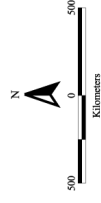
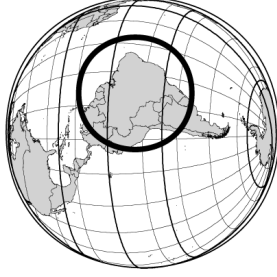


# Federative Republic of Brazil

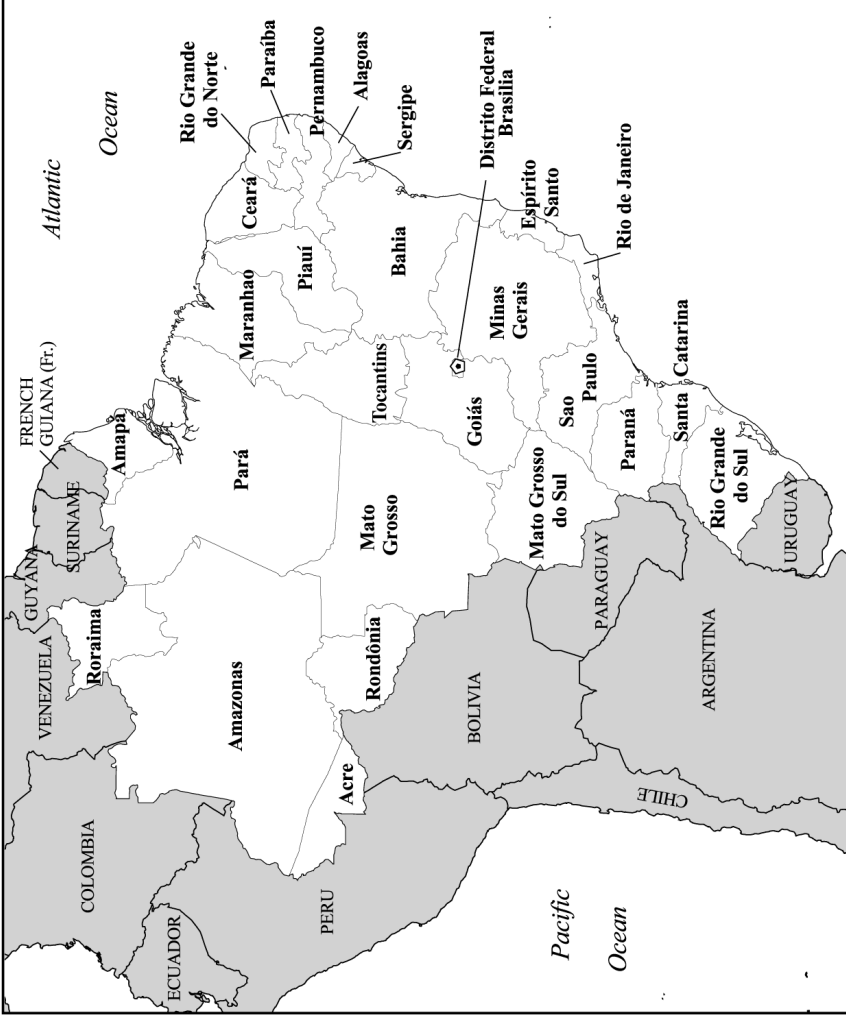
Capital: Brasília  
Population: 196.3 Million  
(2008 est.)

Brasília, the Capital, is situated within the Distrito Federal.

Boundaries and place names are representative only and do not imply official endorsement.



Sources: ESRU Ltd.; CIA World Factbook; Times Atlas of the World



# Brazil

LUIZ CESAR DE QUEIROZ RIBEIRO  
AND SOL GARSON BRAULE PINTO

The historical process of recognizing local governments as a relevant order of government has resulted in broad administrative and political autonomy for Brazil's local governments. After a long dictatorship that commenced in 1964 and ended in a deep fiscal crisis for the national government, the democratization wave of the 1980s encouraged Brazilians to address their demands in local arenas. As a result, decentralization was identified with democratization, and the new Constitution of 1988 recognized municipalities as members of the federation with powers of self-organization. Although politically autonomous, local governments – the municipalities – still depend mostly on the federal government for financial support. Distinctly different from most federations, Brazil's municipalities have weak ties with their home states. This weak relationship impedes cooperation between the states and municipalities on problems that stretch beyond local jurisdictions.

In this chapter, we analyze the place and role of local government in the Brazilian federation and the importance of metropolitan regions. We provide an overview of political and economic aspects of the country, before exploring the historical and institutional developments of local government, in order to explain the evolution of federalism and its alternating movements of power centralization and decentralization, as well as the meaning of autonomy recognized by the 1988 Constitution. The governance role of municipal governments is treated within the framework of their legislative and operational responsibilities. The following analysis of the fiscal structure makes clear how the increasing responsibilities of the municipalities were accompanied by an increase in available revenues. Nevertheless, most municipalities are still highly dependent on federal and state transfers, showing a deep contrast between their financial situation and legal status of autonomy. Relations with other orders of government are then discussed, especially the possibilities and difficulties of

cooperation, as well as the importance of local political dynamics and the instruments of popular participation. The final section draws attention to the importance of the metropolitan regions and the emerging issues and challenges relating to the role of municipalities in Brazil.

#### AN OVERVIEW OF THE LAND AND ITS INSTITUTIONS

Brazil has been a federal republic since 1889, encompassing a federal government (the Union), twenty-six states, a federal district (Brasília), and 5,563 municipalities (as of 2005).<sup>1</sup> Ranked as the sixth most populated country in 2005, Brazil has 184 million inhabitants. As the fifth largest national territory in the world, it spreads over 8,514,877 square kilometres, constituting 47% of the land mass of South America. The population's growth rate fell from an average of 2.8% per year between 1950 and 1980 to 1.6% in the years between 1991 and 2000, remaining constant since then.

The Brazilian population originated largely from the indigenous peoples who mixed with the early European settlers (mainly Portuguese) and with the black African slave-labourers who were brought to the country during the colonial era. The end of the colonial era (1822) marked the beginning of a period of intense immigration to Brazil spanning more than 100 years. Immigrants came mainly from countries such as Italy, Portugal, Germany, Spain, Poland, Lebanon, and Syria, as well as Japan. Descendants from European immigrants are mainly concentrated in the south of the country and in the major city of São Paulo. Although there are no marked ethnic struggles in Brazil, social differences clearly exist, as is seen by the fact that black people, by and large, constitute the lower socio-economic class.

Portuguese is the official language, and 74% of the population subscribe to the dominant Roman Catholic faith. Protestants account for a further 15% of the population, with a steady increase in numbers.

A highly urbanized country, Brazil is divided into five administrative regions: the North, Northeast, Center-West, Southeast, and South. By 1970, already 55.9% of the total population of 93 million people lived in urban areas. The Southeast had the highest urbanization rate, with 72.7% of the population classified as urban. By 2000, 81.2% of the total population of 170 million people lived in urban areas. Although the Southeast remained the most highly urbanized region, 69% of the population in the Northeast also lived in urban areas.

Gross domestic product (GDP) amounted to US\$794,098 million in 2005. With a per capita GDP of US\$4,311,<sup>2</sup> Brazil ranks among the countries with the highest degree of inequality in income distribution. Besides differences in household income, the country suffers from huge regional economic imbalances. In 2004 around 77 million people (43% of the population) lived

in the four states of the Southeast, which produced 55% of the total GDP. By contrast, the Northeast, comprised of 28% of the Brazilian population, accounted for only 14% of GDP. Per capita income in the Northeast was thus 61% less than that of the wealthiest region.

The country has a presidential system of government. The president serves as the head of state and head of government. The president and vice president are directly elected for a four-year term. They are chosen by an absolute majority of popular votes, and may be re-elected only once for a consecutive term. The ministers of state are appointed by the president.

The federal legislature is bicameral, and all bills must be submitted to both chambers. The upper house, the Senate, has three seats per state, totalling eighty-one members; the lower house, the Chamber of Deputies, has 513 seats. Senators are elected to eight-year terms,<sup>3</sup> and deputies are elected to four-year terms. Neither the population size nor the economic importance of a state is proportional to its political representation in these houses. For example, São Paulo, the most populous and richest state, representing 22% of the Brazilian population and 31% of GDP in 2004, has seventy representatives in the lower house, or 13.6% of 513 seats, whereas the minimum number of deputies for the smallest state is eight. This is the case of Roraima, a North region state, which accounted in 2004 for 0.2% of the total population and 0.1% of GDP yet, with eight deputies, had 1.5% of the seats. This system results in the poorer states of the North and Northeast having more representatives in the federal arena.

As mentioned above, states are equally represented in the Senate. In addition to voting on all bills, the Senate is assigned exclusive competence in respect of many areas, such as the public debt of the three orders of government. This has strong implications for intergovernmental relations, with the pendulum currently swinging in favour of poorer states.

In the states and the Federal District, the chief executive and the head of the government is the governor, who appoints the state secretaries. The legislative structure is unicameral, with members of the Legislative Assembly elected to serve a four-year term. Every state has its own constitution.

