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Decentralization and Governance in Local Governments: Challenges for Efficient Resource Management Oriented to Regional Business Development

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Abstract

Decentralization has emerged as a strategic approach to governance to strengthen the autonomy and efficiency of local governments. This study explores the challenges faced by local administrations in the management of public resources under decentralized frameworks, especially in relation to regional business development. Using a mixed-methods approach, case studies from Latin America are analyzed to identify governance patterns, fiscal constraints, and innovative strategies. The results show that, although decentralization fosters closeness to citizens and agility in decision-making, it also highlights significant disparities in institutional capacities, financial resources, and accountability mechanisms. The findings contribute to the debate on public governance by proposing an integrative model of resource management aimed at strengthening regional economic ecosystems.

Keywords: Decentralization, Local Governance, Resource Management, Regional Development, Public Policies, Business Ecosystems.

Introduction

During the last decades, decentralization has been consolidated as a key strategy in the processes of state reform, especially in countries with centralized administrative structures or with significant gaps in territorial development. This trend has been accentuated in Latin America, where governments have opted for local governance models in order to strengthen democracy, optimize the provision of public services, and improve the allocation of resources (González & Rojas, 2021). Decentralization, understood as the transfer of competencies, resources, and responsibilities from the central level to the subnational levels, seeks to shorten the distance between the State and citizens, while promoting the autonomy and responsiveness of local governments (OECD, 2022).

However, the transition from theory to practice has highlighted multiple challenges. Despite having regulatory frameworks that support decentralization, many local governments face structural and financial constraints that restrict their ability to formulate and implement effective public policies. These difficulties are particularly reflected in the management of public resources and in the execution of strategies aimed at territorial economic development (Arroyo,

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Pérez & Mendoza, 2022). Dependence on intergovernmental transfers, low own tax collection, and limited technical capacity are factors that directly affect the efficiency of subnational governments (Martínez-Vázquez & Lago-Peñas, 2020).

Regional business development is one of the areas where decentralization could have the greatest impact. By having greater knowledge of the local productive environment, municipal and departmental governments are in a better position to design economic development policies, support micro and small enterprises, and attract private investment. However, the effectiveness of such interventions depends to a large extent on the existence of solid territorial governance, based on principles of strategic planning, transparency and citizen participation (Rodríguez-Pose & Di Cataldo, 2021).

In this context, it is pertinent to analyze how decentralization affects the capacity of local governments to efficiently manage their resources and promote the development of dynamic and sustainable business ecosystems. This study seeks to provide empirical evidence on decentralized public management practices in Latin American municipalities, identifying both recurring obstacles and successful innovations in governance and economic planning. It also aims to contribute to the design of integrating models that articulate local autonomy, intergovernmental cooperation and regional economic development as fundamental pillars to face the contemporary challenges of territorial development.

Theoretical Framework

Decentralization in public administration

Decentralization is understood as the process by which political, administrative, and financial power is transferred from the central levels of government to subnational or local authorities. This model seeks, among other objectives, to improve efficiency in the provision of public services, increase citizen participation, and strengthen institutional legitimacy at the local level (Faguet, 2019; OECD, 2022).

There are three main forms of decentralization: political, administrative, and fiscal. **Political decentralization** allows subnational governments to have authority over key decisions; **administrative decentralization** gives responsibilities over the provision of services; and **fiscal decentralization** provides autonomy to generate and manage financial resources (Martínez-Vázquez & Lago-Peñas, 2020).

Type of decentralization	Key features	Application examples
Politics	Authority to elect local leaders and formulate local policies	Election of mayors and municipal councils
Administrative	Local management of public services (health, education, infrastructure)	Transfer of hospitals and schools to municipalities
Fiscal	Autonomy to collect taxes and prepare budgets	Municipal taxes and expenditure planning

Table 1. Types Of Decentralization and Main Characteristics

Source: Adapted from Martínez-Vázquez & Lago-Peñas (2020) and OECD (2022).

Local Governance and Accountability

Governance refers to the set of processes, structures, and rules that determine how decisions are made, policies are implemented, and public resources are managed. In the local context, governance is directly linked to transparency, citizen participation and efficiency in the management of public services (Rodríguez-Pose & Di Cataldo, 2021).

The success of decentralised governance depends on a number of factors: clarity in the allocation of powers, the institutional capacity of local authorities, citizen control mechanisms and political stability. Recent studies highlight that decentralization without institutional strengthening can generate territorial inequalities and even corruption (Caballero & Zambrano, 2023).

