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Decentralization in Peru:

USAID/Peru Contributions to the

National Policy Dialogue

1984 - 1986

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Introduction

For over two years, the mission of the United States Agency for International Development (USAID/Peru) has undertaken a series of efforts which have focused on the issue of decentralization in Peru. Through the Integrated Regional Development Project (IRD), Program Development and Support (PD+S) funded activities, and in coordination with the Disaster Reconstruction, Relief, and Rehabilitation (DRRR) Project, USAID/Peru has financed and produced an extremely valuable number of studies, reports, evaluations, workshops, seminars and publications. This brief memorandum does not attempt to review in detail the findings, ideas, and results of those efforts. It presents major conclusions and themes to record the most important achievements made through these investments. Section I focuses on the historical context of decentralization in Peru to provide a basic orientation for understanding current and future issues, as well as understanding the rationale for AID's involvement. Section II provides an overview of activities undertaken with AID funding in support of the policy dialogue on decentralization (See Annex A for a detailed listing of activities undertaken in this period). Section III covers the major themes in the dialogue. Section IV offers conclusions and posits their implications for Peru and AID's programs in Peru and other countries.

I. Decentralization in Peru: Historical Context

Since the beginning of the colonial era, the social and economic life of Peru has been centered in Lima. Lima served first as capital of the whole of the Spanish Empire, then as capital of the South American portion, and finally of Peru and Alto Peru which includes what is today Bolivia. Lima's historical central role in the flow of communication, people, goods, and ideas between the hinterlands and the outside world left beliefs, behavior patterns, and decision-making and economic investment structures which have lasted to the present day and will likely continue into the future.

At various points in colonial history, provincial elite groups and individuals attempted to strengthen their positions vis-a-vis the power of the center in Lima. These efforts rarely had any effect and never in real terms of real challenges to that power. Provincial elite, known commonly as gamonales, effectively ruled in many places, but Lima controlled all contact with the outer world. The only true challenges came from the indigenous uprisings culminating in the late Eighteenth Century revolt of southern Peruvian Indians and peasants led by Tupac Amaru II. These violent outbursts against the exploitative and repressive encomienda-mita-hacienda system established by the Lima-based regime and managed by local elites were supported by small numbers of mestizos, mainly merchants and minor officials who sympathized, anticipated gaining some advantage from their actions, or who were forced to aid the rebels. Due to transport and logistical difficulties and the decay of Iberian power, these movements achieved initial success and, at times, appeared to be near to accomplishing their mission of destroying the colonial, Lima-based power structure. However, they eventually all fell short of the mark. By the end of the colonial era, while having declined to the

status of capital of only a portion of the South American part of the empire, Lima was still very much the seat of power for Peru.

The Republican era began with various attempts at power sharing between Lima and regionally based groups due to the undefined structure of the new Republic. However, after several decades of internal disorder, central control of political process and economic power increased with the guano fertilizer boom and the growth of the coastal agricultural export economy. The strength of central control oscillated somewhat with the vagaries of the international economy and internal events. The war with Chile brought with it a serious threat to central authority because that foreign power successfully occupied the capital, and then moved to seize strategic sites in the coast and highlands. The tide was turned through the armed resistance of groups of highland peasants only tardily assisted by provincial elites. However, once the external threat was resolved, the traditional if formalized patterns of central dominance were easily reestablished and, what is more, began to have a real impact on provincial life. This situation continued unperturbed up to the 1920's.

The Leguia government came to power in 1919 creating the expectancy of greater attention to the needs of the provinces. The first few years saw the implementation of several initiatives related to those needs: 1) the vast public works investment campaign providing funding and construction of many key road links and other infrastructure projects; 2) the Constitutional guarantees of respect for property and political rights of indigenous and peasant communities; and 3) the formation of regional assemblies empowered, at least partially, with political affairs within regions and economic investment management from earmarked taxes and other locally generated revenue. However, Leguia's government became increasingly autocratic, never fully implementing the regional assemblies and, after 1924-5, cracking down on expressions of provincial desire for power sharing and greater control of investments.

