authority being transferred and
 - ✓ The autonomy of sub-national governments
- devolution has the potential to:
- ✓ Yield theoretical benefits
 - ✓ It is also one of the more risky forms of decentralization

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Potential benefits of decentralization

- Improve allocation of public resources
 - ✓ As local authorities presumably know preferences better
- Improve public management
 - ✓ As local authorities are presumably more accountable to their constituencies
- Reduce red tape and bureaucracy
- Achieve greater representation
 - ✓ As public input can be more easily sought at the local level
- Foster innovation while minimizing the risks
- Improve credibility and legitimacy of the

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Potential risks of decentralization

- Decline in the delivery of public resources
 - ✓ As local governments might lack the needed technical capacity
- Undue influence of local elites in resource allocation
- Widening geographical disparities in social spending
 - ✓ Health and education
- Loss in economies of scale
- Loss of control of scarce financial resources

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Empirical evidence on decentralization

There is **little empirical** evidence to support any of the theoretical benefits or pitfalls of decentralization



It all depends on how decentralization is **designed** and implemented

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Golden rules for decentralization

- Strike a balance between authority and accountability
 - ✓ Grant sub-national governments sufficient authority (**means**)
 - Legal
 - Human and financial resources
 - ✓ Make sub-national governments responsible for their performance (**incentives**)
 - Performance tied to incentives and penalties

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Golden rules for decentralization (cont.)

- The national government needs to fulfill its various responsibilities
 - ✓ **Regulation**
 - Policy framework – rules of the game
 - ✓ **Enforcement**
 - Which rules are being enforced
 - ✓ **Redistribution and other national objectives**
 - Allocation of resources among sub-national governments
 - Criteria for selection of final beneficiaries
 - ✓ **Evaluation and learning**
 - Foster innovation and cross-fertilization

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Golden rules for decentralization (cont.)

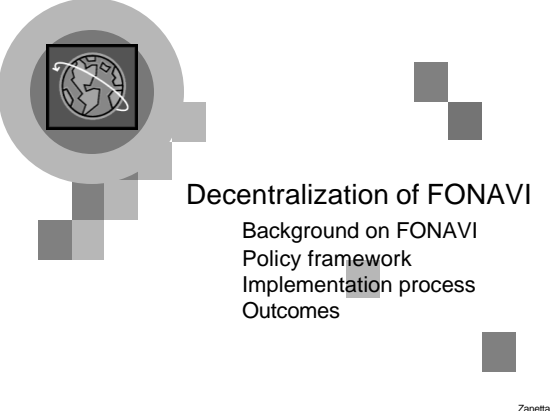
- Make sure that the implicit assumptions about governance are in place
 - ✓ Enhance knowledge of **local preferences**
 - Participatory mechanisms
 - If possible, make them binding to counteract local power elites
 - ✓ Enhance **'political' accountability** of sub-national officials
 - Set in place and disseminate measures of performance that allow for inter-jurisdictional comparisons
 - ✓ Ensure adequate **technical and institutional capacity** at the sub-national level

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Golden rules for decentralization (cont.)

- Devise a sound and realistic implementation process
 - ✓ Partial or incremental implementation processes
 - ✓ 'Certification' of sub-national governments

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Decentralization of FONAVI

- Background on FONAVI
- Policy framework
- Implementation process
- Outcomes

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A brief overview of FONAVI

- Argentina's housing policies have historically been regressive, ineffective and non-experimental
- FONAVI has been the flagship housing agency since its inception in 1972.
 - ✓ Its objective is to attend the housing needs of the lower-income segments of the population
 - ✓ It controls the majority of the national resources allocated to housing—I.e., 97.3% in 1999
 - ✓ It was plagued by inefficiencies, such as poor coverage, narrow focus on high-cost finished housing, poor cost recovery, high administrative costs, lack of transparency

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Housing policies in Argentina's reform program

- Housing was given a low priority in the context of Argentina's Convertibility Plan
- The main actions during this period include:
 - ✓ The privatization of the *Banco Hipotecario* (National Mortgage Bank)
 - ✓ Some progress toward the development of secondary markets
 - ✓ Nominal pro-poor initiatives, such as land tenure legislation
 - ✓ FONAVI
 - Change in the funding formula to reduce national government's burden
 - Decentralization of FONAVI funds to provincial governments in 1992²⁰

