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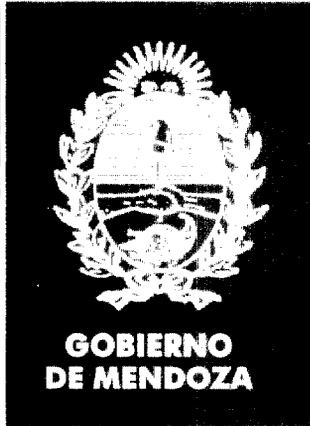
# Innovations and Risk Taking

*The Engine of Reform in Local Government  
in Latin America and the Caribbean*

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GOBIERNO  
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PARA QUE MANIZALES SONRIA

*Tim Campbell*

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# Innovations and Risk Taking

*The Engine of Reform in Local Government  
in Latin America and the Caribbean*

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*Tim Campbell*

*The World Bank  
Washington, D.C.*

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# CONTENTS

Foreword.....	v
Abstract .....	vi
Acknowledgments .....	viii
I. Introduction.....	1
II. Context and Problem: Sustaining Innovation After the Quiet Revolution .....	2
Coping with the Quiet Revolution .....	2
Sustaining Innovation and Reform .....	4
III. An Inquiry into Dynamics of Change.....	5
Purpose and Scope of Study .....	5
Methods: Selecting Cases of the New Generation of Change Makers .....	6
Sample Cases: Old and New, Simple and Complex .....	8
IV. Findings and Conclusions: Care and Maintenance for Engines of Change.....	14
Origins and Context .....	14
Scale and Launch: Keeping it Simple, Gradual Elaboration .....	15
Social Relations and Communications to the Public.....	17
Themes of Future Reform .....	18
V. Policy Directions for Donors: Moving from Innovation to Reform ..	20
Policy and Strategic Focus .....	20
Getting Started.....	20
Process and Dynamics .....	23
From Maiden Voyage to Self-Sustaining Reform in Cities.....	26
References .....	28



## FOREWORD

This is an interim report on the findings of sector work sponsored by the Technical Department of Latin America and the Caribbean (LAC) Regional Office of the World Bank. The work draws attention to cross-disciplinary issues which affect more than one country or set of countries in sub regions. The study represents an attempt to embody the principles of brevity, timeliness of findings and their utility to practitioners and Bank staff. Entitled **"Decentralization in LAC: Best Practices and Policy Lessons,"** the study takes stock of the most promising innovations now appearing in cities across this region, largely as a result of a new institutional environment put in place after decentralization and democratization.

The purpose of this work--in contrast to many reports which document best practice--is to deepen our understanding of the genesis and evolution of such best practices. One of the most striking features of change in the region is that local authorities are change makers often without help from outside donors. The author, Tim Campbell, calls these enterprising risk takers an "engine of change." Twenty specific cases of innovation have been documented in the study covering a range of areas. Five representative cases are described in the present paper. These aim to show in policy and practical terms ways to increase the velocity of the engine of change.

**One of the central messages of this report is that by supporting creation and adoption of best practice, donors can enjoy a cost-effective impact in achieving the next stages of reform in the region. But to do so, the Bank and other donors must focus on the local level in terms of policy as well as engage in issues of urban management and systemic reform which occurs when political reform takes place. The Bank can continue to build on the foundation of participation in public choice and work more actively to help local actors learn from each other.**

The publication of this report adds to a stream of activities already carried out, all designed to put the conclusions of this study into the hands of practitioners, professionals, borrowers, and Bank staff. Several seminars and policy work shops have discussed the findings contained in this report. We also intend to publish the individual cases and findings in a single volume in the near future.



Sri-Ram Aiyer  
Director  
Technical Department

## ABSTRACT

Decentralization and democratization in LAC are creating a new institutional environment for local authorities and have triggered spontaneous reforms in governance in many large cities. A new generation of reform mayors has produced a wave of innovations--upgrading professional staffs, raising taxes and user fees, delivering better services, and mobilizing participation in public choice-making. With little help from outside, these leaders may be laying the groundwork for long term change.

This paper summarizes a LACTD study designed to deepen our understanding of innovation in local government. The study documents 20 cases of best practice at the local level. For this review, five of these cases have been selected to broadly represent the complexity, sector, geography and age of innovations. The cases are:

1. **Cali**, Colombia--incorporation of the private sector in public management and services, dates to the 1920s;
2. **Curitiba**, Brazil--multiple innovations over 30 years has produced an integrated transport system that moves 75 percent of the city's passengers at a thousandth the cost of a metro;
3. **Manizales**, Colombia--a home-grown institute professionalizes municipal staff;
4. **Mendoza**, Argentina--a program of credit involves intense participation to identify and build infrastructure, secured by social censure, in poor neighborhoods;
5. **Tijuana**, Mexico--a US\$170 program to remake the city after a flood was subjected to a city-wide referendum to affirm willingness to pay benefit levies.

The cases produced a wide range of insights and suggestions.

- **Champions and visionaries innovate**--and though natural leaders cannot be cloned, outside agencies can help to stimulate leadership and encourage prospective risk-takers. Since leaders learn from each other, agencies can help to gather good ideas, finance basic informational and managerial tools, offset risks of innovating, incubate promising ventures, and disseminate success stories.
- **The counterparts of leaders are grassroots organizations.** Successful innovators engage local groups extensively to sound out needs and get feedback. Leaders also have broken new ground in communicating to the public and in mobilizing local groups to help implement small scale projects.
- **The study shows that innovators are restoring the severed ties between voter taxpayers and their governments.** Decades of centralized governance have broken this linkage. Restoring it is fundamental to mobilizing finance, recovering costs, instilling legitimacy and ensuring sustainability.

For the Bank and other donors, perhaps the most important finding of this study is about the many opportunities to foster and deepen reform, especially at the local level. Though many innovations trace their roots to national reforms and to a new environment for innovative leadership, actions at the local level are also needed. Innovators are driven by a desire to meet public needs, and leaders are ready for new ideas. They show a growing self-interest in controlling their own destinies--by taking advantage of trade pacts, competing for

investments, and generating local jobs. Donors can help in many ways--shape the institutional environment to encourage change, incubate promising ventures and evaluate and disseminate results. The strategic aim should be to turn spontaneous change into sustained reform.

## ACKNOWLEDGMENTS

This paper is based on case materials and conferences developed as part of sector work by Technical Department, Latin America and the Caribbean Region, entitled “Decentralization in LAC: Policy Lessons and Best Practices” managed by Harald Fuhr and Tim Campbell under Malcolm Rowat, Public Sector Modernization Unit, Technical Department. The present paper is a preliminary assessment of case findings from that project and is written in Harald’s absence (during his tenure with the WDR team). A full report on the project will be issued under joint authorship in 1997. I am very grateful to Harald Fuhr, Florence Eid, Fernando Rojas, Joseph Tulchin, Marcela Huertas and Pamela Lowden for many useful comments and suggestions. The paper expands on an earlier version with the same title published in the *Urban Age* in December, 1995

## I. Introduction

Decentralization in Latin America and the Caribbean has dramatically transformed the face of the local public sector, producing a quiet revolution of popular participation in local public choices. Decentralization has had its share of frustrations, dangers, and false starts in Latin America and the Caribbean Region. Fuzzy or overlapping divisions of labor, associated threats of fiscal instability, and new ways to finance urban infrastructure, still remain to be resolved in many countries (see Aiyer, 1996). But decentralization has also produced a new generation of leaders. Several opinion polls show that local, elected officials are more trusted by voters and more responsive than ever to their constituents. They are also energetic, proactive, and vocal. New leaders exhibit a drive to deliver, and this makes them eager consumers of new ideas and techniques. They have invented or adopted many ways to mobilize local participation, strengthen organizational capacities, and even raise local taxes, despite increasing flows of shared revenues from central governments.

Local elected leaders share a common understanding of the fiscal and political pressures from above and below--from national political figures and from their constituents--and this understanding also makes them keenly aware of the risks involved in launching innovations. The drive to innovate is an engine much more powerful than national fiat at achieving and sustaining the second stage of reform in LAC. Consequently, understanding the innovations process--origins, refinements, and dissemination--is not only important in policy terms, it may well point to shortcuts in operational assistance.