Both the Union and the states (including the Federal District) are provided with judicial branches. The Federal Supreme Court adjudicates on all constitutional matters. It is composed of eleven judges, appointed for life by the president with the Senate's approval.

After two decades of military rule, Brazil regained democracy in 1985. Since then, the political party system has been one of the most divided in the world; since the 2006 election, there have been twenty political parties sharing the 513 seats in the Chamber of Deputies. Four major parties stand out: the Brazilian Democratic Movement Party (Partido do Movimento Democrático Brasileiro) with 90 seats, the Workers' Party (Partido dos Trabalhadores) with 83 seats, the Brazilian Social Democracy Party

(Partido da Social-Democracia Brasileira) with 64 seats, and the Democrats (DEM) with 62 representatives.

Besides the fragmentation of the party system, which would suggest systematic resistance to presidential legislative proposals, the effects on governability of the distribution of powers between the federal executive and the legislature set by the 1988 Constitution have been the subject of much controversy among scholars. For Argelina Cheibub Figueiredo and Fernando Limongi, on the one hand, the Constitution recovered the powers of the Congress, weakened during the dictatorship (1964–85).<sup>4</sup> On the other hand, the executive branch retained its legislative powers, which assures that the president's legislative agenda is received favourably. Most bills have been presented by the executive, which has counted on the strong support of a disciplined governmental party coalition to achieve a considerable degree of success. During the period 1989–94, 1,259 federal laws were enacted, 79% of which originated from the executive branch and just 14% from the legislature. The remaining 7% came from the judicial branch, in accordance with its prerogatives. Different perspectives are shared by political scientists, like David Samuels and Fernando Luiz Abrucio and Barry Ames,<sup>5</sup> among others, for whom the power of the state governors over their state representatives in the Congress may constitute an obstacle to federal executive-branch initiatives.

#### STRUCTURES, INSTITUTIONS, AND HISTORICAL DEVELOPMENT OF LOCAL GOVERNMENT

Notwithstanding the political importance of local government in Brazilian history, it was only in 1988 that municipalities, the political and administrative units of local government, were recognized as constituent members of the federation. This was the result of a movement that identified democratization with decentralization. To explain the role of local government, the evolution of federalism and its alternating movements of power centralization and decentralization are described briefly. It is worth noting that distributions of authority between the federal government and the subnational governments have oscillated since the founding of the republican era at the end of the nineteenth century.

Municipalities originate from the Portuguese *comunas* of the colonial era (1500–1822). The *vilas* were local governments assigned a reasonable degree of autonomy, a model chosen by the Portuguese metropolis to occupy the land and to expand its political and administrative powers. The first towns were founded along the coast to serve as commercial centres for exports. The local chambers were basically in charge of government, and their members were the richest rural landlords and judges, some of whom had been sent to Brazil by the Portuguese Crown.

Although the imperial Constitution of 1824 stressed the responsibility of local councils for municipal government, they remained subject to provincial governments. The centralization of power during the Second Empire (1831–89) evolved into a federal structure adopted by the first Constitution of the Republic in 1891. A two-tier federation was formed, with the old provinces transformed into states and organized in a way that ensured the autonomy of municipalities in “all the matters related to their peculiar interest.”<sup>6</sup>

By the end of the nineteenth century, urbanization had started to expand. Beginning in São Paulo, the leading state in coffee production, a network of urban centres extended to the neighbouring states of Rio de Janeiro and Minas Gerais. Only in the twentieth century did urbanization become widespread.

Subordinated to the states and lacking financial resources, municipalities had a purely formal autonomy. Revenue was decentralized to the states. This, however, benefited only the more powerful states, to which control of export taxes (in a country based on the export of primary products) was transferred. Once the first phase of military republican governments had passed by 1898, regional oligarchies – groups with strong economic and political power in the major states of Minas Gerais and São Paulo – extended their political power over the entire country. As Celina Souza states, the Brazilian federation has always been characterized by regional and social inequality.<sup>7</sup>

The power of governors stemmed from the kind of political ties they had in their states. Their relationship with the local chieftains – commonly referred to as the “Colonels” – assured them control over the elections. In return for the support of official candidates appointed to state and national offices, the “Colonels” were given complete freedom in all matters related to local government, including the nomination of candidates for public jobs in their areas.

During the period 1932–45, while the country was under Getúlio Vargas’s rule, federal features of the political system were suppressed. Administration of states and municipalities was placed entirely under central control. The authoritarian regime, however, made some moves toward compromising with local economic groups. Whereas the agrarian structure, based on highly inefficient rural properties covering large areas, remained practically intact, the demands of the business sector – chiefly that of São Paulo – caught the attention of the federal bureaucracy.

Municipal autonomy has been debated since imperial times. Administrative and political decentralization, ideas inspired by Alexis de Tocqueville, were at the heart of what came to be known as the “municipalist” ideology. According to Marcus André B.C. de Melo, the adoption of this ideology during the Vargas administration would have been seen as a paradox.<sup>8</sup> The Constitution of 1937 was a profoundly centralizing one, restraining any financial

autonomy of the municipalities. Surprisingly, it was this very political project of the authoritarian elites – based on strong political, administrative, and financial centralization – that allowed a direct relationship between the national government and the municipalities, thus removing any intermediary from that relationship. With the fall of the Vargas dictatorship, the Constitution of 1946 restored a federal structure and reinstated elections for state executives and legislators, as well as for mayors and councillors.

As a consequence of industrialization and the building of roads, railways, and new ports, the 1940s saw increased territorial and market integration. The 1945 redemocratization movement gave rise to the so-called “Municipalist Campaign.” At the 1946 Constituent Assembly, opponents as well as supporters of Vargas agreed on local-autonomy issues. According to Melo, those in favour of conservative agrarian demands constituted one group.<sup>9</sup> They argued against Vargas’s industrialization, which had concentrated activities and population in only a few urban centres, supposedly harming rural areas and resulting in unequal development of municipalities. On the other side were the opponents of centralization and the loss of autonomy by states and municipalities.

Article 28 of the 1946 Constitution resurrected the issue of municipal autonomy, permitting the election of mayors<sup>10</sup> and councillors and restricting state intervention to situations of default in respect of debt repayment.

The military government that came into power in 1964 centralized public revenue according to the directives set in the new 1967 Constitution. As compensation to the states and municipalities for their loss of revenue, special funds were created that redistributed part of the federal revenues, mainly to poorer units.

In 1970, 55.9% of the population already lived in urban areas. Since the 1930s investment in infrastructure – mainly energy and transport – had been concentrated in the Southeast, creating jobs and attracting population from the poorer regions. Migrants were mostly unskilled workers who came to the periphery of large cities, and by 1970, 72.7% of the population in the Southeast was urbanized.

The crisis for the authoritarian regime began in 1974 with significant defeats in the state and federal legislatures. The state and municipal elections of 1982 were the first to be held through direct vote since 1965, allowing governors to recover some of their sources of power, either through alliances with local political leaders or through strong support from the urban masses.

The democratization wave in the context of the national government’s fiscal crisis encouraged citizens to address their demands to the subnational governments closest to them.<sup>11</sup> The theory that associated redemocratization with decentralization reached its pinnacle in discussions held at the Constituent Assembly in 1988. Faced with a weakening central power, governors and

mayors united to fight for a larger share of public revenue. The redistribution of functional responsibilities and roles within the federation did not, however, receive the same attention. Local governments provide a large range of public services, such as health, education, and refuse collection. The symmetric approach adopted in the 1988 Constitution was highly criticized by experts on public policies because it implied a high degree of rigidity in managing the provision of goods and services. In the absence of institutions to encourage intergovernmental cooperation, decentralization thus proceeded in a disorganized way. Institutional difficulties, like the lack of coordination and the absence of mechanisms of cooperation, continued after the 1988 Constitution was adopted. As Fernando Rezende points out, although the attempts to resolve the regional conflict through intergovernmental transfers reversed the vertical imbalance in sharing the country's tax revenue, it had the effect of increasing horizontal inequality.<sup>12</sup> The revenue-sharing system has not succeeded as an efficient instrument of financing demands for public services according to their spatial location.

States are entirely divided into municipalities. In 2007 there were 5,563 municipalities spread across the twenty-six states. The number of municipalities varies from 15 in the northern state of Roraima to 853 in southeastern Minas Gerais. Municipalities also vary widely in size of population, from the smallest, Nova Castilho (close to 1,000 people), to the largest, São Paulo (10.9 million people). The distribution of the municipalities according to size shows a high concentration of small units: 24.4% have up to 5,000 people, and another 23.5% range in population from 5,000 to 10,000. Together, these two groups account for only 7.6% of the population. Comprising a third group are thirty-four municipalities, mostly state capitals, with more than 500,000 people each, accommodating up to 50.5 million people. Metropolitan regions, created by federal and state law, are not dependent on any special institution of territorial management, as discussed in more detail in the final section.

Brasília, the Federal District, is the capital of the country, located in the Center-West region. With a population of 2.3 million in 2005, it has state status.<sup>13</sup> The Federal District has a governor and performs the tasks of both a state and a municipality.

