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***REFORMING MUNICIPAL BUDGETING AND FINANCIAL MANAGEMENT IN A
SOUTH AMERICAN CITY: A CASE STUDY OF ASUNCION, PARAGUAY****

With increasing frequency, the two highly interrelated subjects of municipal budgeting and effective financial management are becoming ever more central to discussions of local governance reform in Latin America. Among the most important factors contributing to this are the growing concern throughout the hemisphere about the decentralization of governmental services and the expanding influence of elected mayors. For at least a decade, governments from Mexico to Argentina, have been discussing and, in some cases, actually carrying out, efforts to decentralize to the local level public service provision in such important program areas as economic development, education, health services and housing.

Such concerns have been further fueled during this same period by the dramatic movement to the electing of local leadership. As recently as fifteen years ago, only three Latin American countries used elections to select local government leaders. Today, 17 countries directly elect local mayors and councils and, in another six countries, mayors are selected by local councils that are themselves elected to office. One result is that these elected municipal officials face increasing local political pressure to deliver higher quality public services more effectively and efficiently. Consequently, they are growing ever more concerned about such basic municipal procedures as effective budgeting and program management and increasingly demanding the establishment of systems of intergovernmental and municipal revenue that can facilitate the carrying out of their expanded responsibilities.

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Simultaneously, they also are beginning to experiment with new financial management approaches designed to provide them with greater control over those resources to which they have access.

The Reform Context

One South American city that has begun to focus much attention upon these matters has been Asuncion, Paraguay - first, under the leadership of Mayor Carlos Filizzola and, more recently, under Mayor Martin Burt. Two factors have played a significant role in this development. The first, and most important, has been the obvious desire of two reform mayors - Filizzola and Burt - to dramatically alter the way the Municipality of Asuncion had been doing its business and, in so doing, set an example for the rest of the country. Second, was the fortuitous combination of Filizzola's deep commitment to exploring the best practices of other cities and countries and seeking to implement those reforms that seemed most relevant for his city and, simultaneously, the availability to him of considerable technical assistance from the US Agency for International Development (USAID).

Regarding the first point, it is important to keep in mind that Asuncion and Paraguay represent, perhaps, the archetypical case of what far too often has been the traditional Latin American governance pattern - a very high level of centralization of both administrative capacity and political power in national governments which have frequently been dominated by authoritarian, dictatorial leadership. In the case of Paraguay, prior to 1991, when Filizzola was elected in the nation's first experience with municipal elections, the country had, throughout almost its entire history, been dominated by non-elected, sometimes highly authoritarian political leaders. Filizzola had, in fact, come to political attention through his vigorous opposition to the oppressive three decade long dictatorship of General Alfredo Stroessner (which ended with his overthrow by one of his generals in 1989). That set off a process that has produced significant, if initially somewhat unintended, democratization in Paraguay during the past decade. Indeed, Filizzola's ascension to the position of being Asuncion's first elected mayor in 1991 represented one of the earliest and most significant indicators of Paraguay's emerging democracy. Consequently, it is not surprising that among his principle concerns would be the enhancement of citizen involvement in local government and increased transparency in financial and political processes.

Most recently - especially during 1998 - his successor, Martin Burt, focused upon improving the efficiency and effectiveness of the city's annual budget process and establishing a municipal Office of Management and Budget. Such an office would report directly to the mayor and would have full

responsibility for the Municipality's annual budget - including overseeing its formulation and processing, administrating its implementation, analyzing the performance of municipal departments in carrying out programs and the planning and development of activities to prepare for the following year's budget. The most immediate purpose of the proposed reform was to address a common problem in Latin American local government - the tendency of municipal governments to approve annual budgets that are very often 'wish lists' with little or no basis in reality - which then leads to uncontrolled spending and fiscal chaos. The ultimate goal of the most recent reform effort was to initiate a budgetary process that would provide the mayor with a broad picture of municipal performance and enable him (or her) to exercise a reasonable measure of authority over municipal departments.

These reform efforts reflect the growing recognition in Asuncion, and throughout Latin America, that an effective budgetary process is in fact the most important procedural activity of any municipal government since it is the annual budget that allocates the scarcest of all municipal resources - money. Moreover, the annual budget process is a critically important one because it serves as the key means to carry out a variety of crucial functions within any government that often might not occur absent the need to focus on the preparation of the budget. Among the very important activities that frequently are driven by the annual budget process are the following:

The creating of a blueprint, or road map, for the activities of the government. In so doing, the budget process forces the establishment and shaping of the priorities for the government for the next year.

The creation of the basic framework, or parameters, within which the chief executive is subsequently able to exercise systematic and rational oversight of the various municipal departments and agencies as they are implementing the programs laid out in the annual budget.