Our sector work, on which this report is based, aims to gain new insights into this risk taking process.<sup>1</sup> Launched in 1994, the *objectives* of the study are to (i) *identify breakthroughs* in decentralization achieved in specific countries and sectors; (ii) *analyze success stories*, to explore their origins and application elsewhere in the region; and (iii) to *disseminate best practice* by sharing findings with Bank staff and policy makers through a series of sub-regional seminars and conferences.

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<sup>1</sup> The term *sub-national level* will be used throughout the text to describe *all* levels below the national level, i.e. local and municipal, regional and intermediate, and sometimes '*meso*' levels. The terms local and municipal as well as the terms intermediate, meso, regional, and provincial level are used interchangeably, unless otherwise noted.

## II. Context and Problem: Sustaining Innovation After the Quiet Revolution

### Coping with the Quiet Revolution

The decentralization of governance began in much of LAC well before the 1980s, but progress was intermittent and marked by dramatic financial rearrangements and stunning political reforms, only then to be suspended or slowed by centralist instincts of many national governments in the region. Nearly all governments took actions in three areas of reform: fiscal relations, democratization, and local governance.

**1. Political and Fiscal Reform.** In the rush to share power, many governments promulgated decentralization without fully thinking through how national objectives--for instance in health, education and welfare--could be reconciled with decentralized powers of decision-making and spending by subnational governments. Thus, for the first few years of decentralization, transferred moneys in large quantities were, to caricature the situation, "finances chasing functions," (although in some cases local governments were saddled with new responsibilities without transferred revenue). Most local governments were left with a good deal of discretion on how to spend, and this ambiguity, plus continued spending by national governments on local things, left excess funds at the local level, at least during the initial years of decentralization. Local governments from Guatemala to Argentina have been spending 10 to 40 percent of total public spending amounting to significant fractions of GDP. (See Table 1.)

But though some state governments sank into debt--Sao Paulo and Cordoba are two outstanding examples--by and large, municipal governments avoided precipitous spending and did not create destabilizing pressures as many observers feared. A good share of future work in intergovernmental fiscal affairs is to restore the balance between finance and spending.

Some of the most progressive local governments--Manizales, Valledupar, and Mendoza Province are covered in this study--show how this can be done.

**Table 1: Local Spending as Percentage of Total Public (Selected Countries)**

Country	1980	1992
Argentina	36.4	48.1
Colombia	27.2	33.0
Chile (1970)	4.7	12.7

Source: Lopez Murphy, 1994.

**2. Democratization.** Another trend sweeping the region and bolstering the fiscal nature of reform in LAC is the democratic transition. Since the mid 1980s, countries are not only selecting national leaders democratically, but are also choosing virtually every executive and legislative officer in the more than 13,000 units of state (i.e., intermediate) and local governments. All but a few islands have completed this transition. Moreover, electoral reforms--for instance, switching to uninominal elections and requiring candidates to publish programs during campaigns--has been promulgated in a dozen countries and is under active consideration in many others. Electoral choice making, together with widespread popular

participation in decision making, planning, spending, and implementation of projects amounts to a quiet revolution of local governance.<sup>2</sup>

**3. A New Model of Governance.** Ironically, spending power and transferred revenues fueled democratization at the local level and created new energies. Many in the new generation of leaders, fresh with mandates and ideas of reform, began to rejuvenate municipal institutions and to create a new model of governance. The new governance model is characterized by i) a new leadership style; ii) by more professional staffing in executive branches; iii) by tax and revenue increases; and iv) by much stronger participation in public choice making.

- Perhaps the most startling change is that more qualified persons are seeking local public office. Surveys of office holders elected over the past five years in Central America, Paraguay and Colombia reveal that the ratio of professionals has jumped from around 11 percent in the early eighties to more than 46 percent in the nineties.
- More qualified office holders are bringing in more professional staff. A sample of 16 municipalities in Colombia for which detailed data were gathered show that over the past ten years, the ratio of total staff to professionals dropped from 12:1 to 4:1. Mayors reported that these changes were aimed at tooling up to deliver better services.
- Contrary to many predictions, many local governments are able to increase levies on their populations, because, to paraphrase many local executives, “when taxpayers see they are getting new services, they are willing to pay.” (See Table 2.) The rate of property tax increases doubled over the past decade across the entire spectrum of Colombia’s more than 1000 municipalities. The average increase in the late eighties was 7.5 percent; the average increase in the early nineties: 15 percent. The Colombian increases are partly due to requirements for revenue sharing, and partly, in specific cities, because mayors sought to tie levies, like gasoline surcharges and betterment taxes, to specific improvements in service. Some mayors have simplified cadastres (La Paz), or introduced self-assessments (Bogota) or both (Quito). Still others (Puerto Alegre, Tijuana) have simply raised property tax collections.
- Mayors have also stepped up participatory consultations, using a large variety of communications and consultative techniques to sound out preferences of their constituents. In many cities, we observed that once this participatory process is unleashed, a new

**Table 2: Recent Own Source Revenue Increases** (Selected Cities)

City	Year	Increase
Puerto Alegre	1991-95	22%
Tijuana	1989-94	58%
Manizales	1988-94	165%
La Paz	1990-95	218%
Valledupar	1988-94	246%
Villanueva (HO)	1991-93	373%

Source: Personal communication.

<sup>2</sup> From *The Quiet Revolution: The Rise of Political Participation and Local Government in Latin America and the Caribbean*, by Tim Campbell, Technical Department, Latin America and the Caribbean Region, World Bank. Forthcoming.

frontier of expectations is created, making it difficult to ignore the voice and preferences of voter taxpayers in succeeding rounds of programs and elections.

### **Sustaining Innovation and Reform**

These and many other changes--for instance the incorporation of civil society and the private sector into local public life--have transformed the nature and style of local government. More important, a wave of reforms creates new opportunities for self-sustained growth. However, the Bank's policy dialogue with governments has lagged somewhat behind the dynamic of change at the subnational levels. Country Departments are focused, appropriately so, on sustaining fiscal balance and redressing the mismatch between local functions and financial resources. But the translation of this focus into operations--in public sector modernization and state reform loans--often fails to address municipal levels and ignores the growing cultural and business matrix building up in cities and regions. Several countries exhibit robust *horizontal* linkages being forged by business interests and actors in civic affairs. These alliances underpin local and regional economic activity in industrialized countries. Still another feature of the new era of governance is that local governments are claiming a more prominent place in national and local growth (e.g., see Campbell, 1996).

Taken together--newly emerging regional interests, innovators, and proactive local governments--these changes constitute an opportunity for the Bank and donors to leverage assistance capacity by taking advantage of and building on the new dynamic already underway in LAC. A key step in moving toward self-sustaining change is to understand the process of innovation.

### III. An Inquiry into Dynamics of Change

#### Purpose and Scope of Study

Although the Bank has paid much attention to the financial and fiscal issues in decentralization, with few exceptions (such as the Venezuela Public Sector Review), Bank analysts pay insufficient attention to political and institutional preconditions needed to trigger reform. A number of organizations have developed large body of data and information about innovations in the U.S. and the developing world.<sup>3</sup> Of those concentrating in emerging nations, only the Urban Management Program (UMP), run jointly by the World Bank and UNDP (Hopkins, 1995), gives attention to the origins and dissemination of innovations. The present study is designed to redress this shortcoming.

Though innovations may be found in other areas of municipal and regional governance, five areas were identified as central to governance at the local level, and important for the Bank mission. These are:

1. **Administrative performance**--the increase in professional capacity, administrative reorganization and strengthening, expansion of training programs, and the like;
2. **Fiscal management**--efficient and transparent intergovernmental transfer systems and creative mechanisms to mobilize and manage local financial resources;
3. **Public service provision**--improved efficiency in delivery, more effective coordination among levels of governmental and new options for service delivery, such as contracting out, privatization, and the like;
4. **Enhancing private sector development**--arrangements which foster local private investment, activate private sector participation in policy and services at the local level and improve public responsiveness to private sector needs;
5. **Participation in local and regional decision making**--expansion of options for local voice, participatory planning, and consultative mechanisms, among others.

