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Stalled Political Reforms in Ecuador: Decentralization under the Palacio Government

During the past two decades decentralization has become one of the most important political developments worldwide. Governments in industrialized and developing countries alike engage in the transfer of resources and responsibilities to subnational entities. The list of aspired benefits from decentralization is long: improvement of public service provision, increased citizen participation and less corruption, just to name a few. Overall, decentralization reforms offer the promise of more accountable and transparent government.

In Latin America, many of the new democracies placed decentralization on the political agenda, among them the Republic of Ecuador. When the country returned to democratic rule in 1978, direct elections for provincial and municipal councils were reintroduced. Subnational elections constituted an important step towards political decentralization. The transfer of resources (fiscal decentralization) and of responsibilities (administrative decentralization) to subnational levels of government, however, has been the subject of intense political struggle and controversy since redemocratization.

The case of Ecuador highlights the promises as well as the pitfalls of decen-

tralization. The massive uprising of civil society in April 2005 against the illiberal governing style of ex-president Lucio Gutiérrez led to the ouster of the Gutiérrez government and brought to power former vice-president Alfredo Palacio. In an attempt to regain legitimacy in the face of massive popular discontent with the political class Palacio promised to reinvigorate the decentralization process and to engage in a dialogue with citizens about political reform.

The ouster of president Gutiérrez – the seventh president in the last ten years – dramatically underlines the need for political reform to revive the country's weak and discredited political institutions. While the national level has been characterized by instability, subnational governments have demonstrated a considerable level of stability, with about one third of all mayors reelected in the last municipal elections. Overall, confidence in municipalities is higher than confidence in national political institutions. Hence, empowering those stable subnational units appears to be a promising strategy in order to improve *governabilidad*, which has been a key concern in the domestic political debate.

While the need for political reform and the relative stability of subnational governments highlight the promise of decentralization, the case of Ecuador also underlines potential pitfalls. Decentralization is a political process and reforms have to be agreed upon at the national level. So far, political actors have been unable to formulate any kind of long-term national decentralization strategy. The result has been a highly problematic decentralization process. Even the initiative of the Palacio government to reinvigorate decentralization is unlikely to be able to effectively address and overcome the shortcomings that characterize decentralization in Ecuador.

The Ecuadorian Decentralization Process

Although a considerable number of measures have been adopted in the field of decentralization—especially since the mid 1990s—the decentralization process in Ecuador suffers from two main shortcomings. Firstly, there is a disconnection between the three dimensions of decentralization: fiscal, administrative and political. Political decentralization, i.e. the popular election of subnational officials, was introduced with redemocratization and expanded with the 1998 constitution. Decentralization on the administrative and fiscal dimension has lagged considerably. In Ecuador, two related phenomena can be observed. On the one hand, resources are transferred to subnational units—often arbitrarily—without corresponding responsibilities. On the other hand, responsibilities for policy making are transferred without adequate resources to carry out these responsibilities. Both of these phenomena are problematic as they may increase opportunities for rent-seeking and corruption and may adversely affect the quality of public services.

Secondly, decentralization is highly uneven as subnational entities even at the same level of government (i.e. provincial or municipal) differ immensely regarding the resources they receive and the policy fields they are in charge of. For citizens, this makes government less rather than more transparent as it is often difficult to identify governing bodies responsible for policy-making.

The source of these two shortcomings is the problematic legal framework of the decentralization process. The main basis of fiscal decentralization is the 15% Law (*Ley Especial de Distribución del 15% del Gobierno Central para los Gobiernos Seccionales*), which was enacted in 1997.

The law establishes that 15 percent of the central government's income has to be distributed to subnational governments without an increase in the spending responsibilities of provinces and municipalities. Subnational governments do not have to use these resources for any specific purposes and can exercise substantial discretion in utilizing the funds. The 1998 Constitution is the main basis of administrative decentralization, i.e. the transfer of responsibilities. Article 226 of the Constitution establishes the principle of optional decentralization. It allows subnational entities to demand responsibilities currently in the hands of the central government and determines that the central government is obliged to transfer the responsibilities along with corresponding resources. This provision applies to all but six policy sectors. Among these are defense and national security, foreign policy, monetary policy and issues of foreign debt. The only ground on which the national government can deny the transfer of responsibilities is the lack of capacity to carry out the demanded responsibility effectively. What this means is that each responsibility transfer is subject to an intense bargaining process. The negotiations between the central and subnational governments have to determine—among other things—whether the respective subnational government has the capacity to carry out the responsibility and which amount of resources is adequate for the effective fulfillment of the responsibility.

In practice, this legal framework has set disincentives for further administrative decentralization. Currently, municipal and provincial governments receive funds that are not tied to spending responsibilities. As the central government has been under considerable financial pressure during the past years, it has often argued that subnational governments should use the funds

they receive on the basis of the 15% Law to cover the cost of additional administrative responsibilities. Under conditions of uncertainty about financial resources demanding additional administrative responsibilities has not been an attractive strategy for most subnational governments. The incentive structure that results from the combination of the 15% Law and the principle of optional decentralization established by the Constitution has contributed to a situation in which about 40 percent of municipalities have failed to demand administrative responsibilities. Particularly resource-intense policy sectors, such as health and education, remain highly centralized. Responsibilities in 'soft' sectors, such as tourism and environmental policy, are generally easier to decentralize and almost all demanded responsibilities fall into these two sectors.

The 15% Law and Article 226 of the 1998 Constitution can be seen either as advances or regresses. On the one hand, they opened the door for more decentralization and hence clearly constituted important steps in the process. On the other hand, they were not integrated into a comprehensive decentralization framework. Due to the lack of a comprehensive strategy, positive effects which decentralization aims to provide were jeopardized. Decentralization therefore fails to contribute to the provision of public goods and the increase of political transparency.

Prospects of Decentralization under the Palacio Government

Decentralization is a political process. The transfer of financial resources and responsibilities brings with it the redistribution of power in the political system. Since the cornerstone of decentralization is the transfer of resources and responsibili-

ties from the national to the subnational level, the central government is a key actor in the process. Essentially, the national level has to agree to give up resources.

Against this background, it might seem promising that the Palacio government has put decentralization back on the political agenda. With backing from the presidential palace, one might assume, decentralization is likely to make considerable headway in the coming months. Despite the new decentralization initiative of the Palacio government, however, the decentralization process is unlikely to pick up speed in the near future.

The problematic decentralization process is just one aspect of a broader political and institutional crisis. The discontent with the political class led to the mobilization of civil society and the so-called *rebelión of the forajidos* in April 2005. The demonstrators, primarily members of the middle classes of Quito, were an heterogeneous group. While they were united by their rejection of the illiberal governing style of president Gutierrez, they did not have a joint project for reform. The rebellion of the *forajidos* supplied little in terms of a concrete mandate for change beyond dissatisfaction with the current political class.

This dissatisfaction stems from the continuing inability of the political class to address the country's problems. The highly fragmented party system has been unable to effectively channel citizens' demands and to provide a link between citizens and the state. Despite mounting pressure and the apparent need for political and economic reforms, parties in congress have been unable to agree on much needed long-term reform strategies. The shortcomings of the decentralization process are the result of a mode of political representation that has advanced short-term particularistic projects.

In this political landscape Palacio is unlikely to find the allies he needs to put the decentralization process back on track. The Palacio government is widely perceived as a transition government. It was brought to power as a result of the ouster of Gutiérrez and does not have strong political support, neither among parties in parliament nor among citizens. Elections are scheduled for the last trimester of 2006. Until then decentralization is unlikely to make headway.

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