The imposing of at least some modest degree of planning activity upon each municipal government agency as they participate in the budget process. Indeed, many would argue that the most important and, often, the only serious planning in which any government agency engages is that which leads to its annual budget presentation.

Encouraging at least some rudimentary evaluation of the programmatic activities of each agency as judgements and assessments are made regarding the proposed allocation of funding for the next year.

The forcing of the making of decisions regarding issues and proposals that have been pending for considerable time. Often the decisions forced by budget preparation involve resolving long festering conflicts over major matters of government policy.

The facilitating of systematic interaction between the Chief Executive, his or her department heads, and, ultimately, the Municipal Council and its leadership. While such interaction should occur routinely, in many instances, it actually does not. Consequently, by forcing such consultation, the budgetary processes represents, in many instances, the most important interaction to occur between the chief executive and his or her department heads.

The revealing of means by which the services of government can be delivered more effectively and inexpensively, therefore enabling the delivery of more and better services to the citizens of a community.

Initiating Reform, I

In winning Asuncion's first mayoral election, Carlos Filizzola upset both the candidate of the Colorado Party, which, in conjunction with a small business and military elite had been one of the principal instruments through which the 30 year Stroessner dictatorship had been sustained, and the candidate of the Liberal party, which prior to the Stroessner regime had been the country's principle opposition party. Filizzola himself ran on a new party label, Encuentro Nacional, which was, in fact, a coalition of principally Asuncion-based political factions which had all been vigorous in their opposition to the Stroessner regime. Upon taking office, Filizzola inherited a municipal government that was widely seen as poorly managed, a haven of unproductive patronage employees, highly secretive, very corrupt and not responsive to the citizenry. In order to change this, Filizzola carried out significant reorganization and initiated numerous efforts to reach out to the citizenry of the Municipality. The latter included such activities as spending Saturdays visiting each of the Municipality's many communities and holding an endless array of informal meetings with neighborhood groups.

Two years after having been elected to office, Filizzola began to aggressively seek outside technical assistance in support of his reform efforts. Among his initiatives was the establishment of alliances with the local office of the United Nations Development Program (UNDP) and USAID and its regional local government technical assistance project, which was being administered by Florida International University (FIU) with the support of Miami-Dade County (MDC) local government.

Early in these relationships, it was mutually agreed that the principle focus of assistance would be on the enhancement of citizen participation within the Municipality and the strengthening of its internal management procedures. Thus, during the period of 1995-1996, a substantial amount of technical assistance would be provided to the Municipality for these purposes.

Filizzola pursued a variety of strategies designed to encourage the engagement of civil society in the budgetary and fiscal activities of the Municipality. The most important of these was simply to provide understandable information about the financing and expenditures of local government in written form both within the municipal government and to the municipality's citizens and their organizations. This was in many ways a most extraordinary reform, since, only a few years before, the municipal budget document (which was then not more than a dozen or so pages of numbers) was not available to the public and the information in it, and about it, was extraordinarily limited even within the municipal government. The Mayor's next reform, in the fall of 1995, was to initiate the policy of holding open public hearings on the municipality's budget. The initial hearing, which was modeled very closely after the hearings held in Miami-Dade County, attracted 250 residents of Asuncion. It was the first public budget hearing ever held by any governmental agency, at any level, in the history of the country. It not only attracted considerable attention in Asuncion, but within a few weeks, several other municipalities in the country had adopted the concept and implemented it. Subsequently, this initiative would, with the assistance of former Asuncion municipal officials, also be replicated by municipalities in several other Latin American countries.

The next major initiative of Mayor Filizzola involved the proposing to, and subsequent passage by, the Municipal Council of 'A La Luz Del Sol', otherwise known as the Sunshine Ordinance. This ordinance, again modeled after procedures in effect in Miami-Dade County, guaranteed that any citizen of the Municipality would have open access to all of the Municipality's financial and other records (except for private personnel documents). This included even access to notes made by individual public employees regarding matters upon which they were working. This one act alone initiated a degree of press access to information at the Municipality unlike anything ever before in the history of the country at any level of government.

These reform initiatives, in turn, were followed by a series of others that were of considerable significance. They included:

1. Expansion of the 'A La Luz Del Sol' law by amending the municipal ordinance to require that substantial background data be routinely provided on the internet for all municipal financial transactions in excess of 25,000 dollars so that the country's citizens, public and private organizations

and news media would have immediate access to such information.

2. Increasing, from one to four, the number of public hearings held during the course of the approval of its 1996 annual budget. These four hearings, held in September 1996, attracted an extraordinary turn out of citizens - over 400 in spite of the fact that one hearing was rained out and had virtually no attendance.