The singular feature setting this study apart from others about best practice is the focus on contextual conditions and origins of innovation. Each of the cases aims to take account of historical, political, economic and cultural factors which might help explain not only the genesis of innovation, but also to gain insight into conditions for replication.

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<sup>3</sup> The best known are i) the Ford Foundation's Innovations in American Government Program administered by the John F. Kennedy School of Government at Harvard University (see Altshuler and Zegans, 1990); ii) the Fiscal Innovation and Austerity program at the University of Chicago (see Clark, 1991); and iii) the Urban Management Program, managed jointly by the UNDP and the World Bank.

## Methods: Selecting Cases of the New Generation of Change Makers

**Criteria and Selection.** Cases reflecting change in the five areas were selected mostly on the basis of reputation. A first cut list of over 30 cases was compiled from various sources inside and outside the Bank. Nominations were based on anecdotal evidence gathered in the course of professional work, on published studies and unpublished reports, and on interaction among professionals in conferences and seminars. An effort was made also to include cases which are relatively new, as well as older innovations which have spawned secondary changes at the local level and beyond. In this respect, the study seeks to take account of conditions before decentralization. Also, not all of the innovations were completely successful, but all moved toward an improved standard of practice, and all but one have survived more than one political administration. In addition, geographical and sectoral criteria were applied to achieve a broad cross section of experiences in LAC.

**Table 3: Cases by Area of Impact**

Case	Admin	Fiscal	Service	Private	Partpn
Cali Waste	†		†††	††	
Cali Private			††	†††	†
Conchali	†		††		†††
Curitiba Planning	†††		††		
Curitiba Transport	†		†††	††	
El Salvador			†††	†	††
Manizales Admin.	†††		†		
Manizales Fiscal		†††			
Manizales Waste			††	†††	
Mendoza Budget	††	†††			
Mendoza Infra.	†	††	†††	†	†††
P. Alegre Budget	†	††			†††
Tijuana Manos	†	†	††		†††
Tijuana PAU	†	†††	††	†	††
Valledupar Fiscal	†	†††			
Valledupar Paving	†	†	†††	†	†
Valledupar Police	†		††		†††

Key to impacts

††† = primary	†† = secondary	† = tertiary
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Source: Campbell, Fuhr, and Eid, 1995.

**Preparation of Cases.** From the first cut list, the study team selected 20 cases and, together with consultants, and country collaborators in Brazil and Colombia, produced 17 case studies following terms of reference which place emphasis on the context and origins of the innovation.<sup>4</sup> Table 3 maps out each of the cases studied and indicates the primary (and secondary and tertiary) areas affected by the innovation.

The five cases shaded in Table 3 are reviewed in detail below (Table 4). They are representative of flavor and scope of the 20 cases prepared to date<sup>5</sup> Many of the cases “spillover” across our categorical boundaries. “Participation,” for instance is found everywhere. Sometimes cases impact several major areas. Tijuana for instance is about participation, fiscal reform, and infrastructure services. And it would be undesirable and counterproductive to maintain a clean separation of these aspects.

**Table 4: Selected Cases: Age, Context, and Scope**

City/ Country	Innovation	Scope	Complexity	Generation year launched
Cali	private role in public life	planning, finance, and management of public business by private sector	simple	multiple 1920s
Curitiba	transportation	integrated urban transport system building on sequence of innovations	complex	multiple 1960s
Manizales	municipal training institute	integrates training program with city job categories and career advancement	simple	first 1990
Mendoza	social censure to guarantee credit	infrastructure finance in low-income households	complex	first 1991
Tijuana	public choice on infrastructure program and costs	investment program and costs to taxpayers were subjected to public referendum	complex	first 1991

Source: Author.

<sup>4</sup> Three additional cases are under preparation as of this writing. Additional information is available from the author about team members, case authors, terms of reference, as well as about the agendas of the two regional meetings and two in-house seminars organized as part of the dissemination effort in this work.

<sup>5</sup> It should be noted that a deliberate decision was made to not study failures, on the following methodological grounds: i) Bank staff and professionals are familiar with many of the common impediments and pitfalls that defeat innovations; ii) success stories of a representative cross section often will have overcome the problems that typically lead to failures.

## Sample Cases: Old and New, Simple and Complex

Before delving into the cases, it is helpful to see them in four broad (and somewhat overlapping) categories--‘simple’ and ‘complex’ and ‘first’ and ‘mature’ generations. The term ‘simple’ refers to an innovation of a tool, technique or process familiar and central to the everyday flow of municipal business, like training of municipal officials, budgeting, city planning, management and finance, and the like. In reality, simple projects are not simple in any sense of the word. The distinguishing feature of simple cases is that they do not involve extensive contact with large segments of the public. More than half the cases selected in this study fall into this ‘simple’ category. The balance, of ‘complex’ cases, involve extensive participation of the public, neighborhood groups, volunteer organizations, the voters at large. For instance, some experiences have convened thousands of meetings to determine city spending priorities or to work out neighborhood indebtedness arrangements. These cases are more elaborate and more complicated, and in our scheme, ‘complex.’ Simple and complex cases can be either a first innovation in the city or fall into a series of several or more. Manizales for instance set up a training institute, reformed its finances, started new health care, and launched innovate waste service, all within mostly one political administration. Curitiba on the other hand launched a long series of innovations branching out from land use to transport to solid waste and management of commercial vendors, all over a period of 30 years.

Complex and mature cases build sequentially on past innovations, and this broadens the scope of inquiry somewhat to include the conditions for sustained change, often under the assumption that a propitious environment has been enriched, and management of the innovation process becomes a new level of endeavor. In all cases, we focus on the “breakthrough” of the initial innovation. These aspects of complexity and age, together with more detail about the scope of innovations, are also presented in Table 4.

### 1. Cali: Private Sector Roles in Public Administration and Management<sup>6</sup>

The Cali case is a style of administration and management based on tight-knit interaction between public and private sectors at the local (municipal) and intermediate levels of government (*departamentos* in Colombia) and with multinational corporations. Cali and the Valley of Cauca were chosen for the study precisely because for more than 50 years, large family enterprises and multinational corporations have worked closely with local administrations in a variety of joint ventures. Both public and private sectors have been characterized by openness to innovations, have engaged in administrative initiatives, and have maintained strong links with each other and with the church, the regional university, and local and international NGOs and corporations. More than half of the corporations that founded the *Fundacion para el Desarrollo Integral del Valle* (FDI), the main development organization for consensus building in the region, were multinationals.

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<sup>6</sup> The full case of Cali was prepared by Fernando Rojas. Thanks to Marcela Huertas and Fernando Rojas for assistance with this summary.

Public-private cooperation in Cali takes many forms--rotations of businessmen and managers in public posts, open consultations, advisory boards, money raising, and direct provision of public services by private foundations, as in the case of public parks reported in a companion study (Rojas, 1996a). Private enterprise also shared costs of training personnel and carrying out market and consumer research. Generally speaking, these interactions have been instigated by the private sector as a way to streamline government and make necessary public functions more efficient and less subject to bureaucracy, clientelism and administrative corruption. Both public and private interests stood to gain from improved quality of public management. This cooperative attitude was extended into parks, planning, services and housing for the poor, and other areas.

Cooperative arrangements have an impact beyond proficiency in services or infrastructure. Perceptible repercussion can be seen in: (i) a stronger orientation of public servants towards the client; (ii) changes in the form and quality of management in all its dimensions--planning, finance, coordination and controls, and efficiency; iii) and the establishment of precedents and indirect competition with traditional administrative structures. The novel forms of interaction preview state-society relations needed in a decentralized system of government.