In 2000 the indigenous population amounted to 734,000 people. According to the federal Constitution, the Union may establish specific areas to be occupied by indigenous people. Although mostly concentrated in the Amazon, this population group is dispersed throughout the country. Whereas much of the population is integrated into the regional or national economies, some groups still live in relative, or complete, seclusion. The indigenous people are considered to be part of, and are recognized as members of, a culturally differentiated community.<sup>14</sup>

In 2004, 50% of Brazil's GDP was generated in the sixty-eight richest cities, where one-third of the country's population live. Irrespective of high



diversity among the cities, a symmetric approach is generally adopted to deal with municipal issues. As a result, solutions and approaches to municipal problems are not conditioned by specific features, such as population size, agriculture, and urban activities, or by the metropolitan characteristics of many of the major cities.

In addition, small municipalities are created by dismemberment from larger ones on the initiative of local elites. Such an initiative, aimed either at controlling the financial resources transferred by the state and federal governments or at gaining political control of votes, quite often leads to the establishment of administrative units with poor political, institutional, and financial capabilities. According to Article 18 of the 1988 Constitution, the establishment, merger, fusion, and dismemberment of municipalities were to be effected by means of a state law, following consultation by plebiscite of the population of the municipalities "directly interested" in the dismemberment. This has meant that only the district (an administrative division of municipalities) interested in the separation would vote. The creation of a multitude of new municipalities is ascribed to this rule, as demonstrated by the fact that the number of municipalities increased from 4,189 in 1988 to 5,437 by the end of 1995.

Since 1996, following Constitutional Amendment No. 15, the status quo has changed. The establishment, merger, fusion, and subdivision of municipalities are now effected by means of a state law, within a framework set forth by a supplementary federal law. Municipal feasibility studies must be presented and published according to the law. The publication of these studies, and subsequent consultation (by plebiscite) with the population of the municipalities concerned, must take place as a prerequisite of the state law. These constitutional directives aimed at deterring the creation of new municipalities – most of which would be entirely dependent on the federal government – have been successful, despite the fact that the federal complementary law, which is expected to define both the necessary period for the change and the content of the feasibility studies, has not yet been approved by the Congress. However, for municipalities that had initiated the process of subdivision before the enactment of Constitutional Amendment No. 15, a local plebiscite could suffice, with the result that the number of municipalities increased from 5,437 by the end of 1995 to the present 5,563. The opposite movement, the merger or fusion of municipalities, is not considered a politically viable alternative, even when it can be shown to make sense in terms of management efficiency.

#### CONSTITUTIONAL RECOGNITION OF LOCAL GOVERNMENT

Local government autonomy stands out as a constitutionally entrenched characteristic of Brazilian federalism. Although the 1891 Constitution first

established that the organization of municipalities should be considered a matter of state legislation, provision was nevertheless made for a degree of autonomy for municipalities. Since then, the many constitutions (except under the Vargas dictatorship) have progressively set limits on the rights of states to interfere in municipalities.<sup>15</sup> It was only in the 1988 Constitution, however, that municipal autonomy was entrenched in Articles 1, 29, and 30, prohibiting its suppression or any kind of restriction, not even by means of constitutional amendment.<sup>16</sup>

Article 1 asserts that municipalities, states, and the Federal District are indissolubly united, forming the Federative Republic of Brazil. Article 29 provides that municipal autonomy is based on the right of municipalities to govern according to their own organic laws, thus preventing federal and state rulers from intervening in their internal affairs. An organic law must be voted for and approved by two-thirds of the councillors. Article 29 further defines the political organization of municipalities and sets rules for the elections of the mayor, deputy mayor, and councillors, while outlining the parameters for their remuneration. In spite of the precepts established in Article 29, Sergio Ferrari notes that many state constitutions refer to municipalities as though states still retain the power to organize local governments, whereas other state constitutions show a tendency to minimize municipal competences.<sup>17</sup> Needless to say, these are unconstitutional provisions.

The Constitution of 1988 introduced deep-seated changes to the structure of Brazilian federalism. Souza highlights the creation of a new institutional environment involving an increase of political and taxing powers of subnational governments and the empowerment of local communities in decision making on public policy.<sup>18</sup> Article 30 of the Constitution grants municipalities the power to enact laws on matters of local interest and to supplement federal and state legislation. The same article states that municipalities are entitled to organize and render, directly or by concession or permission, public services of local interest, as well as to promote, wherever fitting, adequate land use, by means of planning and control of urban land use, apportionment, and occupation.

Most municipalities, however, are highly dependent on other orders of government. In spite of their economic and social differences, symmetric treatment is almost absolute. Articles 29 to 31 (and some others in the Constitution) prescribe in a detailed way the legal regime of the municipalities, with no distinction being made between the size of the population or any other special feature of individual municipalities. This notwithstanding, it is acknowledged that strong economies and the size of a population may translate into political power and, in some cases, into better technical capability of public servants. Although they do not have a seat within the federal government, some municipalities feel entitled to negotiate directly with it, not only on issues concerning public policy but

also in respect of their capacity to borrow from national public institutions as well as from foreign banks and multilateral institutions. Smaller municipalities depend mostly on their state congressmen, who play the role of “federal councillors” in trying to solve municipal problems with the help of the national government.

The historical process of recognizing municipalities as a relevant order of government culminated in broad administrative and political autonomy for localities. There are, however, cases when intervention of the state or the Union in a municipality is permitted. According to Article 35 of the Constitution, two defined instances where intervention is permissible are (1) failure to render proper accounts and (2) failure to assign a minimum amount of revenue to health and education, as required by the Constitution (15% and 25% of own taxes and main transfers, respectively).

According to Ferrari, the right to self-organization is the most important legal feature of municipal status.<sup>19</sup> This right prohibits states from interfering in the direct organization of municipalities. Municipalities are constituent units, deriving both their legal and operational competences directly from the federal Constitution. The political autonomy of municipalities, therefore, is legally asserted. Among other principles, the Constitution includes the right of residents to elect their local officials – the mayor, the deputy mayor, and the councillors – without interference from the federal or state governments. In addition, municipal autonomy entails legislating on matters of local interest (e.g., land use) and deciding how to provide public services, organize territory, and use municipal financial resources (i.e., the municipal budget). This no doubt serves the dual purpose of enhancing the accountability of municipalities as the order of government closest to the people. After twenty years of constitutional recognition, we may say that there are positive results. Cities, mainly the larger ones, try to modernize tax administration in order to increase the collection of municipal tax revenues.

There are, however, other consequences of municipal autonomy. A reduction of state powers may lead to greater difficulty in developing cooperative actions, as states lack the necessary instruments to coordinate action within their territory. This may result in perverse outcomes, especially in metropolitan regions, where the impact of the decisions of one municipality cannot be contained within its boundaries. Inadequate institutional arrangements constitute an important obstacle to the integration of investments and services, while also reducing the efficiency of public initiatives, as is clearly seen in the metropolitan areas.

#### GOVERNANCE ROLE OF LOCAL GOVERNMENT

The division of competences among the three orders of government must be analyzed within the framework of their legislative mandate and of their

operational responsibilities. The rigid division of legislative competences in the Constitution favours the federal government, to which most legislative competences are allocated.<sup>20</sup> Among them are civil and commercial law, credit policy, transport and traffic, mineral resources, immigration, and social security. When concurrent competences are assigned, as is the case with tax, budgetary, financial, economic, and urban legislation, the role of the Union is limited to setting general directives. Nevertheless, federal legislation frequently goes into much detail, leaving almost no room for supplementary state or local legislation.

Operational responsibilities are shared more flexibly, following the historical trend of decentralization. Social areas, such as education, health, and social assistance (with the exception of social security),<sup>21</sup> fall in the category of concurrent competences of the three orders of government. Federal laws, such as the 1990 Health Organic Law and the 1993 Social Assistance Organic Law, have established mechanisms and instruments for cooperative federalism. These legal instruments, mainly regulating the social areas, partially fill the gap created by the lack of a complementary law, which is expected to set the rules for cooperation between the three orders of government in respect of concurrent competences.<sup>22</sup>

Despite their creation by state law, municipalities are entitled, under Article 29 of the Constitution, to the right of self-organization. As a result, the administrative structures to provide municipal services (be they secretariats, public enterprises, or foundations, among others) must be established in terms of each municipality's organic law. Municipal operational responsibilities may be performed exclusively by municipalities or may be shared by the three orders of government, although not necessarily through cooperation.

Exclusive competences, listed in Article 30, include the collection of local taxes, the provision of local services directly or under concession/permission, including collective transportation in inner cities and setting directives for, and inspection of, land use. Concurrent competences, listed in Article 23, include health and social assistance, including help for disabled people; protection of the environment and of historical, artistic, and cultural assets; guarantees of access to culture, education, and science; incentives for agriculture and cattle breeding and the organization of food distribution; development of housing programs, including house improvements and sanitation utilities; combating poverty and social marginalization; inspection of concessions for research and exploitation of hydro and mineral resources; traffic safety; and the promotion of tourism and sports.