3. Continued progress made by Asuncion's municipal budget office in terms of producing clearer, better explained, more informative municipal budget documents. This included the introduction of substantial written descriptive and analytic information both describing and, in some cases, assessing municipal performance.

4. In order to further institutionalize the concept of public hearings, and legitimize the right of the citizenry of Asuncion to make requests at them, a special section was added to the 1997 municipal budget which listed, item by item, all of the requests made at the public hearings and the action taken, whether positive or negative, by the municipal administration.

In addition to his concerns about initiating various reforms designed to increase transparency and participation, Filizzola also was very interested in improving financial management at the Municipality. Among the issues that particularly concerned the mayor was the fact that annual budget submissions, as well as the actual appropriations made by the Municipal Council, frequently were hugely inflated and bore little relationship to the actual funds available to the Municipality. This was the result of efforts on the part of municipal officials, both in the administration and in the Council to be responsive to local political demands and interests. The situation was further exacerbated by the fact that the mayor himself had, given the existing budgetary processes in the Municipality, very little direct oversight of the preparation of the budget. This was because, traditionally, the management of the budget was carried out by different units within the Municipality's large and sprawling Finance Department and the planning and development of it occurred in yet another department. In order to both force some changes in the traditional way of doing business and bring the budget process closer to him, the Mayor moved most of the budget functions out from under the Municipality's Finance Department and into the strategic planning office which was a part of a somewhat broader agency that included a variety of executive office functions.

In a further effort to deal with his budget problems, Filizzola, in mid-1995, also sought assistance from the FIU/MDC consultants to work with key municipal staff members in addressing these matters. The results were encouraging but, nevertheless, mixed. A new budgetary - financial

information system, based upon the one in use in Miami-Dade County, was introduced into the Municipality with considerable success. One consequence was a much better body of fiscal information available to the Mayor which he, in turn, used in an effective manner to impose, for the first time, a high degree of fiscal discipline on the city's budget and expenditure processes. The consultants, however, also very strongly recommended the creation of a comprehensive municipal Office of Management and Budget (OMB) in which the various planning, budgetary and analysis activities which were then to be found in two different municipal departments would be centralized in one agency which would report directly to the Mayor. For several reasons, most of which had to do with the independent political strength of the various department directors, who had all been important participants in the electoral coalition that had brought Filizzola to the mayoralty, the Mayor felt it unwise to expend the bureaucratic and political capital necessary to implement this proposal.

In fact, the failure to implement the OMB proposal would later have very significant consequences for Filizzola's successor, Martin Burt, and, subsequently, Burt would enthusiastically embrace this idea. Indeed, by mid-1998, he would be very eager to initiate such a proposal as a consequence of the severe budgetary problems that plagued his administration. Prior to reaching that point however, the new mayor would have to face, and come to grips with, a budget crisis which, in many ways, would be much more damaging than any of the problems which Filizzola had had to face. That crisis would be created by very severe internal administrative difficulties which would lead to major fiscal and, consequently, public relations problems for the new mayor.

Initiating Reform, II

With Filizzola being precluded by the nation's municipal law from running for a second consecutive term, it was evident that the much larger Colorado Party was far better positioned than either Filizzola's own party, or Martin Burt's Liberal Party, to win the next mayoral election. The result was the establishment of a coalition, between the Encuentro Nacional and the Liberal Party, that would ultimately be led by the more popular of the two parties nominees for Mayor as determined by a public opinion poll taken two months prior to the election. The 'Alliance' as it was known, would, should it win, share the leadership positions at the Municipality. Following a very vigorous campaign, Burt, supported strongly by Filizzola, and running on the image of being a young, attractive, well educated technocrat, highly skilled in management, emerged victorious.

The victory of Burt in the mayoral election of November 1996 marked a turning point in terms of efforts at fiscal reform in Asuncion. Coincidentally, the USAID technical assistance project, which had played a very significant role in the design and implementation of the Filizzola reforms, was drawing to a conclusion. USAID/Paraguay, which had undergone a leadership change, wanted to initiate a new municipal technical assistance effort involving new US providers. The newly elected Mayor, however, was initially inclined to continue with the established relationship and, thus, during the course of 1997, efforts would be made by the Burt administration to sustain the technical assistance partnership, at least with Miami-Dade County. The reality was, however, that, despite the many successes and the considerable good will of the prior partnership, the principle business of the Miami-Dade County participants was the running of their own municipal government. Consequently, absent the intermediary role of FIU (which had been funded by USAID), the intensity of efforts necessary to facilitate and institutionalize significant reform initiatives simply could not be sustained.