The Cali style of interaction also has its drawbacks. Close ties of public and private sectors are not always conducive to efficiency in resource allocation, nor in production, as both public and private interests can sometimes be dominated by rent-seeking. Also, not all bureaucratic rigidities have been eliminated, nor have personalistic and clientelist behaviors been weeded out of the middle levels of public sector. Another problem is that the Cali style also sets up a kind of shadow government, parallel to the mayor's and governors professional staffs, and this creates confusion and raises costs of both. The style also encounters inevitable tensions between the administrative procedures of the state on the one hand, and on the other, the modern business practices of strategic planning, flexibility, management of risks, and the like. But entrepreneurs have succeeded in imparting a private sector drive, and both sides have achieved a cooperative mentality and a larger vision, and have established significant gains in the composition and orientation of administrative personnel, buttressed by a network of corporate associations and managerial expertise in the region

Circumstances such as its historical development, city pride, and regional identity may be decisive in explaining the Cali innovations and therefore limit the applicability of the public-private styles invented there. But many big cities, and even smaller ones on the periphery of regional centers like Cali, can benefit from the self interests of private enterprise, rich with human and financial resources usually found in large national and international firms, regional universities, research centers and non profit foundations.

## **2. Curitiba: Integrated Transport System**

Curitiba has been successfully innovating in the transport sector over the past 25 years. Successful public transit in Curitiba is a good example of "public authorities thinking private and private enterprise thinking public." Curitiba explicitly favored public transportation over

the private automobile by developing or adapting technologies appropriate to the transit problems, ridership needs, street and city layout, and availability of capital in Curitiba. Furthermore, Curitiba pursued strategic principles, guided by a master plan and bolstered by good data on land and transit needs and land use enforcement tools. The key innovations in the transportation system are:

- conscientious integration of land use planning, road design and public transport
- joint operation of the transportation system with the private sector
- integrated system with revenue sharing of fares
- flexibility to expand the system (special buses, boarding stations, advanced ticket sales)
- emphasis on equity and affordability (measures to keep costs low and assure high-quality service to the poor and sparsely-populated areas of the city)

*After implementing a downtown mall and the two major thoroughways in Curitiba, multiple innovations followed--a system to share bus revenue among many private operators, expanded routes, lengthened busses, quick loading, advanced ticketing, and eventually an integrated system which begins to approach the volume of traffic of fixed rail lines at a tiny fraction of the cost.*

These innovations were rooted in a visionary, flexible master plan that challenged the strong momentum built up by growing use of the private automobile. The plan and early innovations--a pedestrian mall serving as a downtown terminus--matured while technical capacity

was gaining strength in a city planning agency. The bold departures in Curitiba were mainly home-grown and nurtured by consistent political support across many municipal administrations and by the positive effects of federal and metropolitan relations with Curitiba.

Curitiba's transport innovations evolved in several directions at the same time. The principal axes of the road system--and preserved rights of way--were inherited from early plans. These were cultivated over time and preserved with land use controls. An integrated public transportation system evolved into a kind of surface metro. All of these were implemented with innovative and workable enforcement measures. Basic data on land use and ridership were indispensable to sustained success in Curitiba.

These innovations have resulted in tangible economic and environmental benefits for Curitiba. Although the city has more than 500,000 private cars, three-quarters of all commuters take the bus. Affordable fares mean that the average low-income family spends only about 10 percent of its income on transport which is relatively low for Brazil. The efficient system improves productivity by speeding the movement of people, goods and services. Nearly 75 percent of passenger trips in Curitiba--a passenger volume approaching metro rail standards--is carried by busses at one thousandth the cost of a metro. Environmentally, the city has achieved a 25 percent reduction in fuel consumption with related reductions in automotive emissions. The transportation system is directly responsible for the city having one of the lowest rates of ambient air pollution in Brazil.

Curitiba's innovations in urban transport had to overcome a range of obstacles: the predominant thinking about how cities should respond to rapid growth; threats to long-term transportation planning that are posed by short-term political decisions; and lack of finance. In

overcoming these obstacles, lessons have spread throughout Brazilian cities and beyond. Many cities have adopted articulated busses, dedicated lanes, boarding stations, and other features of Curitiba's system. Furthermore, the spread has been spontaneous, and not really a product of deliberate dissemination strategy. More deliberate strategies could be easily justified on environmental grounds alone, and central government and donors might have achieved much greater impact in Brazil and beyond.

### **3. Mendoza: Social Contract for Infrastructure in Poor Neighborhoods**

The Mendoza Provincial Program on Basic Infrastructure (hereafter referred to as MENPROSIF) is a program to supply basic sanitation and other services to low income households at the neighborhood level in the Province of Mendoza, Argentina. Since its inception in 1991, the MENPROSIF has implemented 274 small scale projects (averaging under US\$100,000 each) which have benefited more than 50,000 households in over half the municipalities in the Province of Mendoza. MENPROSIF is innovative in its reliance on social censure--pressure of friends and neighbors on participants--to secure loans given to low income residents, rather than requiring a pledge of collateral they rarely have. This system enables the poor to afford 70-80 percent of total project costs and minimizes state subsidy for works improvements of broad social interest. The program has lowered costs of works and achieved extremely high rates of repayment and project completion.

Many other features of the MENPROSIF are innovative. For instance, the MENPROSIF has worked out collaborative arrangements of partnership among public agencies, private contractors, NGOs, and neighborhood organizations, each playing a role in the project, planning, designing, bidding contracting, and building neighborhood improvements. High levels of community organization among beneficiary groups has also been a key ingredient in achieving extensive participation in selection and implementation of works. Each neighborhood organizes beneficiaries to take part in identifying needs, selecting solutions, taking individual responsibility for short-term (two year) credits, choosing contractors, and overseeing implementation of works.

Although the role of the Province is still indispensable in the MENPROSIF's success, the MENPROSIF moves key responsibilities away from the state. The Province's Ministry of Environment plays a strong fostering and brokerage role in getting local groups to agree on neighborhood preferences and verifying willingness to pay. These are expressed in frequent, open, participatory meetings at the neighborhood level. Securing consensus on projects and payments obviates such key public sector tasks as cost and benefits evaluation of projects. The next stages of evolution would include a reduced role of the state; explicit, targeted subsidies for the poorest; and longer-term, more market-based, credit.

### **4. Manizales: Municipal Training Institute <sup>7</sup>**

The Manizales experience demonstrates the effectiveness of intervention by an outside agent--technical assistance and finance by international NGOs--to set up a tailor made training facility for the city's municipal employee. The establishment of the Instituto de Capacitacion

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<sup>7</sup> Thanks to Florence Eid for this summary.

de Manizales (ICAM) has helped reinforce the process of decentralization by improving and sustaining the city's capacity to deliver public services transferred to the municipal level. ICAM's training budget grew from \$70,000 in 1994 to a projected \$614,000 in 1996, and has affected more than 6,500 local civil servants since its first year of operation in 1994. Since then, the effectiveness of the ICAM has been diluted by a drop in the through put of students and loosening of ties between matriculation and salary and promotion on the job.

Although the ICAM drew on similar experiences in Ecuador and Venezuela, a set of contextual factors were key to its adaptation in Manizales. Most notable among these factors were (i) new incentives for mayors to implement innovative policies created by the resumption of elections and reinforced by new measures of accountability; (ii) various policies which served to enlarge the fiscal base of municipalities, both by increasing the sources of own-source revenue and by augmenting central government transfers; (iii) the transfer of additional responsibility for service delivery to municipal governments in areas such as water and sanitation, health, education, agriculture and transportation; and (iv) legal requirements aimed at enhancing human resource management in municipalities by linking quality service at the local to upward mobility in the national civil service and by requiring that municipalities earmark a minimum percentage of investment expenditures to training activities. ICAM's budget is allocated under this legal provision.

Certain features of ICAM's structure and function stand out and have been central to its success. The ICAM project was approved by the Municipal Council of Manizales as a special training "fund" with a small but highly qualified staff, and a minimal administrative apparatus. ICAM's work is contracted out to specialists in various components of the municipal Training Plan, which is produced by ICAM staff in close coordination with the division of human resources, and the mayor's office. Organizationally, this status allows ICAM flexibility and autonomy in the design and implementation of its programs. ICAM's programs have ranged from seminars, to address problems of accounting and rigidities in procurement, to awareness sessions aimed at reorienting work attitudes (service orientation, importance of client) of municipal employees.