According to Article 211, the municipalities should prioritize basic education (ages 7 to 14), preschool (ages 4 to 6), and assistance to daycare centres (ages 1 to 3). With regard to basic education, although municipalities are increasingly assuming responsibilities, in 2006 states were still responsible for a

large proportion of enrolments (almost 40% of the total), whereas federal participation was not significant.

In 2005 municipalities had 4.5 million employees, constituting 2.4% of the country's total population and 5% of the national labour force.<sup>23</sup> Smaller municipalities may employ a larger proportion of their population; 15% of municipalities with fewer than 5,000 people employed more than 7.5% of their population.

The Constitution empowers local governments to grant concessions (i.e., contracts) for the provision of services of local interest, such as public transportation and waste collection and disposal. Intermunicipal transportation is a competence of the states, therefore requiring state and municipal agencies situated in high-density regions to work together to implement a joint plan for the transportation network.<sup>24</sup>

Municipalities have increasingly been joining efforts through consortia for the provision of public services.<sup>25</sup> According to the federal bureau of statistics, the Brazilian Institute of Geography and Statistics (IBGE), public consortia are widespread. Although associations began before 2005, it was only in that year that a law was passed clarifying the legal structure for public associations and setting a sound legal basis for public consortia to manage public utilities, which may encompass the Union, the states, and the municipalities.

Intermunicipal consortia are most common in the health sector, stimulated by federal regulation of the Unified Health System (SUS) and by regular and significant resource transfers. As a result, 34.2% of all municipalities participate in health consortia. In the case of municipalities with fewer than 5,000 inhabitants, the total reaches 43.2%. In the environment sector, consortia involve 7% of municipalities, whereas consortia for the operation of sewage systems, waste disposal and treatment, and tourism have the support of 6.3% of municipalities.

Consortia between municipalities and states include the areas of health (21% of municipalities), education (20.1%) and social assistance (15.6%). Municipalities may also participate in consortia with the federal government, and again it is in the area of health where this is most frequent (21% of municipalities participating), followed by education (13.8%) and social assistance (11.9%).

In evaluating the impact of consortia on the functioning of municipalities, the importance of a new regulatory framework for intergovernmental cooperation should be stressed. Consortia in the health sector in the State of Minas Gerais have proved to be a valuable instrument in a sector that requires large investments to provide complex services. Cooperation in the State of Bahia entails sharing equipment and the cost of paving and repair of municipal neighbourhood roads. The management of water catchment areas has encouraged the formation of consortia in São

Paulo that went beyond their initial objectives and resulted in the promotion of regional development.

Private-sector participation in the provision of public services continues to face political obstacles. There is a widespread perception that the transfer of essential public services by means of concession or privatization may hinder low-income families from accessing these services. It has been argued that they would be unable to pay the service charges necessary to fairly remunerate the invested capital. Politicians have thus been cautious not to advocate for an expanded role of private investment in essential services such as sanitation.<sup>26</sup>

In 2000 the federal Fiscal Responsibility Law (LRF) was passed to improve planning, control, transparency, and accountability in the public sector. Although certain provisions of the LRF may be viewed as creating short-term constraints on spending, over the medium and long term, they are expected to contribute to public savings. This framework may also yield new possibilities for increased private-sector participation in financing and supplying urban services, while facilitating essential partnerships to provide certain key urban services.<sup>27</sup>

In Brazil the political institutions of a municipality are very similar to those of the Union. The mayor is the chief executive of a municipality, entitled to appoint the municipal executive. The legislative structure is also unicameral, with members of the municipal chamber elected to four-year terms. Mayors traditionally rule in a way similar to that of the president of the country. He or she is the spokesperson for local demands and interests before the municipal chamber and other orders of government, as well as before different interest groups in the community. As head of the executive, the mayor has political, executive, and administrative functions. The mayor may initiate or propose bills for approval by the municipal chamber. As a leader, he or she also deals with community organizations and other organized groups, as well as with grassroots leaders, looking for support when necessary and consulting with them to better understand their aspirations and needs, all in an effort to enhance local governance.

The number of councillors, which is proportional to the municipality's population, ranges from nine to fifty-five persons.<sup>28</sup> The municipal chamber is assigned three basic functions: the legislative function of adopting laws on matters of exclusive municipal competence, a supervisory function of controlling local administration, and an administrative function in relation to the domestic organization of the chamber itself. A Court of Accounts is responsible for the external supervision of the chamber, including the management of its financial resources.

Mayors, as well as councillors, are full-time officials. Although they receive salaries, they are not entitled to pension benefits. Their salary levels are regulated by the municipal chamber in terms of the limits set by the Constitution.<sup>29</sup>

## FINANCING LOCAL GOVERNMENT

Although decentralization since the 1980s has been accompanied by an increase in available revenue to municipalities, pressures for the expansion of public services have been evident. It is important to note that municipal revenue has grown not only because of an increase in transfers but also through efforts to collect local taxes. Total available revenue of municipalities was equal to 3% of GDP in 1988, of which 0.6% of GDP (or 20% of all municipal revenue) resulted from own-source tax collections. By 2006 these totals had risen to 6.2% and 2% of GDP (or 32.2% of all municipal revenue), respectively. During that year, municipalities were responsible for 5.7%, and states for 26%, of total tax collection. The total tax burden was 22.4% of GDP in 1988, rising to 35.5% in 2006.<sup>30</sup>

Local government expenditure is mainly financed by taxes and transfers from the federal and state governments.<sup>31</sup> Additional revenue comes from user charges, financial investments, and loans, among others. All governments are legally obliged to levy and collect the taxes assigned to them by the Constitution. Municipalities cannot create new taxes, only fees. They manage their revenue collection and are entitled, within limits, to set their own tax rates. Taxing powers, as well as the revenue-sharing system, are clearly defined in Articles 145 to 156 of the Constitution. Tax bases are broadly defined in the Constitution and detailed in the Federal Tax Code.

Local governments levy taxes on urban land and property (IPTU), on real estate transfers (ITBI), and on services (ISS).<sup>32</sup> They also impose municipal fees – usually on waste collection, licences, and the like. Municipalities may also collect a levy to finance street lighting.<sup>33</sup> IPTU is collected in most municipalities. The amount collected, however, is often much lower than expected due to problems related to property valuation, which is not updated regularly. The ISS is mostly collected in large cities where high-value technologically advanced services are employed, but it requires a great effort in respect of tax administration. Although a new federal complementary law was recently approved, many conflicts over the levying of taxes persist, often leading to intermunicipal fiscal wars where some municipalities reduce taxes to attract enterprises.

The borrowing powers of municipalities (as well as of the Union and the states) are governed by the Senate and the Fiscal Responsibility Law of 2000. The goal of macroeconomic stability has resulted in strict control over state and local indebtedness. Since the promulgation of the LRF in 2000, the federal government has been prohibited from assisting state or local governments that experience debt-related problems. Tough limits on the access of states and local governments to loans granted by federal financial institutions have narrowed their ability to overcome budget constraints through borrowing.<sup>34</sup> Although the total indebtedness of Brazil's

municipalities is not substantial, 2.5% of GDP in December 2005 (less than 5% of total public debt), it is highly concentrated, with around 75% occurring in the three capital cities of São Paulo, Rio de Janeiro, and Salvador (capital of Bahia). Many of the constraints on borrowing, however, are not direct legal constraints. Bureaucratic requirements to be fulfilled by the borrower constitute real barriers, especially for medium-sized and smaller municipalities, whose debts are generally low in relation to current revenue.<sup>35</sup>

The finances – revenues, expenditure, and debt – for federal, state, and municipal governments have steadily improved in the recent past, largely as a result of the federal government's commitment to a sound fiscal climate. Attaining this sustainable position, however, has required an increase in the tax burden from 29% of GDP in 1999 to about 35.5% now. High interest rates have also prevailed, and actual interest rates are generally higher than 8% a year. Although states and municipalities have secured increased tax revenues, the federal government has benefited the most.

Intergovernmental transfers to municipalities have increased as a result of continuing decentralization. During the period 1995–2003, transfers received by municipalities from the Union accelerated at an annual real rate of 9.1%, whereas transfers from states to municipalities grew at a rate of 2.6% per year. Given the strict restrictions placed on the use of the funds so transferred, some researchers and politicians have viewed this as a new wave of centralization. Government officers argue, however, that restrictions are useful to keep control of the use of resources, given the great variance in technical capabilities among municipalities.

Transfers to municipalities have especially increased for health (from the Union) and education (from the states). This explains the increase in current expenditure, as both health and education are generally intensive in personnel and operating costs. Municipalities were responsible for 24.1% of total public expenditure on personnel in 2003 (up from 18.3% in 1995) and for 44.6% of other current expenditure (up from 34.3% in 1995). In 2003 the states were responsible for 42.2%, and the Union for 33.6%, of personnel expenditures. In relation to other current expenditures, the respective contributions of the states and the Union were 30.8% and 24.6%. It is worth noting that municipal capital investment was half of all public investment in 2003, whereas the states' portion amounted to 35.3% and the Union's to 17.6%. Overall, in 2004 local governments were responsible for 15% of all government expenditure, and states and the Union for 26.1% and 58.9%, respectively.<sup>36</sup>

The municipal budgets in 2005 gave a clear picture of intergovernmental relations.<sup>37</sup> Own taxes and fees amounted to 20.4% of total municipal revenue, whereas intergovernmental transfers accounted for 63.4%. Another 13.7% came from other current revenues (e.g., sale of services and



financial transactions). Capital revenues (e.g., proceeds from loans and capital transfers) represented the remaining 2.5% of the total.