Decentralization of FONAVI

- Politically motivated
 - ✓ A bargaining chip in the negotiation of the Fiscal Pact of 1992
 - ✓ Provincial governors agreed to a 15% reduction in automatic transfers
 - ✓ The transfer of FONAVI made the deal more appealing
- Decentralization made sense
 - ✓ Given the historically poor performance of FONAVI and
 - ✓ The wide diversity among Argentina's provincial governments
 - Geographic and demographic factors
 - Institutional frameworks

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Policy framework

- Authority
 - ✓ Provincial governments were given full authority to manage FONAVI funds
- Accountability
 - ✓ 1995 FONAVI Law aims at improving performance
 - Targets aimed at re-direct spending away from finished housing units
 - ✓ More emphasis on loans to final beneficiaries – 15 to 45% in 1998
 - ✓ More emphasis on community infrastructure – up to 20%
 - Future allocation of funds to be tied to performance
 - ✓ Based on use of funds and levels of cost recovery and provincial investment
 - ✓ More emphasis on community infrastructure – up to 20%
 - Provisions to enhance transparency
 - ✓ Registers of final beneficiaries

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Performance of the national government

- Regulation
 - ✓ Passed the 1995 FONAVI Law +
- Enforcement
 - ✓ Did little to enforce the legal framework -
 - Allocation of funds was never modified despite poor performance
- Redistribution and other program objectives
 - ✓ Allocation of resources was 'somewhat' technical -
 - ✓ No incentives aimed at improving targeting and coverage
- Evaluation and learning
 - ✓ Did little to foster innovation and disseminate best practices -

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Implicit assumptions

- Knowledge of local preferences
 - ✓ No mechanisms to promote public participation
- 'Political' accountability
 - ✓ Some measures of performance that allow inter-jurisdictional comparisons
 - Not widely disseminated – more bureaucratic than anything else
- Technical and institutional capacity
 - ✓ No technical assistance, although some IPV's are very weak
- Evaluation and learning
 - ✓ Did little to foster innovation and disseminate best practices

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Implementation process

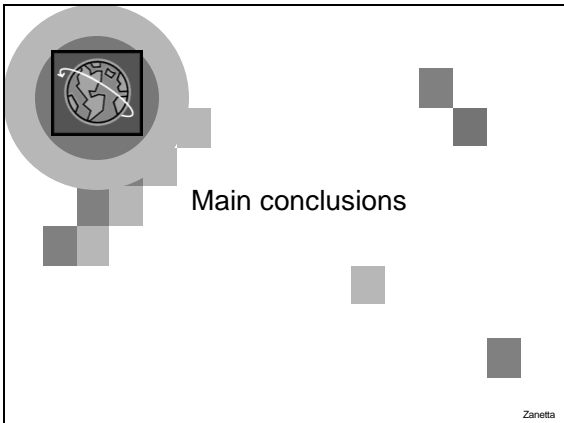
- It was done without previous planning
 - ✓ Funds were transferred in their totally without any prior actions
- Legal framework was developed ex-post
 - ✓ Developed by technical staff in an attempt to introduce some rationality

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Main outcomes

- A few marginal positive outcomes
 - ✓ Provincial contributions have increased
 - ✓ Construction start-up times have decreased
 - ✓ Greater variety in institutional arrangements
- Significant negative outcomes
 - ✓ Substantial increase in administrative costs – 22% in average
 - ✓ Disparities among provinces have widened significantly
 - ✓ Less transparency in the selection of final beneficiaries
- The main shortcomings have persisted
 - ✓ Continued emphasis on expensive, finished housing
 - ✓ Poor cost recovery

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Main conclusions

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Main Conclusions

- Politically motivated decentralization policies do not necessarily render any benefits.
 - ✓ Instead, many of the risks can materialize
- The national government virtually abandoned its policy making responsibility
 - ✓ Technical capacity at the national level was dismantled
 - ✓ Enforcement was nil; no efforts to foster cross-fertilization
- A window of opportunity to improve FONAVI's performance was lost
 - ✓ There were no efforts to systematically improve performance
 - ✓ Performance at the provincial level depended on quality of governance in each province

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