The ICAM idea has diffused vertically as well as horizontally. Among the effects of its vertical diffusion has been a national government plan to institute permanent systems of technology transfer between municipalities, drawing on the information on training and technical assistance collected by the ICAM. Following the example of Manizales, five other such training institutes were established the end of 1995, and 11 others projected for 1996.

## **5. Tijuana: Political Contract for Public Financing of Infrastructure**

The case of Tijuana consists of an amalgam of a half dozen innovations, introduced in sets of two and three in sequence. Each innovation in Tijuana shares a direct or indirect connection with the others, and these, in turn, build upon, and then helped to advance, a qualitative change in the character of governance of the municipality of Tijuana. The innovations include:

- property tax reform
- restraint in public spending
- cadastre modernization

- a city-wide referendum on public works (PAU)
- small scale public works program for the poor (*Manos a la Obra*)
- long term strategic planning with the private sector

The central innovation in terms of scope, novelty, risk and impact was the PAU, or Urban Action Program, a package of civil works designed to rehabilitate the city following disastrous floods in 1993. The PAU is novel in its design process, its extensive consultation with the public, its linkage of costs to financing by betterment levy on affected property owners, and its use of a city-wide public referendum and opinion poll to verify demand and public willingness to pay for the US\$170 million program.

The PAU is striking for its features of participation, communication, and involvement of the public in decision making, particularly in the decision to borrow for capital investment. More than any case we have seen, the public investments in the PAU were linked, through consultation and vote, to expressed preferences and willingness to pay by beneficiaries or voter taxpayers. PAU and other innovations in Tijuana confirm findings of cases analyzed elsewhere about the indispensable roles of leadership, continuity, simplicity and participation.

Also, the analysis of Tijuana takes a step further into the dynamics of innovations. The multiple innovations in Tijuana, one laying the groundwork for the next, allow us to begin formulating hypotheses about sustained change. Each of the innovations in a city builds and extends the climate of expectations and eventually produces an emerging quality in the style of governance and particularly the relationship between executive and the electorate. In the case of Tijuana, we refer to this qualitative change as a transformation in the character of government.

But whether single or multiple innovations, the Tijuana experience allows new insights into the policy options and conditions of civil society that financial and technical assistance organizations must understand to foster and promote reform in decentralized systems of government. Above all, the new style of governance is marked by the terms of a new political contract forged in Tijuana. In it, the links between public works and the voter taxpayer were made more explicit and subjected to public debate. This relationships goes to the heart of governance. Furthermore, political parties and associations of local government have focused more on of the changes in Tijuana's style of governance than on the individual innovations like the referendum, the *Manos* program, or cost savings.

## IV. Findings and Conclusions: Care and Maintenance for Engines of Change

All of the five cases studied in this program are idiosyncratic in terms of conditions and circumstances of their creation. But also, they share features, at least a family resemblance, in three specific phases of Hopkin's cycle of innovations--origins, launch, and dissemination (1995). Table 5, below, summarizes this information for the five cases described in the preceding section. Except where noted, the generalizations made here hold for all cases documented in this study.

### Origins and Context

**Who innovates and how do they learn?** As observed in related literature (e.g. Hopkins, 1995; Leeuw, et al 1994) a **champion or visionary** is found in virtually every experience of innovations, and these cases are no exception. A champion--an author, entrepreneur or leader--was able to "read" what is possible at a given historical moment, to understand what the public wants and to visualize a new way of doing things. Above all, the champion is able to convert this vision into reality. Leadership is another aspect of the visionary champion. It is hard to imagine the successful beginnings, let alone positive outcomes, of the innovations we documented without the driving force of leadership. Leaders play a role or "provocateur" challenging citizenry to "see" how a venture might be formulated. Leaders are on the lookout for good ideas, and find or invent ways to offset or hedge the risks of failure. More than a few of the initiatives were actually adaptations from experiences observed elsewhere, for instance the referendum and betterment levy introduced in Tijuana drew part of their inspiration from local governments in the U.S.

Another inspirational factor, visible in more than half the cases, was an environment of reform or crisis--fiscal, natural, or political. Leaders and champions were acting in an environment of larger imperatives, such as Argentine political reform felt in Mendoza in the early 1990s, or the wave of renewal in Manizales, or the floods in Tijuana. Even the fuel crisis of the eighties helped give the Curitiba transport system extra momentum.

**How do mayors and other local leaders learn?** The answer we discovered is that mayors learn from each other more than any other single source. They may get ideas from afar, in print or as a result of interacting with technical experts. But independent, foreign, or external sources, though important as a means sometimes to legitimate a new venture, usually follow a prior consultation or series of consultations with other elected leaders. (This pattern is seen elsewhere in the literature, e.g., Clark, 1991; Leeuw, et al, 1994). Furthermore, our seminars have revealed—for instance in El Salvador's Programa de Educación con Participación de la Comunidad (EDUCO), Porto Alegre's participatory budgeting, and Mendoza's neighborhood infrastructure—that leaders learn best in oral terms, mostly from each other, and much less often in written form. Mayors are doers, not academics, and they can go far with visually demonstrable examples. Some experiences also show that mayors are especially effective as "on-lenders" or re-transmitter of ideas.

*Mayors learn from each other because they can understand risk-taking and gauge the means to offset risks in their own political environment. Innovators cut the risk and transaction costs for those that follow.*

**Sustained commitment.** An extension of the importance of leadership, particularly in local governments, is that a leader must be able to convincingly articulate commitment and be able to sustain public trust. This is particularly difficult in LAC where short mayoral administrations are the rule. Often continuity in trust is achieved by means of periodic “doses” of direct contact with neighborhoods participating in the project. Mayor Lerner of Curitiba sustained a consistent vision during three nonsequential terms as mayor spanning more than 20 years. The longest track record, in Cali, dates to the 1920s. Tijuana accomplished a great deal in only six years.

#### **Contexts and models with basic tools.**

Each innovation has some sort of mental model--a precedent, a near-by example, or visually concrete scheme as a starting point. But high quality up to date information about the city was also important for innovators to see the connection between an inspirational idea and the local circumstances of a city. Land use and cadastre information were decisive in both Curitiba and Tijuana. This clue suggests a new justification for fostering the basic building blocks of city management. Without basic data, creative management of cities is more difficult.

*Usually innovators have seen some experience that meets their needs in a setting similar to their own, but up-to-date information and plans, made it possible to connect an abstract scheme to local circumstances.*

#### **Scale and Launch: Keeping it Simple, Gradual Elaboration**

The origins of complex, multi-generational experiences, like those first time innovations reported among these cases, was a simple idea, built on a simple model, visible and in operation somewhere nearby. The training institutes in Ecuador and Venezuela helped launch the ICAM in Manizales, for example. No experience is more illustrative of the power of simplicity than in Curitiba, where a fundamental concept--controlling the automobile and making busses have some of the speed and volume of metro systems--was extended in a dozen different directions over a 15 year period. From today’s perspective, these innovations in Curitiba appear grandly complex and impossibly complicated to replicate. But it began with a single conceptual change, based on the premise that the city could control the automobile, and to do that it needed to control land use. Dozens of cities already know this is true, but cannot yet find a way to get started.