The most important transfer in 2005 came from the constitutionally mandated share in the state value-added tax (ICMS) (comprising 18.7% of municipal revenue) and from the Federal Redistributive Fund for Participation of Municipalities (15.4%).<sup>38</sup> Earmarked transfers for education (FUNDEF)<sup>39</sup> and health were also significant – 10.1% and 8.2% of the total revenue, respectively. Due to strict credit control, the proceeds from borrowing were less than 0.5% of the total. Although part of the federal and state transfers serves a redistributive function, there is no equalization system. On the contrary, horizontal imbalances have grown since the 1988 constitutional dispensation.

The composition of municipal budgets (and, in particular, that of revenue) is clearly affected by the population size of municipalities. Larger cities rely on their own taxes (accounting for 39.1% of total revenue), which are sourced mainly from the tax on services (ISS). They also receive a significant amount of shared tax revenue (40.1% of total revenue) and benefit especially from the state value-added tax (11%).<sup>40</sup> Capital revenues account for 3.9%, and other current revenues for the remaining 16.9% of the total. In contrast, small municipalities rely heavily on intergovernmental transfers – accounting for 88.7% of the total revenue of municipalities with populations below 5,000 inhabitants. These municipalities exhibit a poor performance in tax collection, which accounts for only 3.6% of their total revenue, almost equal to their capital revenues of 3.3%. Other current revenues represent another 4.4% of the total.

The composition of per capita revenue also differs according to the size of the municipality. Transfers to small cities can amount to 24 times the amount of taxes and fees they collect. This quite often makes their per capita revenue appear much higher than that of medium-sized cities and even some densely populated dormitory cities. The average per capita revenue of towns with up to 5,000 people was 1.6 times that of cities with populations ranging between 100,000 and 500,000 people. The economies of these medium-sized cities are not strong enough to offer a wide tax basis. In addition, these cities do not derive much benefit from redistributive revenue sharing, posing an acute problem in metropolitan cities where deep social problems and violence are often concentrated.

On the expenditure side, payroll and other current expenditure accounted for 44.3% and 43.1%, respectively, of total expenditure in 2005, with no significant variation according to the municipalities' population size. Whereas the burden of social security benefits for retired employees (approximately 10% of personnel expenditure) is much lower for municipalities than for states and the federal government, it becomes more significant in larger cities. This situation may get worse since local governments,

following their constitutional mandate, may take over the functional area of primary education without having built sound social security systems. Debt service represented an average of 4% of municipal expenditure. However, municipalities with a population of over 2 million assigned an average of 10% of their budgets to debt service. Capital investment constituted an average of 8.6% of total municipal expenditure and was financed mainly from surpluses in the current fiscal year because long-term loans are scarce.

Expenditure according to functional areas shows a large proportion of resources devoted to social areas: 24.7% to education and 22.5% to health. As mentioned above, according to the Constitution, municipalities should direct no less than 25% of tax revenue and major grants to education and 15% to health. Municipalities count on substantial additional amounts of earmarked transfers for these areas. Urban services and capital investment are a third priority – constituting 10.8% of total expenditure. Besides such activities as street paving and upkeep of urban areas, this appropriation may include the upgrading of poor neighbourhoods, particularly in slum areas. Expenditure by the municipal chambers is relatively high, accounting for 3% of total expenditure, which exceeds expenditure on social assistance and social security in small cities, where it may be even higher than own tax revenue. Expenditure on transport (2.9% of the total) is more investment intensive and, as such, changes over time. Expenditure on police services (0.7% of the total) tends to increase over time, mostly in the more populated cities.<sup>41</sup> Notwithstanding this, municipal guards operate independently from the state police service, very rarely overlapping in their operational areas.

The budget composition of municipalities shows a deep contrast between their financial status and their political autonomy, as described above. The smaller the municipality, the larger is the gap between political and financial autonomy. Even major cities (where own revenue is more significant) cannot be considered financially autonomous, due to extensive revenue earmarking by the Union and states. The result is a lack of efficiency and accountability, as the quality of service delivery varies according to available resources, not the dictates of the needs of the population.

There is substantive recognition of the fact that the high tax burden is not translated into corresponding services for the people. Notwithstanding the large amount of public expenditure, the quality of these services is considered poor. The uneven distribution of institutional capacity among subnational governments contrasts with a continuing process of decentralization. Among the reasons for inefficiency are the rigidity of the budget composition, the lack of consistent programs to improve management, and the difficulties of the orders of government in cooperating on the provision of public services.<sup>42</sup>

## SUPERVISION OF LOCAL GOVERNMENT

Supervision of local government is a task shared by the federal executive, the states, the municipal chambers, and the courts of accounts. The federal government, however, performs the main supervisory function. The federal Ministry of Finance has developed a system of control to ensure compliance with legal requirements related to federal taxes and social security payments, limits for debt and credit operations, limits on personnel expenditure, and assignment of own resources to education and health, among others. According to the Fiscal Responsibility Law, compliance with those requirements is necessary as a prerequisite to receiving discretionary transfers from the federal government. Other ministries, like health and education, monitor the use of funds transferred to municipalities to develop specific federal policies and programs. In addition, the Federal Court of Accounts, in charge of monitoring the federal government, may audit the use of federal funds transferred to states and municipalities.

According to Article 31 of the Constitution, supervision of a municipality shall be exercised by the municipal chamber but through outside control. Article 71 appoints the courts of accounts as ancillary bodies of the chamber to monitor budget execution and examine the accounts of the mayor, as well as to enforce the specific legal requirements for hiring of personnel, concessions of pensions, procurement, intergovernmental transfers, competitive public bidding, and fiscal responsibility. The Constitution enlarged the competence of these courts, granting them the power to impose fines on both elected and nonelected public officials. Although not technically part of the judicial system, the courts operate as quasi-independent judicial authorities. These institutions have a number of features typical of judicial bodies, such as applying the right of reply, strict procedural rules, collegial decision making, security of tenure of their board members, and civil-service status for their employees.<sup>43</sup>

There is a Court of Accounts in each state to supervise and monitor both the state and the municipalities. In some of these states, however, there is one court to supervise the state and another to deal with all the municipalities. The municipalities of São Paulo and Rio de Janeiro have courts of accounts dedicated only to them.

Due to the political autonomy of municipalities, states do not exercise any kind of regular supervision of them. However, they may monitor specific aspects of municipal affairs, such as the use of discretionary transfers following agreements between the municipalities and their states.

## INTERGOVERNMENTAL RELATIONS

The 1988 Constitution, and the institutional and policy initiatives following in its wake, reasserted the widespread conception that local government is a

necessary partner in the implementation of national policies. This is particularly true in respect of policies aimed at correcting power imbalances and at achieving distributive justice by means of advancing certain key social rights. At the same time, given the proximity of local government to citizens, emphasis was placed on increasing efficiency in the spending of scarce public resources, particularly expenditure related to social welfare.

Relations between the federal government and municipalities are thus geared toward achieving specific outputs, which necessitates close cooperation. Sharing tax revenue, for example, is aimed at compensating for the huge regional economic imbalances. Cooperation between the Union and subnational governments on specific public policies, such as health and education, is aimed at ensuring that basic social welfare is accessible to all citizens, notwithstanding the region where they live. Cooperation in specific areas, such as the National Health System (sus), may be governed by federal legislation. Other joint initiatives may also be developed through voluntary agreements (e.g., environmental protection). Another component of federal-municipal relations relates to municipal institutional development. This often takes the form of training civil servants in the design of city management plans or urban multiyear plans.

The federal government has developed new channels of communication with local governments. A Ministry of the Cities was created in 2003 to deal with urban development policies, sanitation, and transportation. In addition, the Secretariat of Institutional Relations, directly linked to the presidency, works as a communication link between the federal government, states, the Federal District, and municipalities. Some mechanisms of cooperation may emerge from initiatives of the Ministry of the Cities. In 2004 the ministry created the Council of the Cities to design a national policy for urban development. The council has eighty-six members, of whom forty-nine represent civil society and thirty-seven the Union, states, and the municipalities. In 2003 and 2005 two cities conventions were convened to debate urban problems.

Since 1994, when the fiscal stability Real Plan was first launched, inter-governmental relations were restructured to such an extent that the type of federalism that emerged in the wake of the 1988 Constitution has been re-designed. By controlling subnational debt, the federal government was able to impose fiscal supervision. Treating highly indebted municipalities in the same way as those with low or nonexistent debt, it harmed municipal autonomy. In addition, faced with increased earmarking of resources (such as the minimum investment thresholds in health in 2000), local governments have lost their leeway to creatively seek solutions and prioritize the needs of their citizens. However, restrictions and co-responsibility of municipalities in maintaining sound fiscal regimes may force local governments to seek greater rationality and efficiency in managing public

resources. The procedures and limits set by the LRF (e.g., on personnel expenditure and on the amount of debt, among others) stimulate diffusion of good bureaucratic practices and conformity to law. This notwithstanding, restrictions may have the adverse effect of discouraging innovation in public policy. In addition, strict limits on the use of resources may harm efficiency because governments, instead of providing the services required by their populations, will offer those legally prescribed with the resources available to them.