The political turmoil of the late 1920's saw the appearance of three major movements which gave rhetorical importance to the decentralization of power. APRA's dynamic and charismatic founder, Raúl Haya de la Torre, in his extensive writings establishing the doctrine of that movement, called for decentralization as a way to democratize Peru and vindicate the exploited masses, particularly the downtrodden indigenous populations. The Socialist Party's brilliant intellectual leader Jose Carlos Mariategui, in his Seven Essays, also identified decentralization of power as a necessary element in the social and political revolution through which Peru needed to pass to create a society with economic justice. He noted that most of the various decentralist movements in the Colonial and Republican eras exclusively represented the interests of the provincial power structure and that only thorough-going change with the transfer of power to the workers, peasants and Indians would constitute real decentralization. The Decentralist Party was a grouping of various regional, political, and economic elite whose program was much less revolutionary than the other two parties just mentioned.

With the overthrow of Leguia, a period of political ferment and

turbulence ensued, part of which involved various urgent calls for decentralization. The three groups mentioned above, along with other more minor actors, managed to have included in the 1933 Constitution the establishment of Departmental Governments with a broad range of authorities and power over most areas of government within their jurisdiction except for military and foreign affairs. Most significant was the assignment of economic development authority to these governments.

The coup which brought Benavides to power in 1933 aborted these Constitutionally mandated decentralization measures. His hand-picked Congress repeatedly delayed the approval of legislation implementing the decentralization measures in the Constitution. Through the 1930's and 1940's, centralization of political and economic power increased.

One of the few significant occurences related to decentralization during this period was the formation, under the first Prado government in the early 1940's, of the Corporation for the Development of the Rio Santa Valley. This geographically focused parastatal entity, modelled on the TVA, planned and implemented investments in the valley. Further achievements in decentralization such as the proposed holding of the first municipal elections in over twenty years and some initial legislation implementing the 1933 Constitution decentralization articles were cut short as the Bustamante y Rivero government, within which APRA was increasingly active, was overthrown by Odria in 1948.

Under Odria, concentration of central power over economy and society increased and strong links were forged with international capital, increasing Peru's dependency. The Cusco earthquake and severe droughts in the southern Sierra departments of Arequipa and Puno led to partial decentralization of investment management. Public Works Boards (JOP's), more or less modelled on the Rio Santa corporation, planned and carried out emergency investment programs. As so often occurs with bureaucracies, they remained in existence after emergency programs were completed and secured various sources of continued funding chiefly through earmarked taxes. U.S. Government Agencies and other international donors provided support to the JOP's and the soon-to-be established Departmental Development Corporations (CORDE's).

During the second Prado administration, these Public Works Boards were for the large part, reorganized into CORDE's. Some of the funding for the public works construction programs which the CORDEs carried out came from the National Economic Development Fund (FNDE). This new organization was manned by bright, young engineers and administrators, and it undertook an ambitious and energetic program of technical and financial support to the CORDEs. In its initial stages (1958-63), it minimized bureaucratic procedures and maximized direct technical and financial support for and contact with the CORDEs. The parallel of FNDE and the later USAID/GOP DRR-INADE disaster reconstruction and rehabilitation program is obvious.

The CORDEs of this period were different in several important ways from the institutions of the same name which were to be installed in the 1980's. First, they were established by the passage of a number of individual laws and

decrees, lacking the uniformity in structure and function of the 1980's CORDEs, all established through the December, 1981 CORDEs law. This meant that there was more room for experimentation through the variety of differing forms they took. Second, the investment programs of the earlier CORDEs were largely financed by the plethora of earmarked taxes and special, localized revenue sources which existed at that time. The FNDE program was the principal exception to this rule as it was a national program. However, since it had no power over global budget levels, but only over the approval of specific projects, its ability to shape CORDE operations was severely limited. By contrast, the 1980's CORDEs are almost completely dependent upon central government financing with the major exception of the cases of Piura, Tumbes, and Loreto which will be discussed below. Finally, the earlier CORDEs differed from the later ones in their domination by departmental interest groups and their consequent political autonomy from the center. The autonomy was also a consequence of the qualitatively and quantitatively smaller role of the central government in the late 1950's and 1960's. Simply put, there was less presence and activity of central government, particularly sectoral ministries, and a concommittant greater role for CORDEs as major development finance and implementation institutions in the departments.

