URBAN POLICY & LOCAL PUBLIC FINANCES
Case Study: Maracaibo’s Local Government, Venezuela

Mercedes FERRER Arq. MPH + Yajaira García Econ. + Helen Barroso Arq. MSc + Carolina QUINTERO Arq. EGU
Universidad del Zulia. Maracaibo, Venezuela.
INTRODUCTION

MARACAIBO, capital of the Zulia’s State, is located at the west extreme of Venezuela, and shares borders with Colombia.

Public policy is an essential component of the governing process because, it influences the elections, preferences and expectations of citizens.

All public policy include mechanisms for the public allocation of finances and opportunities among different social actors.
To identify:

1. The sources of public finance for urban policies in Maracaibo’s L.G.

2. The changes that such sources have undergone throughout the 1989-2001 period.
THE METHOD

1. Review of Municipality's Local Management Plans, Annual Budgets and Annual Reports.

2. Interview the Directors of Planning, Budgeting and Rents.
Conceptual Considerations

**URBAN POLICY**

1. The action plan of the local government - prioritization of the institutional level -.

1. The equivalent to urban public intervention – prioritization of the substantive criterion (Brugué and Gomà, 1998)
LOCAL PUBLIC FINANCES

- Provide the local administration with the tools and tax revenues to pay for, and thus meet the basic needs of city inhabitants.

- They are a key tool that contribute to city construction and urban development.

- Their appropriate management can help to uproot many of the problems that affect community development and welfare.
GOOD GOVERNMENT & GOVERNABILITY

-GG implies: inclusion & representation of all groups of urban society, transparency, integrity & responsibility in the local government actions to define and achieve shared objectives.

-GG is that which wins its legitimacy day by day, and which does not lose citizens' confidence.

-Governability is the capacity to govern. It is a process of continual interaction & adjustment of society's needs and the capacities to respond to such needs.
SOURCES OF PUBLIC FINANCE FOR URBAN POLICIES IN MARACAIBO'S LOCAL GOVERNMENT

1. Inter-governmental transfers: a. the constitutionally-sanctioned disbursements from the national and state government to the Municipality, b. the Inter-governmental Fund for Decentralization, (FIDES) and c. the special disbursements regulated by the 1997 law that applies to states with mining and oil production (LAEE).

2. Municipal taxes, such as the industrial and commercial license tax; the tax on urban real state; tax on motor vehicles; user charges for refuse collection; levies on urban markets, abattoirs, coach stations.

3. Multilateral organizations: the World Bank, the Interamerican Development Bank, Corporación Andina de Fomento, for the implementation of a number of programs (Hernández et al, 1999).
Constitutionally-sanctioned inter-governmental transfers

- Constitute the traditional financial instrument of public investment -CITY CONSTRUCTION- for state and local governments.

- Resources transferred to municipalities come 20% from the state's ordinary income and are distributed horizontally following the rule: 50% according to the population size and, the other 50% is distributed in equal parts.

- 1994-1997, that disbursement represented 36.5% of the L.G. income.

- 50% of Venezuelans municipalities depend almost exclusively on that disbursement, 25% is highly dependent on that transfer, and the remaining 25% have a more balanced income structure.
Table: Changes in the Municipality’s Income

<table>
<thead>
<tr>
<th>YEARS</th>
<th>ORDINARY INCOME</th>
<th>EXTRAORDINARY INCOME</th>
</tr>
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<tbody>
<tr>
<td>Until 1995</td>
<td>• Own resources&lt;br&gt;• Constitutionally-sanctioned inter-governmental transfers&lt;br&gt;• Coordinated Investment</td>
<td>Other income (contribution, others)&lt;br&gt;Multilateral Financing: FONTUR, PROMUEBA, PROINSOL (BM, BID, CAF).</td>
</tr>
<tr>
<td>1996 - 1997</td>
<td>• Own resources&lt;br&gt;• Constitutionally-sanctioned inter-governmental transfers&lt;br&gt;• Other transfers: FIDES</td>
<td>Other Income (contributions, others)&lt;br&gt;Multilateral financing: FONTUR, PROMUEBA, PROINSOL (BM-BID-CAF).</td>
</tr>
<tr>
<td>From 1998</td>
<td>• Own income&lt;br&gt;• Constitutionally-sanctioned inter-governmental transfers&lt;br&gt;• Other transfers: FIDES y LAEE</td>
<td>Other Income (contributions, others)&lt;br&gt;Multilateral financing: FONTUR, PROMUEBA, PROINSOL (BM, BID, CAF).</td>
</tr>
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Source: Author’s own analysis, 2003.
Evolution of urban investment main conclusions:

• A sustain increase in the % of urban investment until 1996.