Cooperation of state governments with municipalities is generally restricted to the revenue-sharing system, in terms of which resources are transferred according to federal legislation. Although part of the state value-added tax is shared according to a state law, this law is not used by the states as an instrument to enforce cooperative policies. As discussed above, states lack the institutional capacity to coordinate municipalities. States, therefore, have to resort to, and rely on, the political alliances of governors with mayors, which are clearly inadequate mechanisms to sustain long-term project development.

In attempting to push a shared agenda, municipalities have formed representative institutions through which their concerns are voiced collectively. These institutions have enabled municipalities to exert political influence on various orders of government but more so on the federal government. At present, mayors convene in national associations, two of which are particularly important. The Frente Nacional de Prefeitos (FNP) represents mainly the mayors of major cities, and the Confederação Nacional de Municípios (CNM) represents those of small municipalities. These associations have direct access to the president, the Congress, and state governors. Councillors also meet in organizations in defence of municipal autonomy and municipal chambers, but these organizations are much less active than the FNP and CNM. In addition, associations of municipal secretaries (who are appointed by the mayor) mobilize for their specific sector to address problems in the areas of health, education, and tourism, among others. In addition to national associations, state and microregional organizations meet regularly to exchange management experiences and to fight for common municipal interests. It is worth noting that these initiatives to organize local government have proved more successful in the southern states, where the European heritage is stronger.

#### POLITICAL CULTURE OF LOCAL GOVERNMENT

The federal Constitution guarantees the political autonomy of municipalities. Mayors, deputy mayors, and councillors are elected directly in municipal elections held simultaneously throughout the country. These elections for a four-year term fall in the middle of the four-year term of the president,

state governors, the Congress (senators and federal deputies), and state deputies. This means that every two years, Brazilians vote for political representatives, either local or national and state. Municipal elections, even in small municipalities, are contested by the same political parties that contest the national and state elections.

The parties are formally organized nationally, with no local or regional parties. Nevertheless, the power of regional and local interests has transformed the many national parties into confederations of political forces. This has caused a municipal political dynamic that has an important impact on the Chamber of Deputies and Senate elections. Nelson Rojas Carvalho estimates that about 50% of deputies are elected according to highly localized support patterns; 65% of their votes come from only one city within a constituency.<sup>44</sup> Campaigning for votes locally may be the starting point for a political career in the national arena. Often mayors of large cities and important capital cities pursue nomination as candidates for state governments and even the presidency.<sup>45</sup>

Although voting has been obligatory since 1932, Brazil has experienced increased political participation through the electoral system. According to a comprehensive survey carried out by the IBGE in 1988, only 10.5% of the voting-age population were not enrolled as voters, a percentage that varies from region to region. The South (the richest, with the highest standard of formal education) has the highest rate of enrolment. In the Northeast 16% of adults were not enrolled. In addition to higher rates of voter registration, there has also been a significant fall in invalid votes (blank and spoilt). As far as gender representation is concerned, 91.9% of mayors were male in 2005, whereas in the municipal chambers only 12.6% of the members were women. However, in the Congress they are less represented: only 8.9% of the members of the Chamber of Deputies and 8.6% of the senators are women.

Local electoral behaviour reflects an overlapping of the three classical theoretical models of culture politics formulated by Gabriel A. Almond and Sidney Verba in 1963: the parochial, the subject, and the participative.<sup>46</sup> Values and traditional attitudes, such as personalism, clientelism, and patrimonialism, form the political base of many cities. In many local governments, efficiency and commitment to popular needs are conditioned by the local elite's capacity to control the parties, electoral system, and local politics. This local power dynamic has national impacts, for it allows such traditional elites to control the municipal votes, giving them bargaining power when seeking favours through parliamentary proposals in the state and federal budgets.

The 1980s, however, brought new trends of expansion and strengthening of the civic culture of municipal government, and with these changes came participatory values, attitudes, and institutions. Democratic municipal

governance was one outcome, in terms of both procedures (universalism, transparency, and public interest) and efficient public administration. There are many examples of local governments that have adopted innovative practices in these directions, especially in the more urbanized areas, and at the most elevated level of development.

As Luiz Cesar de Queiroz Ribeiro points out, by introducing the concept of local democratic administration, the 1988 Constitution created four instruments of popular participation, the first being specific to municipalities and the others applying to all orders of government.<sup>47</sup> The first instrument takes the form of the organic laws of municipalities, which must establish “the cooperation of the representative associations in municipal planning.”<sup>48</sup> The 1988 Constitution also makes provision for public initiative “in presenting bills of specific interest to the city or to the neighbourhoods, by means of the support of at least 5% of the electorate.”<sup>49</sup> However, plebiscites and referenda, which according to law help to guarantee the sovereignty of the people,<sup>50</sup> are rarely used. Last but not least, writs of injunction have also become important instruments in ensuring the enforcement of constitutional rights.<sup>51</sup>

Following the expansion of a civic culture of participatory democracy, two further important instruments of participation have increasingly been used in local governance: municipal councils and participatory budgeting.

Municipal councils, created after 1988, are distinct from elected municipal chambers; they are local institutions comprising citizens or civil-society representative organizations. Their members are not elected but appointed in a number of ways to represent citizens directly in designing, managing, and monitoring specific public policies. Federal legislation requires that municipal councils be instituted in areas that receive specific federal transfers, such as for children and youth, health, social assistance, and education.

In the past thirty years, social movements and nongovernmental organizations have achieved increased relevance. This has resulted in enhanced societal participation in the public sphere and the proliferation of municipal councils. Between 1990 and 1996 the number of private nonprofit foundations and nongovernmental organizations grew by 157%, reaching 275,895 institutions.

The main difference between municipal councils and previous examples of people's participation initiatives is that the latter were concerned with only specific government projects. The previous initiatives, generally geared toward opening channels of dialogue between the government and specific popular organizations, were often the product of initiatives of innovative public officers, which made them susceptible to discontinuity. The municipal councils, however, have become a permanent nationwide institution. There are strong expectations that this new vehicle of interaction between

office bearers and society will represent an important institutional innovation in social policy management. Municipal councils, therefore, are seen as effective civic participation channels leading to a new standard of accountability-based democratic management.

Participatory budgeting is the second innovative institution having the potential to initiate new arrangements for democratic and efficient local government.<sup>52</sup> It has been used as an instrument to engage the many people's organizations, government secretariats, and councillors as the key actors playing a strategic role in local decision making. There is no uniform national standard regulating how participatory budgeting is to be implemented. At present, participatory budgeting takes the form of meetings for discussion and joint deliberation with the residents of each district of a city about priorities for capital investment. Participatory budgeting works as an incentive for the accumulation of social capital, conceived of as a crucial resource for promoting collective action for the common good. Studies carried out on the impact of participatory budgeting show the redistributive effects of this process, not only among citizens but also among different areas within a city.<sup>53</sup>

Because public resources remain scarce, intense negotiation between competing interests is part of the budgeting process. The quality of communication and dialogue between the community and local office bearers is enriched when elected representatives of each district (as part of an exchange) visit each other to discuss the problems experienced in other districts. This exercise has proved to be a good instrument in promoting accountability in setting priorities in the municipal budget. It should be noted that in many cities, participatory budgeting goes beyond merely placing demands on the budget; it also encompasses monitoring budget execution.

#### EMERGING ISSUES AND TRENDS

In addition to being highly urbanized, Brazil has a complex urban system with twenty-eight urban agglomerations legally constituted as metropolitan regions (MRS). The history of these institutions is marked by two phases. In the 1970s the federal government, in an attempt to support national development planning, created nine MRS to be managed and controlled by state governments. The MRS were supposed to play an administrative coordination role, both in the provision of services of common interest to the states and municipalities and in regional and local planning. Within a framework of high federal centralization, however, they had no decision-making power. The second phase commenced with the enactment of the 1988 Constitution. Its decentralization drive implied important changes in the management of metropolitan regions. Municipalities were elevated to



members of the federation with a status similar to that of states. The competence to create and organize metropolitan areas, however, was transferred from the national government to the states, a move politically inconsistent with the new status of municipalities.

Insofar as states cannot interfere with municipal autonomy, the MRS created to oversee organizational and operational integration of public services remained mere administrative institutions having no political status and lacking legislative power. Without the effective means to enforce coordination, a state government cannot prevent conflicting and overlapping policies from arising between municipalities in an MR and between those municipalities and the state.

There are no legal criteria or specific norms to guide the identification of urban agglomerations with metropolitan functions that should be classified as MRs. Political interests of state governors and mayors prevail in defining the boundaries of metropolitan areas. As a consequence, the twenty-eight MRs comprise a highly differentiated set of urban areas that include more than 450 municipalities.