Early in the Burt administration, USAID did, however, initiate a new municipal assistance project administered through the International City/County Manager's Association (ICMA). This project, was based on the assumption that the new procedures initiated under the Filizzola administration surely would stay in place and, consequently, the Municipality was now ready to move on to a higher level of administrative reform. Thus, the new USAID/ICMA project focused upon the introduction of techniques of performance measurement into municipal agency operations as a means of evaluating and assessing the effectiveness and utility of the city government's various service delivery systems. Attention was not given to the fact that, even under the best circumstances, the permanent institutionalization of reform is a complex, and often very fragile, process. Moreover, normally it is especially difficult (even in a highly institutionalized and stable system - such as the US) to sustain significant, politically sensitive reforms initiated in one government administration through the course of a transition to a new administration.

In fact, with the advent of the new Mayor, there was a major change in focus within the municipal government in terms of budget administration. While the Mayor's closest advisors felt that the Filizzola administration had been successful insofar as the development of citizen participation initiatives, their initial instincts were to believe that it had not been highly effective in terms of administrative and management reform. Controversy that emerged during the political campaign over the handling of municipal funds by the Filizzola administration had served to further reinforce this belief on the part of several of Burt's key advisors. Therefore, the budgetary and financial management procedures (and, some of the citizen participation reforms as well) which had been implemented by

Filizzola, were considered by some key aides to be suspect. The loss of institutional memory that accompanied the ending of the FIU/Miami-Dade technical assistance immediately prior to the transition in administrations also inadvertently served to further this point of view.

Consequently, budget authority and responsibility was quickly moved from the Municipality's strategic planning unit, where it had been placed during the Filizzola administration, and back to the Finance Department (renamed now as Internal Administration), where it had been prior to Filizzola's ascension to the Mayoralty. With that change, the newly implemented budgetary-financial management system - more by lack of attention, than intention - was abandoned. The new Mayor's aides did, however, embrace the new USAID technical assistance in the area of performance management (perceived as more sophisticated than the type of assistance that had been received under the Filizzola regime and, thus, highly desirable). The new administration also initiated, with encouragement from USAID and modest financial assistance from UNDP, an effort to transplant a redesigned system of financial assessment used by the US Federal Reserve Board (for reviewing the fiscal and organizational health of US financial institutions) to the evaluation of the effectiveness of municipal departments and their service delivery activities.

One area where the new administration felt quite strongly that the Filizzola administration, while good intentioned, had been poorly managed - was with regard to the raising of revenue for the Municipality. Consequently, shortly after he assumed office, the new Mayor hired a very prominent Argentinian financial consulting firm to analyze and assess the Municipality's tax collection system and provide recommendations as to how to improve it, with a primary focus on the property tax, or 'impuesto inmobiliario'. While the Argentinean findings proved optimistic, the implementation of their recommendations would prove disastrous for the Mayor. The consultants argued that the Municipality, under Filizzola had been significantly under-collecting tax revenues due to unadjusted or unregistered property values, high municipal inefficiency, limited political will and lack of legal repercussions for tax evaders. They estimated (reasonably accurately) that tax evasion 'morosidad' was at a rate of approximately 35 percent.

As Burt's administration was not willing, for its own political reasons, to pursue evaders through legal channels, it was left with improving its efficiency in tax collecting and re-evaluating property values throughout the city. Focusing on these two objectives, the Municipality's consultants concluded that they could increase the 1997 tax collection by approximately 25 percent. Some reforms were established, such as the creation of a door-to-door collection team, the improvement of the municipal tax roll 'catastro' software, and the partial outsourcing of tax collection administration.

Burt's staff, however, believed that results would be immediate, and the administration, therefore, included the expected 25 percent revenue increase in its forecasts of both revenue and expenses. In addition, with approval from the Municipal Council, the administration increased and reprogrammed the balanced 1997 city budget (the city organizes its budgets by calendar years) that the outgoing Filizzola administration had put together.

Unfortunately, tax collection did not improve. In fact, due to the country's 1997 banking crisis and generally declining economic situation, the annual increase in municipal tax collection was barely in accord with the inflation rate and the limited economic growth that had occurred. Indeed, as a consequence of the more difficult economic circumstances, even fewer people were paying their taxes. However, as soon as the operating budget increases had been approved, new purchases had been made, many purchase orders authorized by Internal Administration and new contracts were signed. In mid-1997, once the Municipality's normally high tax collection months (February through July) had passed, some elements of the administration began to assert that its financial commitments had significantly surpassed its revised, realistic collection projections.