*Simpler, first generation cases are not abstract ideas or large social concerns, but rather concrete improvements at a neighborhood scale that can be physically seen, are subject to verification, linked to payments, and executed under watchful supervision of the community.*

**Table 5: Features of Urban Innovations in LAC: Summary Table**

<b>Feature</b>	<b>Mendoza</b>	<b>Curitiba</b>	<b>Tijuana</b>	<b>Cali</b>	<b>Manizales</b>
<b>Context of Origins</b>	political renewal; cholera	congestion, oil crisis	floods, opposition government	historical identity	decentralization restored democracy
<b>Conceptual Model</b>	previous program ( <i>ahorros previous-- prior savings</i> )	busses as metros	betterment levy	company town	French institute
<b>Who Acted</b>	governor	mayors	mayor	mayors, private sector	mayors
<b>Outside Help</b>	No	help in later phases			outsiders recruited
<b>Pre-conditions</b>	prior experience; political leadership	urban plan, wide streets; commitment to sustain land use	cadastre records, spending reform	history of commitment; decentralization of authority	electoral and municipal reforms created need for professionalization
<b>Launch</b>	small, contained pilot	single axis, large redesigned buses	full-blown program	revolving management in parks and planning	founding of institute
<b>Evolution</b>	limited expansion of basic concept	extensive elaboration of basic concept	revised to smaller programs, different forms of particptn	gradual elaboration and extensive application	elaboration and integration with career plan and pay
<b>Next Steps</b>	longer term credits; market finance; bigger projects	?	borrow and implement	tighter linkages with regional and national development schemes.	integrate with hiring criteria and career; application to other public authorities
<b>Dissemination</b>	limited impact on other provinces; muni. govts alert	moderate; many Brazilian and LAC cities have adopted “pieces”	via municipal associations	ideas spreading to other cities in Colombia	contributed to reform in other cities
<b>Replication</b>	good potential	good potential; but not fully realized (need for land use controls and dedicated lanes)	good potential (for referendum and communications)	possible for selected applications	good potential

Source: Author

Where this pattern of “small and simple first” was broken--and Tijuana is the best example because of the breadth of scope proposed with the PAU--the innovation ran into trouble. The trouble, and eventual defeat of the Plan de Activación Urbana (PAU), arose not so much because the idea was bad, or poorly carried out, although errors in tactics and design might have been part of the problem. The bigger problem is that large undertakings create more institutional friction and are more vulnerable to outside forces, like monetary and fiscal crises that swept Mexico and overturned the PAU.

**Scale** of operations is critical, especially for neighborhood works. The small, 200 to 300 family, block-by-block scale of the Mendoza infrastructure program, seen also in Conchali and Tijuana *Manos*, for example, facilitated sustained personal contact of program officials and leaders, and hence made legitimacy easier to achieve. Small scale also fosters a sense of partnership between neighborhood residents and program officers. Increasing the face-to-face contact among neighbors engaged in a project tends to heighten mutual responsibility, and this in turn, is key to managing the risks for community members who undertake credit obligations. Finally, small projects get built faster.

**Start in a harbor.** The cases also suggest that launching in a harbor--that is protecting new ventures from political and social reactions--helps foster success. The incubator in Mendoza was an office in a Provincial ministry; in Manizales, a small scale training program; and in Valledupar and Conchali local infrastructure programs were started in a few neighborhoods. Others, like El Salvador’s EDUCO, expanded very quickly building on a basic piloted in a few rural districts.

### **Social Relations and Communications to the Public**

**Social organizations as building blocks.** A corollary to the idea of simplicity in innovative startups is that basic social building blocks at the local level are needed to advance common purposes. Mendoza and Manizales--like their cohorts Valledupar, El Salvador, Conchali, and Porto Alegre--depended heavily on organizational strengthening of grass roots, often single purpose, organizations that were gradually mobilized to move beyond the objectives of their founding. Grass roots interests are the moving forces of participatory innovations. In many cases their very presence becomes the organizing principle around which community efforts are mobilized. The community organizations in Mendoza typically involved 100 to 300 families living in a contiguous neighborhoods, but ranged as small as 5 and as many as 4,000. Similar ranges were found in Conchali, Tijuana, and Porto Alegre.

Correlatively, the architects of the innovations were acutely aware of the importance of the organized community, and project implementors exhibited skill and experience in communicating with and promoting organization and managing community relations. But though donor experience corroborates the importance of participation, very little attention is paid to shaping the message or mobilizing the modes of communication to the public.

**Communications and public education.** A common factor in all innovations is that champions used various devices of public communication to get the ideas defined, provide them an identity, reduce uncertainties raised by the opposition, and persuade or convince the public and other political leaders that the innovations were a good idea. Private firms marketing products understand the value of advertisement and consumer awareness. Public agencies are generally bad at it, except in electoral campaigns. The successful cases in this study are conspicuous by the quality of publicity generated to win over the public. Potential innovators, development institutions and governmental institutions alike, need to pay much more attention to the media and the message in transmitting ideas about good practice to the public. Too often public officials are not cognizant of the quality of their message and are unaware of ways to improve communications to the public. Many local leaders, like donors, are rarely willing to pay what seem to be high costs of strengthening this critical communications linkage in the public choice-making process.

### Themes of Future Reform

Somewhat more abstract themes have run through these innovations experiences, and should be noted, even though policy or operational consequences may not be immediately identifiable. These themes are fiscal linkage—confronting voter-taxpayers with the costs of works they say they want—and the role of intermediating agencies and particularly metropolitan organizations and political parties.

**Fiscal linkage.** One of the most striking features of the innovations in key instances—Tijuana, Mendoza, Conchali and Valledupar—is the directness of linkage between the works and services improvements neighborhood residents say they want, and the payment burdens authorities say residents must bear to achieve cost recovery. Customary fiscal models of government take as axiomatic that this exchange—payments for goods and services—will be completed.

*Four decades of centralized systems in LAC have broken the linkage—an unspoken bargain of trust—between government and taxpayer. One of the signal features of innovators and the new style of governance is the restoration of this critical fiscal connection.*

In fact, four decades of centralized systems in LAC have broken this linkage. And one of the signal features of the many innovations seen in the aftermath of decentralization in the region is the restoration of this critical fiscal connection. The transfer of community built assets from residents to local government in Mendoza and Conchali, for instance, underscores this restoration. A great deal of community participation is involved in the creation of assets at the neighborhood scale in these innovations. Like self-help housing in the 1960s and 1970s (see Turner, 1976), governments, central governments in the case of housing, retain a regulatory and husbanding role, even when they are unable to create public goods. Neighborhoods in Mendoza were willing not only to undertake the risks of credit, but to do so by reversing part of the traditional flow of social capital. Poor residents go into debt to build social capital of the state. A bargain with neighborhoods consecrates this exchange.

Mendoza's water and gas utilities offer free services for a period of six to 12 months in recognition of the value added by beneficiary payments toward capital assets. The importance of these fiscal exchanges is that show the way toward completing the second stage of reforms in decentralization, particularly fiscal reforms in which local governments become more financially sustainable.

**Latent intermediaries.** A second theme is the potential role of organized policy groups--supra-municipal organizations, policy analysis groups, and political parties--with latent capacity as agents of change. Many institutions in LAC are still coming to grips with the effects of national reforms. For instance, decentralization has focused on the municipality and, if anything, weakened metropolitan organizations needed to handle big city problems and many externalities of large city size. Big cities are beginning to create the tissue of supra-municipal agencies needed to deal with spillover problems. Intermediate levels of government and partnerships between public and private interests, including university and analytic groups, can also play a role in creating or evaluating innovative practices, as Cali has amply demonstrated.

Political parties also have latent capacity to educate the public about choices and to project and evaluate outcomes of local policy, including innovative good practices. For much of modern history in LAC, political organizations have been built around personalities of leaders, not based on the foundations of principles or ideology. Local politics up until recently in a few places, is even less able to establish principles as a guide to development. Political reforms in Colombia, Venezuela, and Chile, in addition to the rising strength of opposition parties in Mexico, have induced new local alliances to bolster leaders and innovative ideas in municipal government. These few experiences, though anemic, are not so different from other tools of government--bloated bureaucracies, budgetary reform, PPBS--once thought to be in hopeless shambles, but now central to public sector reform. Political parties have an important role not filled by any other institution in modern government, to enhance in constructive competition in public choice-making.

