

# State Reform and Competitiveness in Cities and Regions

Linking knowledge capital, innovation and good  
government in Latin America

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**Decentralization for Economic Development:**

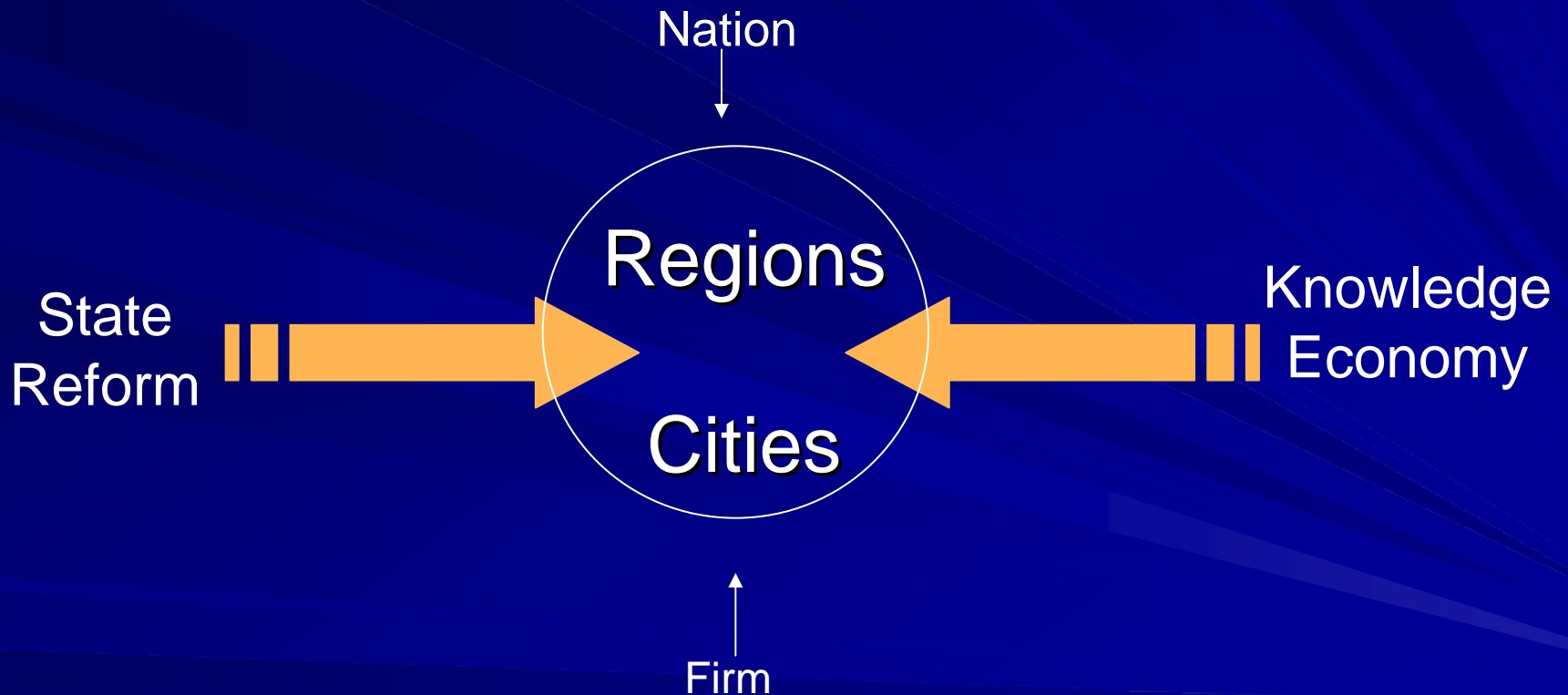
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# Converging trends in Latin America

- Sub-national governments have become a leading driver of education reform and progress in most countries
- Sub-national governments are becoming increasingly active as important players in creating incentives and policies for innovation and technology-driven competitiveness

# Regions and cities become central



# Decentralizing as a way of reforming the State

- In Latin America, State reform has often taken the form of important steps being taken in the direction of decentralization of political authority and public service provision and management (particularly in the social sectors)

# Education decentralization

- Principles of efficiency, participation and convergence between the information and decisions underlie the education decentralization reforms.
- The decentralization of education must be understood in the broader context of the processes of political and administrative decentralization that made headway in the region in this period. The organization of the state devoted to providing education services was affected by the general trend toward greater political and social participation, and development of directly elected sub-national governments with growing autonomy and management capacity.