Examining the metropolitan reality in 2005, Observatório das Metrópoles conducted a national study of major urban spaces, in particular those nucleated around state capital cities, assessing the importance of these agglomerations in the national and regional urban network.<sup>54</sup> Only fifteen urban agglomerations, where population and wealth as well as the direction and coordination of the national economy are concentrated, were identified as real metropolitan regions, which is nearly half the number officially labelled MRS. The economic relevance of these fifteen urban agglomerations, each of which includes a large number of municipalities, is remarkable. In 2004 about 67 million people lived in their 295 municipalities, within 154,000 square kilometres. Although this represents only 1.8% of the country's surface, it hosts 39% of the economically active population and 43% of the labour force in the manufacturing industry. Yet these are the same areas where unequal social conditions often exhibit their most perverse face.

Notwithstanding their economic and social importance, institutional arrangements and public policies to boost state and local government coordination in metropolitan areas have not yet been developed. The result is a gap between deep social needs and the institutional capacity to formulate and implement feasible solutions. For example, in 2005 the population of the Metropolitan Region of Rio de Janeiro, comprising seventeen municipalities, was 11.4 million people – 75% of the state's population. The State of Rio de Janeiro considers it to be an MR merely for administrative purposes, and there is no institution (a secretariat or other body) to coordinate actions in this area.

Even though metropolitan municipalities devote a reasonable amount of their revenues (10% on average) to infrastructure investment, it is inadequate

to meet the demand for public services. The lack of long-term funds for capital investments is incompatible with the long-term nature of the infrastructure projects. Furthermore, the lack of incentives for cooperation between municipalities (and between them and the states) induces autarchic behaviour when confronting problems that have impacts beyond jurisdictional borders. Thus, to enhance metropolitan management, it will be necessary to provide the metropolitan institutions with means to induce effective cooperation.

In the mid to late 1990s, new issues were added to the debate on decentralization. In the context of economic stabilization, the responsibility for meeting growing social demands is increasingly assigned to local governments. Local politics also contribute to a competitive environment in which there is a clear drive toward modernizing city management. Direct citizen participation, and the assignment to local governments of the role of providing constitutionally entrenched social rights, created conditions conducive for self-government and effective cooperative federalism.

However, several challenges remain. Regardless of regional inequality in respect of economic and technical capabilities, municipalities have the same status as political and administrative units and thus are given symmetric treatment in respect of their rights and duties. A second challenge is that of scarce resources. As discussed above, budget constraints are further exacerbated by the challenge of earmarked transfers. These transfers from the federal government and the states reduce the room for decision making in local policies aiming to fulfil the specific needs of the population. In addition, elected representatives are rarely able to, or interested in trying to, gain an understanding of the processes surrounding the public budget, as well as public-sector management. A third challenge involves the activities of municipal councils and the inherent difficulties of trying to mobilize people. Sustainable and consistent livelihoods are scarce. The added burden of informal work and labour market instability make it difficult to rally people into forming local associations or to engage communities in meaningful participatory practices. According to surveys carried out by the IBGE in 1997, it is estimated that only 27% of the population above eighteen years old has some link with civil-society organizations. Those with higher levels of education and income are more inclined to become part of such organizations. Data from a survey carried out by Observatório das Metr6poles concerning municipal council members show significant inequality in respect of education and income, with civil-society representatives being more disadvantaged than their municipal counterparts.<sup>55</sup>

Local social and political participation has manifested itself in different trends. On the one hand, citizens have shown less interest in local elections as compared to national elections. As a result, voters distance themselves from councillors. Often petty interests, patronage, and pork-barrel policies prevail locally, changing professed social rights into favours and benefits

provided by councillors. By managing local executive and nongovernmental institutions of social assistance (mostly established by themselves), councillors seek to keep their voters faithful. This practice strengthens a tendency toward a nonpolitical relationship between citizens and governments. Nevertheless, the reforms brought about in 1988 have contributed to changing the status quo. Access to direct popular participation in local government decision making, as well as the diffusion of practices (e.g., amendments to the budget) as a result of people's direct participation, have gradually created institutional conditions for building more democratic and efficient models of local governance.

A few additional remarks should be made about local political systems and the internalization of economic forces in the cities. Brazilian cities are increasingly being incorporated into the dynamics of the global economy. This has extended not only to the major cities of São Paulo and Rio de Janeiro (which are already considered by some analysts to be global cities) but also to the north-eastern capital cities,<sup>56</sup> which are being integrated into international economic circuits such as tourism and entertainment. Even cities located in the border areas of the modernization expansion (in the Center-West and in parts of the North) have joined the organized production of commodities in agro-businesses. This has had an enormous impact on the consolidation of local self-government and has encouraged competition instead of cooperation among municipalities, spurring tax exemptions that may weaken financial autonomy. Brazilian tradition in the functioning of local political systems has led quite often to a prevalence of microlocalized interests and politics. Initiatives by major cities to cooperate with one another have so far proved to be too limited, by far, to prevent fiscal warfare among municipalities, which, in practice, translates into trying to avoid being outbid by your neighbour's local tax exemptions.

Present-day Brazil still lacks the strong institutions necessary to ensure intergovernmental cooperation, such as is needed to tackle the country's deep regional and interpersonal inequalities. It is widely recognized that building social and territorial pacts to support metropolitan governance, and to overcome excessively polycentric trends of power, is of paramount importance.

#### NOTES

- 1 For general background, see Celina Souza, "Federal Republic of Brazil," in *Constitutional Origins, Structure, and Change in Federal Countries*, ed. John Kincaid and G. Alan Tarr, 76–102 (Montreal and Kingston: McGill-Queen's University Press, 2005); Marcelo Piancastelli, "Federal Republic of Brazil," in *Distribution of Powers and Responsibilities in Federal Countries*, ed. Akhtar Majeed, Ronald L. Watts, and Douglas M. Brown, 66–90 (Montreal and Kingston: McGill-Queen's University Press, 2005); and

- Fernando Rezende, "Federal Republic of Brazil," in *The Practice of Fiscal Federalism: Comparative Perspectives*, ed. Anwar Shah, 74–97 (Montreal and Kingston: McGill-Queen's University Press, 2007). See also Fernando Rezende and José Roberto Afonso, "The Brazilian Federation: Facts, Challenges and Perspectives," in *Federalism and Economic Reform: International Perspectives*, ed. Jessica S. Walack and T.N. Srinivasan, 143–88 (New York: Cambridge University Press, 2006).
- 2 Calculated by taking annual GDP in *reais* divided by the average rate of exchange in 2005 (US\$794,098 million), which is then divided by the population (184,184,000 people). According to an estimate of purchasing power parity (PPP) by the International Monetary Fund, the per capita GDP amounts to US\$8,561.
  - 3 As the term of the senators is eight years, there are rounds of elections for two-thirds of the Senate every four years and for one-third four years later.
  - 4 Argelina Cheibub Figueiredo and Fernando Limongi, "Constitutional Change, Legislative Performance and Institutional Consolidation," *Revista Brasileira de Ciências Sociais* 29 (October 1995): 175–200, <http://www.scielo> (viewed 12 March 2007).
  - 5 David Samuels and Fernando Luiz Abrucio, "Federalism and Democratic Transitions: The 'New' Politics of the Governors in Brazil," *Publius: The Journal of Federalism* 30 (Spring 2000): 43–62; Barry Ames, *The Deadlock of Democracy in Brazil: Interests, Identities, and Institutions in Comparative Politics* (Ann Arbor: University of Michigan Press, 2000).
  - 6 Constitution of the Republic of 1891, Article 68.
  - 7 See Celina Souza, "Brazil: The Challenges of Constitutional Implementation," in *Dialogues on Constitutional Origins, Structure, and Change in Federal Countries*, ed. Raoul Blindenbacher and Abigail Osten, 13–15 (Ottawa: Forum of Federations and IACFS, 2005), 14; and Celina Souza, "Brazil: The Prospects of a Center-Constraining Federation in a Fragmented Polity," *Publius: The Journal of Federalism* 32 (Spring 2002): 23–48.
  - 8 Marcus André B.C. de Melo, "Municipalismo, Nation-building e a Modernização do Estado no Brasil," *RCBS* 8, no. 23 (October 1993): 85–100.
  - 9 *Ibid.*, 90.
  - 10 Except for some cases where municipalities are considered, by law, to be of importance for national defence.
  - 11 See generally, Frances Hagopian, *Traditional Politics and Regime Change in Brazil* (New York: Cambridge University Press, 1996).
  - 12 Fernando Rezende, "O Financiamento das Políticas Públicas: Problemas Atuais," in *A Federação em Perspectiva: Ensaios Selecionados*, ed. Rui de Britto Álvares Afonso and Pedro Luiz Barros Silva, 241–59 (São Paulo: FUNDAP, 1995).
  - 13 The Constitution of 1988 sets forth guidelines relative to "territories" in areas where there would be a state government. Nevertheless, the Constitution transformed previously existing federal territories into states. Brazil now has 5,564 municipalities, including Brasília, a city-state.
  - 14 For more information, see [https://www.planalto.gov.br/publi\\_04/COLECAO/INDIOP.htm](https://www.planalto.gov.br/publi_04/COLECAO/INDIOP.htm) (viewed 25 April 2007).