The Crisis

Throughout the next few months an internal debate raged within the administration between the strategic planning unit, which was warning that the Municipality was headed towards a very serious financial crisis and the Internal Administration Department which said things were fine. By November, it was clear that the planning department had been right and the Municipality was on the verge of not having any money to pay its bills. In December 1997, the Municipality was able to qualify for local emergency loans (at exorbitant interest rates) to pay some of its providers. However, the 1997 budget year still ended with accounts payable that amounted to close to 10% of the budget that had just been concluded. Although the Burt administration finished paying these suppliers by April, 1998, it once again found itself in the same liquidity crunch. The 1998 municipal budget, which had been put together in the late summer and early fall of 1997, had also been inflated on the assumption that revenue collection would be much greater than it turned out to be. Thus, it had also contained a 'wishlist' of various projects without any consideration of a realistic municipal revenue raising strategy or reasonable resource constraints. This was because city authorities, then still guided by the advice of the Argentinean consultants, had approved a new budget without a prioritized, strategic capital plan or a realistic revenue forecast.

In fact, the process of putting together the 1998 municipal budget, which occurred during the summer and fall of 1997, served to plant additional seeds that would produce an even more severe Spring 1998 fiscal crisis for the Municipality. The 1998 budget was put together within the Municipality's Internal Administration Department in a manner that, in fact, involved very little consultation with the Municipality's five General Directors, or the 47 individual agency directors, who in varying combinations, reported to the General Directors. The result of this was that in the Fall of 1997, when the municipal administration was being severely attacked by the Municipal Council on the basis of its management of the 1997 budget, the General Directors, and various individual department directors, were forced to defend before the Council a proposed 1998 budget into which they had had very little input, and, in many instances, were often not even aware of the final decisions that had led to it. The result of this was, not surprisingly, much disaffection on the part of many of the Municipality's key administrators who were responsible for overseeing the actual implementation of the budget proposals.

Without clearly defined objectives, or any real sense of commitment to the budget process, but with some sense of the municipality's emerging financial difficulties, department directors requested and received from Internal Administration significant expenditure approval early in the 1998 budget year. As the majority of its revenues are posted during the first four months of the year, the Municipality, with its borrowed funds in hand, was again able to maintain a favorable cash position. However, as departments continued to spend, and as revenues continued to decline, the Municipality's cash position grew even less favorable than had been the case in the Fall of 1997. Additionally, with the severe effects of *El Niño*, the city was forced to assume the unforeseen costs of repairing damaged roads and assisting flood victims. In September 1998, the administration had no choice but to call for what was essentially an emergency budget shutdown (on all items except employee salaries), thus allowing for only 66% of the 1998 annual budget to be executed. Consequently, by late 1998, budget staff at the Municipality were putting together yet another payment plan to suppliers, forecasted to end in March, 1999 and hoping that with a realistic budget and reasonable collection projections, the Municipality would be able to break its cycle of short term illiquidity.

Initiating Reform, III

After facing public criticism in the Fall of 1997 and early 1998 for the mismanagement of municipal resources, Mayor Burt and his administration undertook to make significant fiscal and budget policy changes in early 1998. The first action of the Mayor was to assign one of the key staff members (actually a long term UNDP funded consultant) from the planning department (whose warnings about the financial crisis had been ridiculed by Internal Administration) to provide him with the best possible overview of the Municipality's current financial situation. While the staff person was transferred from planning to Internal Administration, and formally reported to the General Director of that department, the Mayor interacted directly and frequently with the individual on these matters.

Subsequently, this staff person was provided with other staff assistants by the Mayor and assigned a series of responsibilities that resulted in the assumption of the role of defacto budget director of the Municipality. While the new 'budget director' had not been associated with the Filizzola administration, utilizing UNDP funds, a technical assistance relationship was reinitiated with the key FIU/Miami-Dade County advisors who had worked on reforming the budget and financial management process during the Filizzola administration. One subsequent result would be the reestablishment of a budget process that was very similar to the one that had been initiated under Filizzola (and which had included timetables for various submissions, multiple reviews and extensive consultation). In addition to the implementation of the new budget process, Burt would, over the next year, also initiate much stronger efforts to control municipal spending; create a clearly defined strategic budget plan to increase the number of participants in the process; and base his budget on realistic tax collection.

Considering the difficulties the General Directors experienced with regard to execution of the 1997 and the start of the 1998 budget, one of the primary challenges that the new budget office faced was to educate and involve the directors more effectively in the creation of the 1999 budget. Their prior experience had taught the directors that the budget was not a true reflection of municipal resources, or a blueprint of government activity, but simply a list of expenditures that could be processed legally. It had also taught them that the system could very easily, through a lack of both adequate information and effective administrative control, be manipulated to facilitate relatively unchecked spending. Indeed, in more than a few cases, directors had committed to the expenditure of substantial sums of money without any real authorization at the same time that the Municipality was, in fact, running out of money.