Regional Economic Development and Business Ecosystems

Regional economic development refers to the implementation of policies and programs that promote the growth of productive sectors, generate employment, and improve the competitiveness of territories. In this process, local governments can play a fundamental role as articulators of **business ecosystems** through incentives, infrastructure, training, and support for entrepreneurship (Arroyo et al., 2022).

A dynamic business ecosystem requires a governance structure that facilitates collaboration between public, private, and academic actors, as well as a development strategy with a territorial vision (Pike et al., 2020).

Governance element	Impact on regional business development
Strategic planning	Aligning resources with priority economic sectors
Citizen participation	Legitimizes projects and reduces territorial conflicts
Public-private partnerships	They facilitate innovation and attract investment
Transparency and control	Builds trust in the institutional and business environment

Table 2. Relationship Between Local Governance and Business Development

Source: Authors' elaboration based on Arroyo et al. (2022) and Rodríguez-Pose & Di Cataldo (2021).

Methodology

Research Approach

This study adopts a **mixed methodological approach** (quantitative-qualitative), with the aim of understanding in depth the challenges and opportunities faced by local governments in the framework of decentralization, and their relationship with regional business development. This approach allows capturing both structural aspects (such as budgets and administrative capacity), as well as the institutional perceptions and practices of the actors involved (Creswell & Plano Clark, 2018; Gómez & Salinas, 2020).

The combination of methods enables a triangulation that improves the validity of the results by integrating quantifiable data with contextual and interpretative evidence, as recommended by recent studies in public administration and territorial studies (León-Castro et al., 2021).

Case Selection

Three Latin American municipalities **were selected** through purposive sampling, with criteria

of institutional variation and business dynamics. The selected municipalities are located in:

- **Colombia (Boyacá):** Municipality with a focus on local competitiveness plans and citizen participation.
- **Chile (Biobío):** Territory with intermediate fiscal autonomy and high dependence on the central government.
- **Peru (Arequipa):** Example of advanced decentralization with active public-private partnerships.

The cases were chosen because they presented differentiated levels of functional decentralization, allowing for a cross-sectional comparative analysis (Arroyo et al., 2022).

Data Collection Techniques

Data collection was carried out through three main techniques:

1. **Semi-structured interviews** with 15 public officials and 12 business leaders, aimed at exploring governance practices, fiscal autonomy and support for the entrepreneurial ecosystem.
2. **Documentary analysis** of municipal budget reports (2019–2023), local development plans and public-private cooperation agreements.
3. **Surveys** aimed at 60 local actors (officials, businessmen and citizens), with a Likert scale to measure perception of institutional efficiency and support for productive initiatives.

Data Analysis

- The qualitative data were processed through **thematic content analysis**, identifying patterns and categories related to decentralized management, transparency and local economic development.
- The quantitative data were treated using **descriptive statistics** (frequencies, averages, simple correlations) with the SPSS v26 software.

Element	Description
Type of study	Mixed (qualitative-quantitative)
Qualitative technique	Semi-structured interviews, documentary analysis
Quantitative technique	Structured surveys, statistical analysis
Number of cases	3 municipalities (Colombia, Peru, Chile)
Population studied	Public officials, businessmen, community leaders
Analysis period	2019–2023
Key variables	Institutional capacity, fiscal autonomy, participation, business development
Analytical tools	SPSS v26, Categorical Arrays, Thematic Coding

Table 3. Methodological Design of the Study

Source: Authors, based on Creswell & Plano Clark (2018); Gómez & Salinas (2020).

Ethical Considerations

The research followed the ethical principles of confidentiality, informed consent and protection of personal data. All participants were informed about the purposes of the study and consented to participate voluntarily. No information was used that compromised the identity of the interviewees or the institutions involved.

Results

Differentiated Institutional Capacities

The results of the qualitative and quantitative analysis indicate that there is a notable disparity in institutional capacities between the three municipalities analyzed. The Colombian municipality, with an administrative structure in consolidation, has deficiencies in budget planning and monitoring of results, while the Chilean case, although with less fiscal autonomy, has greater professionalization of the technical staff. In contrast, the Peruvian municipality stands out for its ability to formulate multisectoral policies, the product of a longer trajectory of decentralization (Arroyo et al., 2022).

In the survey, 72% of Chilean municipal officials considered that their local government has adequate tools to implement development policies, compared to 58% in Peru and only 41% in Colombia.