- 15 Rezende, "O Financiamento das Políticas Públicas."
- 16 Constitution of 1988, Article 60, para. 4, I.
- 17 Sergio Ferrari, *Constituição Estadual e Federação* (Rio de Janeiro: Lumen Juris, 2003), 169.
- 18 Celina Souza, "Sistema Brasileño de Gobierno Local: Innovaciones Institucionales y Sustentabilidad," <http://bibliotecavirtual.clacso.org.ar/ar/libros/edicion/disenso/souza.pdf> (viewed 14 July 2006).
- 19 Ferrari, *Constituição Estadual e Federação*, 283.
- 20 Constitution of 1988, Article 22.
- 21 The federal government manages the Social Security General System. States and municipalities may have their own public-servant pension schemes.
- 22 Constitution of 1988, Article 23.
- 23 See [http://www.ibge.gov.br/english/presidencia/noticias/noticia\\_imprensa.php?id\\_noticia=514](http://www.ibge.gov.br/english/presidencia/noticias/noticia_imprensa.php?id_noticia=514) (viewed 31 January 2008).
- 24 Fernando Rezende and Sol Garson, "Financing Metropolitan Areas in Brazil: Political, Institutional, Legal Obstacles and Emergence of New Proposals for Improving Coordination," *Revista de Economia Contemporânea* 10, no. 1 (January-April 2006): 5-34.
- 25 According to Law 11.107 of 6 April 2005, the Union, the states, the federal district, and the municipalities may participate in public consortia, which are associations of governments with the objective of developing a common activity or pooling their resources for achieving a common goal. Public consortia must be established by contract.
- 26 Rezende and Garson, "Financing Metropolitan Areas."
- 27 *Ibid.*
- 28 The composition of a municipal chamber follows the provisions of the municipality's organic law, within the limits set by the federal Constitution. Maintenance of the chambers, including the monthly payments to councillors (within the limits set by federal law), is guaranteed by transfers from the municipal budget.
- 29 Article 29 of the Constitution limits councillors' salaries according to the population of the municipality. Amounts may vary within a range of 20% to 75% of the salary of the members of the state Legislative Assembly. The limit of the mayors' salaries follows Article 37 of the Constitution. This article sets the amount received by the ministers of the federal Supreme Court as the ceiling for the direct or indirect public administration of any of the powers of the Union, the states, the federal district, and the municipalities.
- 30 Estimated by Secretariat of Fiscal Affairs (BNDES) and updated by José Roberto Afonso and Beatriz Meirelles for 2006.
- 31 See also José Roberto Afonso and Erika Amorim Araújo, "Local Government Organization and Finance: Brazil," in *Local Governance in Developing Countries*, ed. Anwar Shah, 381-418 (Washington, DC: World Bank, 2006).
- 32 Except for services of communication and interstate and intermunicipal transportation, which are subject to the state value-added tax (ICMS).

- 33 This contribution replaced a previous fee due to judicial problems relevant to a prohibition on levying fees for indivisible services.
- 34 Rezende and Garson, "Financing Metropolitan Areas."
- 35 Ibid.
- 36 Afonso and Araújo, "Local Government," 397, table 11.4.
- 37 Data include information for 4,355 municipalities, corresponding to 78% of the total, comprising a population of 156 million people (85% of the total population). All capital cities are represented, with the sole exception of Brasília, the Federal District. Data are available on the site of the Secretariat of the National Treasury of the Ministry of Finance: <http://www.stn.fazenda.gov.br> (viewed 12 February 2007).
- 38 The Fund for Participation of Municipalities (FPM) is financed out of a 22.5% share of federally collected income tax as well as a tax on industrialized products.
- 39 FUNDEF is a fund for education constituted from earmarked percentages of transfers from the revenue-sharing system. These transfers guarantee a specified minimum amount of spending per student enrolled in public primary schools all over the country. Proceeds are distributed according to the number of students enrolled in municipal or state-owned primary schools. If the money collected from the above sources is not enough to guarantee the minimum spending established by law, the federal government provides supplementary transfers. Municipalities, in general, benefit greatly from the fund.
- 40 About 25% of the state-collected ICMS is shared among municipalities according to the value added in economic transactions within their territories, and the remaining 75% is shared among the municipalities.
- 41 The Constitution defines the distribution of powers related to police services. Municipal guards were created to protect property and municipal assets, but they are increasingly operating as a public-safety force. According to the IBGE, 786 municipalities (14.1% of the 5,564 existing in 2006) had a municipal guard, mostly in the populous cities, but only 127 of them used firearms; see [http://www.ibge.gov.br/english/presidencia/noticias/noticia\\_imprensa.php?id\\_noticia=514](http://www.ibge.gov.br/english/presidencia/noticias/noticia_imprensa.php?id_noticia=514) (viewed 31 January 2008). In Brazil fire services are a state competence.
- 42 Space does not permit further exploration of this theme. See further, among others, the work of Luiz Carlos Bresser Pereira and Armando Castelar. See also, Marcos Mendes, ed., *Gasto Público Eficiente: Propostas para o Desenvolvimento do Brasil* (Rio de Janeiro: Topbooks Editora e Distribuidores de Livros, 2006).
- 43 Carlos Mauricio Figueiredo, Marcus André Melo, and Carlos Pereira, "Political and Electoral Uncertainty Enhances Accountability! A Comparative Analysis of the Independent Courts of Accounts in Brazil," paper presented at the 9th Annual Conference of the International Society for New Institutional Economics (ISNIE), Barcelona, Spain, 22 to 24 September 2005.
- 44 Nelson Rojas Carvalho, *E o Início eram as Bases: Geografia Política do Voto e Comportamento Legislativo no Brasil* (Rio de Janeiro: Editora Revan, 2003).
- 45 Marco Antônio Carvalho Teixeira, "O Jogo Político nos Municípios e as Eleições," in *Os Municípios e as Eleições de 2000*, 99–124 (São Paulo: Fundação Konrad Adenauer, 2000), 99.

- 46 Gabriel A. Almond and Sidney Verba, *The Civic Culture: Political Attitudes and Democracy in Five Nations* (Princeton, NJ: Princeton University Press, 1963; reprint, Newbury Park, London, and New Delhi: Sage, 1989).
- 47 Luiz Cesar de Queiroz Ribeiro, "O Município e a Reforma Urbana: Os Desafios da Política Urbana Redistributiva," *Revista Proposta* 22, no. 62 (September 1994): 5–13.
- 48 Constitution of 1988, Article 29, XII.
- 49 Ibid., Article 29, XIII.
- 50 Ibid., Article 14, I and II.
- 51 A writ of injunction is an order issued by a court compelling someone to do something or prohibiting some Act. The order aims at preventing the possibility of irreparable harm. Examples may include compelling a municipality to hire disabled people for some public employment (after they have passed a public examination), prohibitions against cutting trees or polluting a stream, and others.
- 52 See generally, Gianpaolo Baiocchi, *Militants and Citizens: The Politics of Participatory Democracy in Porto Alegre* (Palo Alto, CA: Stanford University Press, 2005); Yves Cabannes, "Participatory Budgeting: A Significant Contribution to Participatory Democracy," *Environment and Urbanization* 16, no. 1 (April 2004): 27–46, at 27; and Brian Wampler, "A Guide to Participatory Budgeting," October 2000, <http://www.internationalbudget.org/resources/library/GPB.pdf> (viewed 28 November 2007). See also, Brian Wampler, "Private Executives, Legislative Brokers and Participatory Publics: Building Local Democracy in Brazil," n.d., [http://www.democraciaparticipativa.org/pg\\_biblioteca.html](http://www.democraciaparticipativa.org/pg_biblioteca.html) (viewed 31 January 2008).
- 53 Celina Souza, "Participatory Budgeting in Brazilian Cities: Limits and Possibilities in Building Democratic Institutions," *Environment and Urbanization* 13, no. 1 (April 2001): 159–84, at 177; Kees Koonings, "Strengthening Citizenship in Brazil's Democracy: Local Participatory Governance in Porto Alegre," *Bulletin of Latin American Research* 23, no. 1 (2004): 79–99.
- 54 Observatório das Metrópoles is a virtual institute committed to the study of metropolitan problems, comprising over 200 researchers working at fifty-one institutions, such as government agencies and nongovernmental organizations, under the joint coordination of the Urban and Regional Planning and Research Institute (IPPUR) at the Federal University of Rio de Janeiro and the Federation of Social and Educational Assistance Agencies (FASE).
- 55 Orlando Santos Junior, Luiz Cesar de Queiroz Ribeiro, and Sérgio Azevedo, *Governança Democrática e PoderLocal* (Rio de Janeiro: Revan, 2004).
- 56 For instance, Salvador (Bahia), Recife (Pernambuco), Fortaleza (Ceará), and Natal (Rio Grande do Norte).