The 1999 budget process was launched in July 1998, with the creation of a strict timeline that involved consultation with many key participants, including general directors, city council members and the mayor. The first item to be prepared was a realistic revenue forecast. Using a regression model with historical, economic, and seasonal variables, analysts obtained an accurate projection of 1999 tax collection. Based on projected collection, the budget office then prepared operating goals (techos) for each department and requested that the directors create their own operating plans based on departmental priorities. After the creation of the operating goals, the budget staff estimated the number of new capital projects that the Municipality could realistically assume. Keeping in mind this estimate, the budget office worked closely with the Mayor to determine the following strategic objectives for 1999:

- ! Citizen Attention
- ! Environmental Issues
- ! Transportation and Street Paving
- ! Culture
- ! Health and Security
- ! Youth and Other Social Programs
- ! Franja Costera: The Riverfront Development Project
- ! Neighborhood Improvements
- ! “Governability”

Considering the selected objectives, the budget office then requested a list of capital projects and programs from each department to be analyzed and approved by the Mayor and his cabinet before being included in the budget proposal. In addition to the implementation of budgeting techniques, another important improvement in the budget process was the creation of a new budget preparation software program. Designed by the information systems department, the new software allowed for detailed categorization of all budgeted expenditures. This enabled the budget office to control expenditures at each department as it was inputting its budget; to perform ongoing detailed reports; and to analyze the budget as it was being prepared.

As the Municipality had faced control problems with a few key line items, such as contract salaries, office/computer materials and overtime, the budget director acted to centralize, at least temporarily, control over these selected items. While this had the potential to lead to problems on a cost

accounting level, measures were taken to ensure that, although centralized, these line items would be tracked and informally 'charged back' to the appropriate department.

An essential part of planning and budgeting is expenditure forecasting. Before 1998, the administration had no formalized revenue or expense forecasting methodology. With the introduction and implementation of the new budgeting techniques, a municipal forecast model was also introduced to assist in day-to-day as well as long-term planning and decision making. Distributed to the Mayor and his cabinet, the forecast indicated various fiscal trends in revenue collection and spending, thus allowing the Burt administration to routinely evaluate municipal financial performance.

One of the primary goals of the administration was to increase the level of capital investment in Asuncion and, of the proposed capital projects, to include in the budget those with the highest public value. Public value is difficult to measure quantitatively, as free services, such as park illumination or park creation, do not directly contribute to future revenue or other financial benefits. However, Burt's team conducted various surveys to gauge the sentiment of the community. The restoration of the Municipal Theater, the refilling and construction of riverfront property, the inauguration of public plazas, improved street paving, and improved garbage collection were just a few examples of the capital projects included in a prioritized fashion in the 1999 budget.

With the desire to increase the level of investment in the city, the easiest option for the Mayor was to increase even further the level of municipal debt to finance his 1999 capital plan. However, with an increase in municipal debt, the corresponding, projected debt service levels signaled an alarming trend: all new credit would go to pay the Municipality's current debt obligations. As a hopeful recipient of World Bank funds, the Municipality was committed to achieving a balanced budget and maintaining the healthy liquidity and debt ratios demanded by the Bank. Therefore, for the 1999 budget, Burt was left with the single option of reducing operating expenses, of which salaries would consume 71%. Logically, however, a reduction in operating expenses would free up resources for investment as well as create a potentially executable budget, which the administration had promised.

Reducing operating expenses, and therefore salaries, was a painful part of the 1999 budgeting process for the administration. As a candidate, Burt had made a campaign promise that he would not lay off any of the municipality's 4,000 workers. In fact, in the first year and a half of the administration, an estimated 1,000 new employees had been hired. However, by mid-1998, the Mayor was under intense pressure from the community and the media to improve city services such as garbage collection and street maintenance. As the newly elected President of the Republic had recently announced government layoffs, Burt linked his efforts to the President's plan by electing to reduce

municipal day workers and contractors while encouraging job creation outside of the Municipality through various capital projects and public works.

Budget Reform - The Perspective from the Ground

The creation of an Office of Management and Budget (OMB) and its separation from Internal Administration, the office that executes the budget, was considered both by the budget director and the FIU/MDC advisors to be a crucial step in the improvement of the Municipality's financial management and budgetary systems. During the 1999 budget process, Internal Administration formally oversaw all activities concerning the budget; however, there are many dangers in structuring financial management in such a fashion that budget execution and accounting are under the same person, including the potential risk of municipal resource mismanagement and, even more serious, corruption. Thus, in the late summer of 1998 a proposal to create an OMB was submitted to the Mayor and his two top advisors. The proposed office was to be structured so that its head reported directly to the mayor and oversaw all functions of budget planning, preparation, expenditure authorization and review. In addition, the office would be responsible for the following:

- ! Quarterly reprogramming of the municipal budget
- ! Cash and debt analysis
- ! Annual and multi-year financial forecasts of:
 - X Cash Flow
 - X Balance Sheet
 - X Profit and Loss
- ! Financial and service performance summaries
- ! Financial planning of long-term projects
- ! Outsourcing of garbage collection
- ! Restructuring of tax collection system

Among the key principals which guided the 1998 efforts to reform the budgetary process in Asuncion were the following:

1. An effective budget process requires the establishment of a strong office of management and budget. Its director should have a broad knowledge of the range of activities in which the government engages and must have a strong reputation as an able, impartial and honest administrator who commands the respect and confidence of both the department heads and the mayor.