*In the future, intermediating agencies in society like NGOs, universities, the press and even political parties, will need to play a stronger role in interpreting and evaluating policy and choices. Some agencies like states and regional governments will also need to help handle issues of broad territorial concern, like metropolitan growth and pollution.*

## V. Policy Directions for Donors: Moving from Innovation to Reform

### Policy and Strategic Focus

What can the Bank and other donors do to support new innovations and the spread of best practices in LAC? A wide range of suggestions has emerged from this study. Perhaps the most important conclusion for donors may be that the **arena for action in public sector reform has shifted to the local level. Although this study documents only 17 cases, hundreds, perhaps thousands more experiments have been launched by cities and intermediate levels of government. This energy represents an engine of reform, and donors need first to be aware of the reform momentum and the growing opportunities to stimulate good governance at the local level.** Present strategies for achieving better local governance do not appear to be working (see Table 6A).

*Besides a policy focus on local reform, sponsors and donors can help to:*

- 1. provide technical tools and basic data*
- 2. structure incentives for leaders*
- 3. create incubators and technical assistance*
- 4. provide direct project support*
- 5. tie access to credit to new standards*
- 6. improve communications and public education*
- 7. do institution building*
- 8. evaluate and disseminate local reform*

The Bank alone spent over US\$200 million in the 1980s on institutional strengthening with little to show for it (See Campbell and Frankenhoff, 1991). Then, reforms in the early 1990s in Colombia and Central America produced stunning changes--in professionalization of executive and legislative branches, spending controls, and revenue raising--with little if any donor assistance. Previous studies and observations in the course of this work suggest strongly that political and electoral reform--for instance, uninominal elections of mayors, requiring candidates to publish proposed programs, abolition of discretionary spending by national and regional legislators--can help to bring better leaders to office and put them on a more even playing field. In other words, for reform of the state to reach local levels, donors and the Bank need to broaden their efforts in modernization of the state to include reforms which strengthen competition among contenders for local office.

The emphasis on client focus and country assistance strategies need to be further devolved to address subnational institutions. In addition, the scope of analysis needs to be widened to cover political and institutional areas like participation in public choice, the development of leaders, and roles of legislative and other mechanisms of accountability. Many of the tools currently used by the Bank--for instance economic and sector work, conference and seminars, and the country assistance strategy--are suited to explore and follow up in these areas of work.

### Getting Started

Even without major national reforms to create local incentives, donors can help local governments adopt and spread innovative change. The first issues concern preconditions of change and how to get started.

**Table 6A: Policy Variables in Managing the Innovation Process Scope of Action for the Bank and Donors**

**Policy and Launch**

<b>Policy Area</b>	<b>Objectives</b>	<b>Bank Leverage and Scope</b>
<b>A. Strategic Policy</b>		
	<ul style="list-style-type: none"> <li>• shift focus of reform to subnational levels;</li> <li>• foster competition in framework of public choice</li> </ul>	<ul style="list-style-type: none"> <li>• include local reforms in country dialogue and modernization of the state;</li> <li>• make reforms part of eligibility criteria in project finance</li> </ul>
<b>B. Getting Started</b>		
<b>1. Technical tools and data</b>	<ul style="list-style-type: none"> <li>• improve choices between complex and simple change</li> <li>• make data and tools available</li> </ul>	<ul style="list-style-type: none"> <li>• advise and technical assistance</li> <li>• finance and follow up on cadastres, surveys, data bases, and city and regional plans</li> </ul>
<b>2. Building incentives for leaders</b>	<ul style="list-style-type: none"> <li>• encourage leadership</li> <li>• cut risks of innovations and reduce costs of pilots</li> </ul>	<ul style="list-style-type: none"> <li>• international exchange of experience, prizes</li> <li>• conference of mayors on “how to” plus study tours</li> <li>• publish models and menus</li> <li>• feature good practitioners in regional fora</li> </ul>
<b>3. Incubators and start up care</b>	<ul style="list-style-type: none"> <li>• sustain in critical period of incubation and birthing</li> </ul>	<ul style="list-style-type: none"> <li>• publish previous reforms</li> <li>• grants and assistance using jury of peers</li> <li>• support innovators conference, exchange of experiences</li> <li>• support associations of local governments</li> </ul>

Source: Author.

**Technical tools, basic data, and complexity.** Results of this study suggest that the basic tools of urban development--physical plans, cadastres, financial reports and data management--now have another *raison d'être*. They have proven to be critical initial inputs for successful innovation. Basic information and management tools can be financed routinely in Bank projects, **but have not been given high priority nor followed up to keep up to date and build on past work nor to make good application of existing data.** At the same time, it is important to understand the risk-benefit tradeoff of focusing only on the easy, technical tools at the expense of missing high payoffs from complex social and participatory innovations. If the tools are in place and other conditions are right, task managers and would-be sponsors should be aware that several analytical aids can help to decide about what and when to innovate.

In the first place, seasoned professional (and political) judgment may be able to help decide when circumstances warrant going for more complex challenges. Some cases--participatory budgeting in Porto Alegre, the transport system in Curitiba, private sector actions in Cali--were pushed by sponsors in the beginning, but then fed on their own success over time. Good ideas, both simple and complex, sell themselves in the way reminiscent of classical observations (e.g., Marris, 1975) of technology transfer. Matches and firearms are taken up quickly by peoples who were before unexposed to these technologies, because they advanced the purposes of their new users at low cost and low risk. Solar cookers and other inventions have met a very different reception. The lesson here is to be sure the basics are in place and then build on what is already working.

If intensive participatory dynamics are involved, then other factors need to be weighed in the strategic decision, including the complexity of tasks, readiness of importing agency, and number of people whose behavior has to be changed. Direct exposure of leaders to the innovations also counts. We heard many times that word of mouth and personal experience played an important role not only in convincing leaders, but the public as well, of the feasibility and desirability of attempting change. Often an educational campaign, for the public and key stakeholders, is needed to broaden understanding, revise proposals, and mobilize support. (See the point about **communications and public education**, in the next section, below.)

**Building incentives for leaders.** Development institutions cannot produce leaders, but aid agencies can help to encourage would-be leaders and provide tactical, if not strategic, incentives. Also, donors are good at identifying and disseminating best practice, and this kind of information can be very helpful to orient and encourage potential innovators or adopters of best practice. Publication of model experiences, continued publicity of good practices, and spotlighting good experiences, holding annual meetings, exploring a replication of the Kennedy School Innovation Program, even offering prizes, can help offset the risks of introducing more efficient ways of doing business. Some incentives can be built into the eligibility criteria for participation in credits. Also, leadership itself is less important for technical and smaller-scale innovations.

**Incubators and start-up care.** We suppose many potentially successful innovations failed to make it through a delicate period between conception and launch. This phase of change is critical--as when authorities in Curitiba convinced comerciantes to accept a pedestrian mall, and Tijuana transformed its disaster recovery plan into urban makeover. Donors could help by offering shelter and comfort--hardheaded, technical, and based on experience on the ground. They can also bolster advice in communications and education of the public. Another might take the form of a quick response grant process, perhaps an extension of special or institutional development grants to be able to react quickly when circumstances so warrant. Grants are effective means to induce risk-taking--provided safeguards are included, for instance meeting a jury test of local and international panel (see box). Another possibility might be to establish a virtuous circle of public-private partnership in which private donations become the source of grants administered by private and public boards of excellence.

*One method to bolster guidance in local reform would be to recruit civil and private sector actors to a national or international center for change. A center could document change, house expertise on best practices, host conferences, and track routine information about staple products like cadastres, land use plans, data management, and the like. They might also impanel a jury and hold international competitions to identify, trumpet, and reward best practice.*

**Direct project support.** Small projects fared well in innovations, and some project financing by the Bank and other donors could fit well into the context of reforming governments in LAC. Project experience with social funds, urban and municipal lending, and primary health and primary education in decentralized systems are all natural vehicles for innovative change. **Municipal social funds--a hybrid of municipal strengthening and national social funds--could replicate the experience of many cities.** For example, Conchali, Mendoza, and Tijuana have implemented funds similar in objectives and operational rules to Bank financed social funds and municipal development projects. Future projects financed by the Bank can make greater use of natural relationships--neighborhood groups and NGOs, or NGOs and municipalities--as partners with states, provinces or regional authorities each discharging functions according to their comparative advantage.