Municipality	% Officials who perceive high institutional capacity	Human resources with technical training (%)	Existence of a policy evaluation system
Colombia	41%	48%	No
Chile	72%	81%	Yes
Peru	58%	65%	Partial

Table 4. Perception of Institutional Capacity by Municipality (2019–2023)

Source: Authors' elaboration based on surveys and interviews (2023).

Fiscal Autonomy and Financial Constraints

The study identified that fiscal autonomy continues to be a structural challenge in all three countries. Although municipalities have the power to formulate budgets, more than 60% of their revenues come from transfers from the central government, which limits the execution of their own plans and their capacity to respond to local crises (Martínez-Vázquez & Lago-Peñas, 2020).

In the budget analysis, it was evident that the Chilean municipality has a dependence of 62% on central funds, followed by Colombia (66%) and Peru (59%). Only in the latter case were complementary sources of financing identified, such as competitive funds and public-private partnerships.

Innovative Governance Practices

The Peruvian municipality stands out for having implemented participatory mechanisms, such as citizen budgets and community monitoring committees. These strategies have contributed to improving institutional trust and facilitating the identification of priority projects (Caballero & Zambrano, 2023). Similarly, both Chile and Peru have established **local economic development offices**, while in Colombia this function is fragmented.

In addition, the data from interviews reveal that the municipalities with the greatest innovation in management are also those that report greater articulation with chambers of commerce, universities and NGOs.

Municipality	Participatory budgeting	Office of Economic Development	Cooperation with the private sector	Business Confidence Level*
Colombia	No	No	Low	2.8/5
Chile	Partial	Yes	Middle	3.5/5
Peru	Yes	Yes	High	4.2/5

Table 5. Innovative Governance Practices and Territorial Cooperation

*Scale from 1 (low confidence) to 5 (high confidence), according to a business survey (2023).

Source: Interviews with business leaders and public officials (2023).

Impact on Regional Business Development

Finally, the study found a positive correlation between the existence of articulated governance and the dynamism of the business ecosystem. Municipalities with formal strategies to support entrepreneurship – such as technical assistance, business fairs and agreements with financial institutions – had higher rates of registration of new companies and a reduction in the time of procedures.

Between 2019 and 2023, the Peruvian municipality led in the creation of productive units (14.2% cumulative growth), followed by Chile (11.6%) and Colombia (6.7%). This growth was also reflected in greater access to public-private lines of credit and business training (González & Rojas, 2021).

Conclusions

Decentralization continues to be a valuable strategy for transforming public management in diverse territorial contexts, especially in Latin America, where imbalances persist between the central level and subnational governments. This study shows that, although decentralization promotes greater proximity to citizens, agility in decision-making, and possibilities for innovation, its effectiveness is strongly conditioned by institutional, financial, and cultural factors (Faguet, 2019; Rodríguez-Pose & Di Cataldo, 2021).

The findings show that **local institutional capacities are determinants** in translating autonomy into concrete results. Municipalities with solid technical structures, strategic planning, and citizen participation mechanisms managed to implement more effective public policies aimed at regional business development (González & Rojas, 2021). In contrast, those with structural weaknesses showed dependence on the central government and little articulation with actors in the territory.

One of the main challenges identified is limited **fiscal autonomy**. Despite the legal powers granted, most municipalities still rely heavily on intergovernmental transfers, which restricts their scope for action and innovation. In this sense, it is urgent to reform subnational tax systems to expand collection capacities, improve equity in the distribution of resources, and strengthen local financial responsibility (Martínez-Vázquez & Lago-Peñas, 2020; OECD, 2022).

In terms of **innovative governance**, experiences that incorporate participatory budgeting, local economic development offices, and public-private partnerships are highlighted as effective mechanisms to strengthen transparency, efficiency, and cooperation with the private sector (Caballero & Zambrano, 2023). These practices, when accompanied by integrated public policies, allow for the consolidation of dynamic and resilient territorial business ecosystems.

This study proposes an **integrative decentralized governance model**, which combines:

1. Sustainable fiscal autonomy;
2. Data-driven strategic planning;
3. Vertical and horizontal inter-institutional coordination;
4. Effective citizen participation.

In addition, national governments are recommended to **invest in the technical training of local public officials**, as well as in the digitalization of administrative processes, in order to reduce capacity gaps that affect territorial execution (León-Castro et al., 2021).

Finally, it is suggested to continue with longitudinal and comparative studies between regions and countries, to evaluate the impact of decentralization on concrete indicators of economic development, social inclusion and democratic governance.

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