2. An effective budget process needs to follow a realistic timetable that includes opportunities for individual meetings between the budget office, the chief executive and each of the department heads; as well as time for public hearings and consultation with the municipal council.

3. The budget process must always begin with the establishing of very conservative revenue estimates. Arguably, the annual budget for the municipality should only be set at the level of 90% to 95% of anticipated annual revenue.

4. Following the establishment of the revenue estimate for the year, then individual budget spending limits must be determined for each department in order to provide a realistic framework for budget preparation. Even more importantly, these spending limits must actually be enforced when the budget takes effect.

The steps taken in the Summer and Fall of 1998 by Martin Burt's administration were crucial to improving the fiscal management of the city of Asuncion. While implementing the objectives of the 1999 budget reform proposals were likely to be difficult, as they required additional significant steps, including cutting personnel and other operating expenses, virtually everyone involved - from the consultants to the Mayor - agreed that following through with the proposed budget plan and reforms, including the creation of the OMB, was critical to the future of the administration. Failing to proceed with these changes would result in the continuation of poor fiscal and revenue management, which, ultimately, would have a very significant negative impact upon the community. Clearly, the Municipality's responsibility to both improve the quality of city services and to properly manage a very scarce resource--public money--required action.

Initially, in the early Fall of 1998, when UNDP funding for the FIU/MDC advisors ended, and then in December, when the UNDP funded budget director's activities concluded, the prospects for the actual implementation of the proposed reforms appeared very optimistic. The Mayor and his chief advisors were unanimous in their support, as was the leadership of the municipal council. By February

of 1999, however, the situation appeared to be changing significantly. The combination of higher than anticipated expenditures and the political difficulty of laying off employees had created much uncertainty regarding how the Municipality would deal with its overall fiscal situation. In turn, the opposition of the newly appointed General Director of Internal Administration, and the absence of the momentum and enthusiasm generated by the former UNDP funded staff and advisors, had seemingly left the adoption of the OMB proposal, which only a few months earlier had appeared to be a certainty, very much in doubt.

Revenue Reform - The Perspective from Above

A key element in the problems faced by the Municipality of Asuncion during the Burt administration was the shortfall in the expected revenues. In fact, as a result of the restrictions imposed by the national municipal law, the Municipality had almost no power to either raise tax rates or initiate new taxes. Absent such authority, it was inevitable that its leadership would be caught in a conflict between their desire to respond to public demands for new services and the reality of limited revenue resources. In the case of Asuncion, the situation was made even more severe due to the very limited portion of all government revenue that is available to sub-national government in Paraguay. While some change is occurring in a few Latin American countries (in Argentina and Colombia between 40 and 50 percent of tax revenues are collected and/or spent at the subnational level), in Paraguay, less than 5% of all government revenue is collected and/or spent at the sub-national level.

Indeed, the task of putting in place effective systems of local and intergovernmental revenue is not unique to Asuncion, Paraguay or Latin America. These issues are of increasing concern throughout the world as governance reform efforts focus more and more upon the decentralization of governmental activity. Thus, in examining these issues in Asuncion it is important to keep in mind that there are some very basic premises that are both appropriate to and should guide the structuring of intergovernmental and municipal fiscal and financial management relationships, whether they be in North or South America, Asia, Africa or Europe. On the revenue and fiscal side, these include the following:

1. The design of effective governmental revenue systems must be driven by a clear determination of which level of government will be delivering what kinds of public services and in what quantity - thus, the structure of government expenditures, in terms of level and type, must guide the defining of governmental revenue systems. In an effective system, there needs to be both a diversity

of revenue sources and a recognition that there probably should be some measure of duplication in the use of them.

2. It is critical that local governments have real financial autonomy. Local officials must have the ability to effectively address local needs by being able to (indeed, required to) impose local taxes. The reality is that nothing so enhances the accountability of public officials, especially at the local level, as having to answer to their citizens for the taxation that they impose. A high level of dependence upon national or regional transfer funds not only makes local officials dependent upon and/or subservient to national officials, but it can also serve to encourage fiscal irresponsibility because they then do not have to answer directly, through elections, to the citizenry for their financial decisions.