# Decentralization and the political process

- The direct election of governors and mayors led in some countries to legislation that explicitly transferred education responsibilities, among others, to the states and municipalities. The result was a wave of education policy reforms sponsored by state and local governments, as well as a considerable expansion of public expenditure on education resulting in an explosion of social demands directed at the new sub-national authorities.
- Wherever this kind of dynamics was present, the appearance of a new relationship between voters and elected authorities in the framework of the state reform process created incentives that intensified collective action in education and, qualitatively, the introduction of new approaches and experiments at local level, some of which later became influential at national level.



# Results

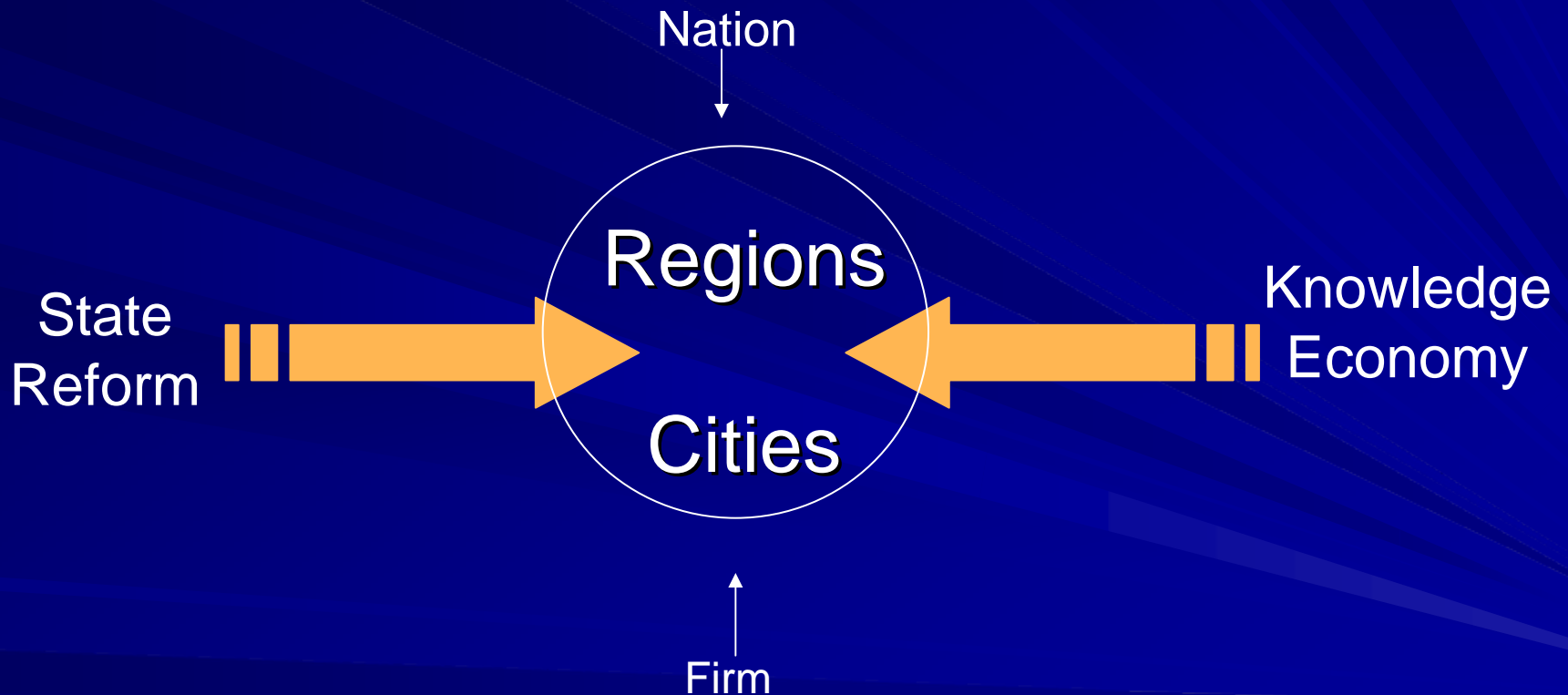
- There is overwhelming evidence that decentralization reforms in education have produced a legacy of institutional capacity for formulating and implementing education policy in sub-national governments, where before it was practically non-existent.
- Democratic politics –and direct elections of chief executives, in particular– influences the sub-national policy-making processes in education the direction of outcomes more consistent with the preferences of the majority in a given state, province or municipality.
- Especially in the largest countries, the improvement in the capacities of sub-national governments has facilitated the management of the education systems. Often, state or municipal governments have produced education innovations of great value for the design of national reforms.
  - Much of what is known about the effects of a radical program of school autonomy is due to the extraordinary experience gained in the last decade in Minas Gerais state in Brazil.
  - In Colombia, the Bogotá School District, and more recently the municipality of Medellín have justifiably gained a reputation as a source of innovations in education policy, which has attracted international attention and become a source of inspiration for other reformers. The examples could be expanded.