#### **Process and Dynamics (see Table 6B)**

**Participation--efficiency, sustainability and governance.** Participation is the magic ingredient in innovation. Many innovators (leaders in Valledupar, Porto Alegre and Tijuana) were eager to engage the public and recruit public participation as a way to widen the basis of support and verify the direction of government. Intensive interaction made government seem more open, more accessible, and more fair. More important, participation set up expectations

**Table 6B: Policy Variables in Managing the Innovation Process: Scope of Action for the Bank and Donors**

**Processes and Sustainability**

<b>Policy Area</b>	<b>Objectives</b>	<b>Bank Leverage and Scope</b>
<b>C. Processes and Dynamics</b>		
<b>1. Participation</b>	<ul style="list-style-type: none"> <li>strengthen participation in public choice</li> </ul>	<ul style="list-style-type: none"> <li>advisory assistance, innovators conference</li> <li>participation prizes</li> </ul>
<b>2. Communication public education</b>	<ul style="list-style-type: none"> <li>achieve more adoptions</li> <li>improve education of the public</li> </ul>	<ul style="list-style-type: none"> <li>document good practice on communications techniques</li> <li>publish cases, hold conferences</li> <li>finance studies and courses to improve practice</li> </ul>
<b>D. Sustained Change</b>		
<b>1. Strengthen local capacity</b>	<ul style="list-style-type: none"> <li>strengthen management capacity</li> </ul>	<ul style="list-style-type: none"> <li>Municipal social funds</li> <li>grants to support pilots, joint ventures with NGOs, intermediate levels of government</li> </ul>
<b>2. Evaluate</b>	<ul style="list-style-type: none"> <li>measure sustained impact</li> </ul>	<ul style="list-style-type: none"> <li>regular reviews and evaluations as part of project cycle</li> <li>evaluate factors in incentive structure</li> </ul>
<b>3. Disseminate</b>	<ul style="list-style-type: none"> <li>disseminate good practice</li> </ul>	<ul style="list-style-type: none"> <li>Create specialized program (Center for Change, model on GEF)</li> <li>recruit local actors and universities as teachers</li> </ul>

Source: Author

on the part of citizens, making it harder for succeeding governments to ignore the public. After six years of participatory budgeting in Porto Alegre, none of the major parties campaigning for municipal elections would, in the words of Zandor Navarro (1996) “dare to ignore the participatory budgeting process.” We are learning that participation is indispensable to determining demand. We know it improves accountability. This study also suggests that it is key to sustaining innovations because of the dynamic of expectations participation sets in motion.

The fundamental difference between these observations and recent Bank work on participation is that participation of voter electorate and civil groups is important to sustainable, accountable government, and not just for sustainable projects and programs financed by the Bank. Participation of the public in choice-making is the critical machinery in the reform process of the public sector, and indispensable to the second stage of reform in LAC. Some authors have spoken of a new political culture becoming visible. Expectations based on real experience are pushing the envelope of local government into more open domain and, in turn, encouraging local officials to see the public as a new resource in governance.

How do these findings translate into operations? Municipal strengthening projects in LAC are already quite participatory in design. But this study has made it clear that unorganized communities, like leaderless communities, cannot be treated indifferently. Not all neighborhoods were entitled to participate in the programs in Mendoza, Tijuana (*Manos*) and Conchali. Assistance was offered only to those neighborhoods who were ready to meet a test of legitimacy, purpose, and continuity. Also, this did not mean homogeneous levels of participation were required of every participant in every aspect of the project cycle. The Mendoza program was especially alert, and Conchali came to be more sensitive to, the involvement of beneficiaries in self-organization, in divulging information in virtually all stages of the project cycle, and incorporating residents as active participants in key design and commitment stages--what to build, whether to assume credits, who to select as contractors. Communities were not, and need not be, involved in all policy and design questions, nor even in manual labor, as some project experience (low cost sanitation, rural water supply, rural irrigation) appears to advocate (World Bank, 1996).

But while everybody does not have to be engaged in everything, donors may need to pay more attention to promoting participation in public choice as a means of broad-based assurance that local democratic government can work. To reach these ends, the Bank's mission and machinery needs to move towards a redefinition of development and a reorientation of assistance, more nonlending support, more civil education, more attention to public communication.

**Communications and public education.** The idea of communications to the public, let alone quality of message, are normally outside the scope of work of development institutions. Yet this study showed repeatedly that communicating ideas to a public engaged in restoring an activist role in government relies heavily on information and communication. It goes without saying that these are needed to garner political support for reform of the state.

Unpopular measures in state reform, downsizing and tax increases for instance, are made subject of high profile position statements by institutions like the World Bank when political support is an issue. But parallel efforts at the local level to offer even implicit support for urban reforms is often seen as meddling interference. (The Bank even admonishes managers to be wary of direct interaction with parliamentarians.) But this should not mean that publicity and communications campaigns should be ignored when municipal reforms and innovations are being launched. The Bank needs to explore ways it can help in this area of public information.

### **From Maiden Voyage to Self-Sustaining Reform in Cities**

Eventually, donors, sponsors and managers of cities want to move in a direction of higher velocity technology transfer in cities and on to sustained reform. These steps take time, but the machinery is already in motion. The Bank and other donors can work productively in at least three areas.

**Capacity strengthening of local organizations.** It is too much to expect that reforms of the institutional environment mentioned earlier (under **Policy and Strategic Focus**, above), will produce sufficient incentive for reforms of local government. In the meantime, donors can expand capacity strengthening by focusing on the informational needs and respective roles of the public and local legislators. Since the **learning processes of leaders is primarily informal**, donor efforts can make put greater emphasis on study tours and workshops in projects and nonlending assistance. (Longer term programs need to address basic and secondary education in civics.) Donors need to continue supporting the machinery of basic functions in local government. A focus on public choice making is the most appropriate for LAC. Donor assistance in conventional forms--training, technical assistance, study tours, equipment support--are necessary but far from sufficient. These must now be extended into executive and legislative domains of local government, and dissemination of good practice in administration can help. Another vehicle for assistance, replicating what many countries and cities have already invented, are municipal funds for social or neighborhood improvements in local governments that can meet reform criteria. A third area of attention is the intermediate levels of government. Federated systems, metropolitan areas, and large unitary states, can rely more extensively on intermediate levels of government (and sometimes nongovernmental groups) to strengthen local governments.

**Systematic evaluation.** This study has scratched the surface and found plenty of interesting stories to divulge. The major weakness here is the enduring impact of change over the long haul. Only Cali and Curitiba meet this test. More consistent reviews and evaluations are needed to verify the judgments in this study and to provide higher quality inputs to managers and decisionmakers. But donors need not carry out these functions alone. Evaluation and policy analysis should involve the many high quality university, research groups and nongovernmental institutions already performing these functions in many countries of the region. The Bank, along with other donors, could help to orient and encourage evaluation and research in local government reform.

**Dissemination of experience.** The Bank is getting better at dissemination. The Technical Department in LAC, Economic Development Institute, many of the country departments, and perhaps the future units in the Bank, are increasingly geared to mobilize the data and information gathered in the course of Bank work and convert this into operational knowledge in the field. Besides the many references to conferences, study tours, and technical assistance mentioned earlier, the Bank might think in terms of sponsoring (but not necessarily financing) special programs modeled on special grants or the Global Environment Facility, to focus public attention on good government, promising practices. Prizes, publicity, press support, endorsement by the Bank, can help to legitimate grass roots inventions for reform. Best cases can also be incorporated into university curricula in management.

Jane Jacobs (1968) speaks of urban growth as a process of incremental change involving the step-wise extension of something already well-known, for instance the invention of sliding glass doors as an extension of air craft frame technology, and the assembly of R & D teams following techniques in production of motion pictures. This economic sector work has helped glimpse insights into the dynamics of change in a institutional environment created in LAC only over the past decade. We know something about propitious initial conditions for reform. But we need now to move from first attempts, maiden voyages of single innovations, to sustained sequence of changes that produce reform at the local level. Donors and sponsors can do a lot with present operational tools. More can be achieved with a sharper focus at the local level to build up the basis for sustained change from below.

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