• A strong decrease in the share corresponding to urban investment since 1997 when a policy of decentralization towards para-municipal enterprises begins to be implemented.

• This policy objective was to make more flexible the implementation of urban projects, more efficient the local management and to increase the Mayor's political capital and the level of governability.
URBAN POLICY AND LOCAL PUBLIC FINANCES

The main decentralized functions referred to the implementation of urban policies & city construction, priorities of the local governments of Mayors Rosales and Di Martino (1995-2000 and 2000-2002).

Mayor Rosales created in 1997 the Plans and Projects Division to make a more efficient use of the resources available from FIDES and LAEE.

This Division coordinates: project formulation and administrative procedures to apply for financial funds for project implementation, through FIDES, LAEE & multilateral organizations.

From 1995 to 1998, FIDES approved 2,968 projects, for Bs. 344.580 millions, 68,22% were destined to state government and, 31,78%, to local governments (Hernández, 1999:110).
### Table: Implementation of urban policies

<table>
<thead>
<tr>
<th>SERVICES</th>
<th>%</th>
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<tbody>
<tr>
<td><strong>Road construction and maintenance</strong></td>
<td>46,7</td>
</tr>
<tr>
<td>Health</td>
<td>21,7</td>
</tr>
<tr>
<td>Housing</td>
<td>7</td>
</tr>
<tr>
<td>Security</td>
<td>6,1</td>
</tr>
<tr>
<td>Sports</td>
<td>6</td>
</tr>
<tr>
<td>Vehicles</td>
<td>5</td>
</tr>
<tr>
<td>Citizen’s services</td>
<td>4,3</td>
</tr>
<tr>
<td>Education</td>
<td>1,9</td>
</tr>
<tr>
<td>Airports</td>
<td>1,3</td>
</tr>
</tbody>
</table>

*Source: Author's own analysis, 2003.*
SUMMARY:
VISIBLE MANAGEMENT, urban policies and local public finances

<table>
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<tr>
<th>MAYOR</th>
<th>EMPHASIS</th>
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<td>Chumaceiro (1989-1995)</td>
<td>- Administrative rearrangements &amp; management planning</td>
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</tbody>
</table>
| M. Rosales (1996-2000) | - Visible management (VM) with a strategic focus, centered on policy formulation and implementation to respond the population's needs  
- Planning by doing  
- These aspects delineate a policy-oriented government |
VISIBLE MANAGEMENT positive aspects:

1. Confers greater dynamism and flexibility.
2. Focuses the government's interventions on problems perceived by the community as priority.
3. The administrative model makes viable a policy discussion and prioritization, although is the Mayor who takes the last decision.

**V.M. is based on three key aspects:**
- Need of the Mayor to be perceived as a good local governor.
- Widening of substantive legitimacy.
- Increase governability.

*Visible management* is the articulating key between urban policy and local public finances.
CHANGES IN MANAGEMENT LOCAL PUBLIC FINANCES

To support this process, **2 fundamental changes took place in the management of public finances in Maracaibo’s local government:**

1. **In the income structure**

2. **Greater weight given to the financing of urban policies.**
MAIN CONCLUSIONS

• The existence of an investment policy of the local public finances which privileges city development and the implementation of urban policies.

• The search for new sources of income at the local, national and international level, for the implementation of such policy.

• The strategy of the Mayors is supported by a corporate vision and praxis, directed to strengthen a political practice which can be defined as government by policies & "visible management".

• The new local leadership that emerges from the state-reform and decentralizing process in Venezuela, assumes new functions and practices, G/P and V.M., in order to respond to community’s perceived problems and improve the quality of life in cities.