

Does Commercialization Undermine the Benefits of Decentralization for Local Services Provision? Evidence from Mexico's Urban Water and Sanitation Sector

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Summary. — Decentralization has been promoted as a means to better reflect citizen preferences and improve local services. Many developing countries decentralized and promoted neoliberal policies such as commercialization simultaneously, leaving mayors with the responsibility of improving public services through self-financing reforms. This study evaluates experiences in three Mexican cities to assess whether decentralization and commercialization practices have resulted in improved water and sanitation services. It finds that commercialization has increased social conflict surrounding urban services provision and that local institutional constraints further undermine mayor's ability to adopt politically contentious policies. The result has been stalled and uneven service improvements.
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1. INTRODUCTION

Effective local government can be a catalyst for development. Democratic transitions and decentralization reforms have brought the importance of local government performance to the forefront of development studies (Andersson, Gibson, & Lehoucq, 2006; Angell, Lowden, & Thorp, 2001; Crook & Manor, 1998; Grindle, 2007; Larson, 2002; Olowu & Wunsch, 2004). Local government's ability to "deliver" increasingly determines citizens' access to quality public services, economic development opportunities, and local environmental resources. Positive local government performance has not only been associated with important development outcomes, but also with bolstering citizen's perception of democratic governance more broadly (Hiskey & Seligson, 2003; Weitz-Shapiro, 2008).

Policymakers have argued that when services are "brought closer to the people," citizens may be able to more effectively hold governments accountable for service improvements.¹ Proponents have reasoned that locally administered services would better fit local needs and citizen preferences, increasing accountability and government responsiveness, because citizens—as participatory agents—would have a more direct interest in, and provide support for, better government.² While a broad literature has examined factors that shape decentralization outcomes, less attention has been paid to how neoliberal policies shape decentralization³ outcomes in local services provision. Neoliberal, or market-oriented, policies for public services include eliminating subsidies for service provision, implementing commercialization strategies to recover costs of services through user fees, and generally applying business management strategies. Decentralization and neoliberal policies for public services have been frequently promoted in tandem, which makes the lack of attention to how these two processes interact surprising. This study attempts to fill this lacuna. How do neoliberal policies affect the potential benefits of decentralization when administered at the local level? What types of institutional constraints do municipal governments face when contemplating the adoption of neoliberal policies? Do local governments "have what it

takes" to improve public services through self-financing reforms that may face considerable political resistance?

This paper argues that when combined with neoliberal commercialization practices, "bringing services closer to the people" can increase political conflict surrounding public services delivery, which can adversely affect public services performance. In addition, the intense political conflict that commercializing public services occasions can undermine the potential benefits of decentralization, such as increased user buy-in for services, participation, and accountability. This paper makes two arguments based on evidence from Mexico's urban water and sanitation (W&S) sector. First, following decentralization, local governments were made to adopt commercialization practices as part of a wider neoliberal reform package that generated extensive social backlash. Commercialization featured dramatic tariff increases and stringent collection enforcement that were politically unpopular due to a long history of subsidized or free water service. Although poor service quality is not without political costs to mayors, the dissatisfaction consumers have with services is often diffuse and disperse, whereas price increases, particularly given the delinquent services being provided, are more likely to generate acute backlash. Second, important institutional constraints at the municipal level further impeded the adoption of socially contentious commercialization policies. These institutional constraints include three-year municipal administrations, a prohibition on immediate re-election, administrative

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appointments that follow the electoral calendar, and a lack of a civil service program. These constraints have shortened the policymaking window of municipal government and further weakened its capacity to govern. Taken together, these political and institutional challenges have compromised the ability of urban governments to improve public services through self-financing reforms after decentralization.

(a) *Methods*

I utilize “process tracing” to examine how macro level processes interacted with local level context to create disincentives to improving local services. This study examines Mexico, a country that has experienced an extensive amount of both decentralization⁴ and neoliberal policies, and selects the W&S sector, which 79% of all Mexican mayors list as the most important municipal responsibility (Moreno-Jaimes, 2007a, p. 142). Process tracing unpacks the causal mechanism as a sequenced “chain of events” (Beach & Pedersen, 2013; Bennett, 2010, p. 209; Falleti & Lynch, 2009); specifically the study traces how two-macro-level processes—decentralization and neoliberal commercialization—interacted with the political and institutional context within Mexican municipalities to disincentivize the adoption of cost recovery, adversely affecting service outcomes. This qualitative method allows me to underscore the “decision process” actors used, what stimuli actors responded to, and the impact of institutions on behavior (George & McKeown, 1985, pp. 21–58). I utilize evidence gathered during extensive field research that entailed 180 in-depth interviews, data collection from internal government documents, newspaper articles, and archival material. The causal leverage of this study is gained from “within-case” analysis, which methodologists have recently noted provides greater causal inference than controlled case comparisons with a small number of cases (Beach & Pedersen, 2013, pp. 81–82; Brady & Collier, 2010, p. 10; George & Bennett, 2005, Chapter 8; Goertz & Mahoney, 2012, pp. 87–90).