5. It is important, however, to look at municipal revenue systems within the context of a nation's total fiscal system. In essence, there are many different tax and revenue sources which must be coordinated in a reasonably coherent manner in order to create a rational intergovernmental and municipal revenue system.

6. While Paraguay does not make use of them, there is a legitimate role for national government transfer funds in an effective intergovernmental fiscal system. Such transfers should, however, have some redistributive focus in order to provide needed assistance to poorer municipalities. In addition, the national government, in making such transfers needs to act in a consistent, reliable and responsible fashion and always follow through on the actual dispersal of committed funds.

7. To the extent possible, it is useful to make intergovernmental fiscal systems fair and equitable, simple, predictable and as openly transparent in administration as possible. It is, however, not necessary to create a system of perfect rationality and /or equity. While this is an important goal in practice, in reality, it is not achievable.

8. Particular emphasis must be given to the implementation of effective tax collection practices at both the national and local level. In many Latin American countries estimates of the payment of actual tax obligations ranges from 10 to 50%. This situation is further complicated by the fact that, in many countries, property is assessed at only a fraction of its actual value. Penalties for the failure to pay taxes should include the imprisonment of major and/or repeat violators of the tax laws.

9. The effectiveness of fiscal systems must be constantly reviewed due to the changing circumstances in which both municipalities and national governments find themselves.

Conclusion

As the combination of an increasing focus upon democratic development, with consequent concern about dispersing political power, and the recognition of the importance of local capacity in terms of improving the delivery of public services has become more widespread, growing attention has been paid to the twin issues of increased transparency and more effective management in local government. This is due in part to the belief that some combination of openness of processes and enhanced public access to local decision making is critical to building the mass support necessary for the strengthening of and the reallocation of significant resources to local political leadership and institutions.

One consequence is that local governments are beginning to assume roles, or be given responsibilities, significantly beyond any which they have ever had before. At the same time, these governments are beginning to be led by individuals who are, as never before, being held accountable, not to national Presidents or authoritarian leaders, but rather to the citizens of their communities. The result is that, as these local leaders find themselves required to be increasingly responsive to their local electorates, they are becoming ever more concerned about how to effectively manage those resources to which they have access and how to generate new and increased revenue. Among other things, this is creating a growing concern about improving the budgetary processes by which municipal revenues are most efficiently managed. In addition, increasing attention is being paid, throughout the hemisphere, to the nature of inter-governmental and local revenue systems.

The specific case of Asuncion, Paraguay demonstrates a number of important points about the process of attempting to achieve public sector reform. Perhaps the most important of these is that even where there is a substantial will to achieve reform, it is sometimes not very easy to do so. Almost any successful effort will require the strong commitment of a dedicated, determined and thoughtful reform advocate. However, in many cases, that is not, in and of itself, adequate. Sometimes the onset of a major crisis (in terms of the way things are normally done) is necessary. Such a situation will often both dramatize and intensify the need for change at the same time that it is creating the disequilibrium that is sometimes necessary to facilitate and expedite change.

Often outside assistance will be required. Sometimes that assistance is, as we have seen in the case of Asuncion, very helpful. Sometimes, as we have also seen in Asuncion, it can be very counter productive. It is clear however that, in order for reform initiatives to succeed, sustained commitment and substantial effort is always required. This is most especially true for those who are on the inside

trying to initiate and carry out reform. This includes not only the person leading the effort, but it is also important that those who work with the leader of the effort are equally committed to its success. Indeed, in most instances where reform efforts are not successful, it is possible to find times in the process where the level of commitment on the part of those initiating it, and/or those assisting in bringing it about, was not sustained.

Finally, the experience of Asunción Paraguay in the area of budget and municipal financial management reform carries with it an important lesson for the international donor community which seeks to provide assistance in facilitating the process of governmental reform. Despite the good intentions of the Burt administration, some of the reforms initiated during the Filizzola administration, which were highly celebrated at various international conferences by major figures in the international donor community, were not sustained after the transition in administrations. At least part of the explanation for this has to do with the natural process of change that occurs when one elected local government administration gives way to another. However, perhaps even more significant, in this case, was the lack of realization on the part of those donors supporting the Filizzola reform initiatives as to the fundamental fragility of newly established institutions and procedures. Indeed, initial success in institution building and/or procedural reform can often be misleading and cause those involved to think that it is time to move on to new and more sophisticated initiatives. The reality is that the institutionalization of reform almost always needs longer term support than many realize and frequently than most donor agencies are willing to commit. This is one reason why, upon occasion, the best intentions of the international donor community, not to mention those of local reformers, produce only partial success and sometimes even wind up in failure.

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