# Risks, reversals

- No doubt, the growth of institutional capacity has been irregular.
- Local politics has been shown to be equally powerful but not necessarily more constructive than national politics when it influences directly the functioning of education systems. Decentralized politics does not automatically means better education.
- Education decentralization processes have not lacked pure and simple failures and reversals.
- The most serious weakness of education decentralization processes in Latin America has been the difficulty of adjusting the fiscal realities to the resource and accountability demands of reforms. Policies allocating responsibility for education to sub-national governments have very rarely been accompanied by fiscal transfers or tax schemes capable of creating a well-financed system with incentives that maximize the welfare of citizens. This is the main explanatory factor behind the fact that states and municipalities have not always welcomed decentralization.



# Regions and cities become central



# Knowledge capital is central to competitiveness

- Competing in the international knowledge economy means ensuring that the appropriate people, skills and capabilities are developed, with regional and municipal governments acquiring an understanding how these building blocks can be created and developed.

# Regional and City-centered Innovation Systems

- Dynamic instability in the world economy creates pressure on sub-national entities to create and sustain competitive advantages. Some degree of specialization becomes almost mandatory.
- Centrality of knowledge-based industries and services becomes unavoidable and pushes in the direction of people and skills (knowledge capital) becoming a cornerstone of living standards and sustainable local economies.
- Innovation thrives in regions and cities in which agglomeration economies can be maximized through industry clusters, public/private and firms/universities partnerships

# Risks

- Dynamic instability and high innovation intensity bring social changes that often leave certain professional or social groups disenfranchised
- Failure in city and regional competitiveness projects is fairly common. It is not easy to succeed and not every city and region can come out a winner and above the average. Resources may not be readily available. Environmental volatility may ruin even the best laid plans.
- As technology –particularly ICT- become pervasive to public life, opportunities for populism and distorted public decision/making multiply along the many benefits of e-government. Technology brings the promise of transparency and improved flow of information and consultation. Citizens find networking (through cell phones, e/mail, etc) to be a new asset. But still, important issues of privacy, manipulation of information and others cannot be underestimated.

# The quality of the sub-national political process makes a difference

- A region or a city without an elected an accountable government is at an initial disadvantage in this kind of game
- The same with a democratic government that, however, has low quality decision-making processes (volatility, short time horizon, weak enforcement of shared decisions, low adaptability to environmental changes).
- Sub-national governments need to improve their accountability and the transparency of their dialogue with citizens in order to achieve the commitment of the whole city on a shared project.
- And they need to improve the overall quality of their staff and processes, so as to produce better decision-making.



# Conclusions

- Given the joint pressures of state reform, democratization and an increasingly competitive knowledge economy, regions and cities are rapidly becoming a cornerstone of economic and social development
- Enhancing a locality's competitiveness has rapidly become a widespread and highly valued policy goal in regions and cities around the world, and Latin America is not alien to this trend
- In doing so, two elements figure at the top of the areas that must receive attention:
  - Human development, the people and the skills
  - Innovation, the firms and their environment

A third element is critically linked to these two: The quality of the regional and local political process

These three elements are strongly interrelated: a good quality political process maximizes the likelihood of sensible innovation policy and strong human capital outcomes, which become mutually reinforcing.