Three municipal cases are presented to demonstrate the different pathways through which political conflict and institutional constraints can impede service improvements.⁵ I select three of the largest urban centers within the same state government, Mexico State (Estado de México): Naucalpan, Nezahualcóyotl (Neza), and Toluca. Mexico State is an economic powerhouse: it has the highest Gross Domestic Product (GDP) contribution of any state, at 8.8% of GDP, and it is also the most densely populated state in Mexico, with 13.8% of the population (CNA, 2011a, p. 16). Mexico State is a critical case for examining whether decentralization and commercialization policies have helped improve public services in Mexico more broadly. Such a wealthy state would be the least likely to have public services deficiencies, so if we identify service problems within Mexico State's urban centers, we are likely to see them throughout the country in poorer and less industrialized regions. Selecting cities within one state government allows me to hold constant a number of important factors that would vary more widely in cross-national designs (Snyder, 2001), and further control for variation in state level policy toward urban services.⁶ However, these cities, with varied geographies and water availability, and varied political competition and socioeconomic class makeup, also reflect the type of geopolitical variation found throughout Mexico. Finally, I present data for a larger number of cases, including national averages, and taken together, I argue that the data suggest that the challenges faced by these three cities after these macro-level reforms plague the majority of Mexican municipalities, although future research into the conditions

of W&S in each state would help to make this conclusion more definitive.

The next section situates the argument around debates in the literature, and Section 3 reviews the federal promotion of decentralization and commercialization in Mexico's W&S sector. Section 4 presents available data for a wider range of cities in Mexico and Section 5 examines three urban cases to evaluate the impact of commercialization policies and local institutional context on W&S performance after decentralization.

2. DECENTRALIZATION, COMMERCIALIZATION, AND GOVERNMENT PERFORMANCE

Despite its theorized benefits, much of the literature examining decentralization and local government performance finds that decentralization has not turned out to be a panacea in practice. Studies have found that decentralization may exacerbate regional inequalities (Mizrahi, 2004; Prud'homme, 1995, pp. 202–205), be captured by local elites (Blair, 2000, p. 25; Boone, 2003; J. Fox, 1994; Selee & Tulchin, 2004, pp. 309–310) or hampered by local-level corruption (Prud'homme, 1995, p. 211; Veron, Williams, Corbridge, & Srivastava, 2006). Coordination problems within government (Fiszbein, 1997, pp. 1039–1040; Francis & James, 2003, p. 333) as well as aid agencies (Smoke, 2003, p. 13) may also undermine local performance.⁷ Others have noted that decentralization strategies have in some cases reinforced central control (Dickovick, 2007; Eaton, 2001; Wunsch, 2001), and in other settings made municipalities dependent on intermediate tiers of governments (Fenwick, 2010, pp. 166–176; Grindle, 2007, pp. 29–33).

A number of studies are more optimistic about local government performance outcomes after decentralization. Numerous studies have examined how participatory governance institutions can bolster government performance,⁸ and how strong civil society networks increase the effectiveness of local policymaking after decentralization (Agrawal & Ostrom, 2001, p. 508; Andersson *et al.*, 2006, p. 580; Devas & Grant, 2003, p. 315; Faguet, 2009; Fiszbein, 1997, pp. 1034–1035; Kauneckis & Andersson, 2009; Tendler, 1997). Many studies emphasize leadership as a key ingredient for improving local government performance after decentralization. Decentralization can usher in educated and capable mayors, whose leadership and innovation may transform city hall (Cabrero-Mendoza, 2000, pp. 377–378; Fiszbein, 1997, p. 1033; Gilbert, 2006, pp. 404–405; Grindle, 2007, pp. 85–104). Mayors may play a crucial role in determining whether decentralization mandates—in many cases from above—will be implemented (Andersson *et al.*, 2006, p. 577; Devas & Grant, 2003, p. 315). Even instances of increased civic participation have been linked to mayoral initiative in sponsoring spaces for deliberation and accountability (Andersson & Laerhoven, 2007; Fiszbein, 1997, pp. 1034–1035; Van Cott, 2009; Wampler, 2007, p. 4). While mayoral will is important for municipal reform, I argue that decentralization strategies may be part of a larger package of policies that when taken together, hinder the ability of mayors to improve government performance despite best intentions or innovative policymaking. Specifically, when decentralization is accompanied by unpopular commercialization policies, mayors may lack the *political* incentives to reform services.

Commercialization of public services has been a pervasive policy initiative in many developing countries around the world and has been promoted as part of a wider package of neoliberal policies for the public sector. These policies are

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