Municipal governments are the other important set of institutions involved in the decentralization of authority and responsibility for development. They have existed since the earliest colonial days and remain more or less unchanged in form and function since that time. They have alternated leadership by elected and centrally appointed officials. They have generally been concerned with the expansion and upkeep of urban infrastructure and services, the collection of property taxes and titling fees, and the regulation of local markets. In the 1960's, the municipalities received increased attention from the central government as the first municipal elections in almost forty years were held and a major program of administrative development through technical assistance and training was launched with AID financing. The program was part of the overall support to improving public administration being carried out by the new National Office for Public Administration Reform (ONRAP).

CORDEs, as well as their funding mechanisms through ear-marked taxes, continued to grow in number through the 1960's. With the installation of the first Belaunde government, another organization was created to provide local development planning and project implementation capacity, Popular Cooperation (COOPOP). At its inception, COOPOP was intended to be a revolutionary institution, assisting communities to organize themselves, express their needs, set their priorities, plan specific projects, find external funding and technical support, recruit local resources, and implement needed infrastructure projects. Its niche was defined as the rural small-scale project, too small for CORDEs and too rural for municipal governments. Under the first Belaunde government, COOPOP's activities covered most of the country.

The 1968 military coup brought radical changes in the entire structure of government, and decentralized institutions were no exception. The first phase of the military government under Velasco (1968-75) saw: 1) the expansion and reoganization of the sectoral ministries; 2) the establishment of one

exclusive channel for all government revenue and expenditure (the Caja Unica system); 3) a massive land reform involving transfer of land rights from large and medium holders to small holders and their associative groups (CAP, SAIS); 4) the growth of a thorough-going state presence in, if not control of, productive and commercial enterprises; and 5) the creation of a national popular mobilization and investment management organization with outreach capacity at the departmental and local level, (SINAMOS). All these measures had tremendous effects.

The Caja Unica and SINAMOS were the most important related to decentralization. Within the first years of the Velasco government, all CORDEs as well as offices of COOPOP had transferred their capital goods and much of their staff to SINAMOS. That organization attempted to link all levels of government including the community, district, province, and department in a nested hierarchy. "Popular mobilization" and "political education" were the most controversial elements of SINAMOS, as many observers, especially members of existing political parties, viewed these efforts as the first steps in creating a Velazquista political party. Despite the overtly statist political mission of SINAMOS, there is no denying that at least at the local level, communities were allowed to participate, many for the first time, in the setting of development investment priorities. The infrastructure construction role played by CORDEs continued under SINAMOS. Municipal governments were debilitated as mayors were chosen by regional military authorities.

The other significant step taken in the Velasco period was the consolidation of all revenue and expenditure management in the Ministry of Economy and Finance (MEF). All of the literally hundreds of ear-marked taxes and special revenue generating mechanisms were eliminated, as all revenue was redirected to the MEF. Use of public investment had to be approved through a consolidated national budget law, authority for all disbursements of public treasury funds had to be requested from the MEF, and all expenditures had to be reported to the MEF. The new system soon invented myriad forms and labyrynthine procedures, all of which were needed for investment programming, disbursements, and expenditure reporting. SINAMOS departmental and provincial offices, thus, did not have the independence of funding sources which the 1950's and 1960's CORDEs largely had. Needless to say, this was a major impetus to greater centralization of control and decision-making.

The economic difficulties and political turmoil which grew increasingly apparent in 1973-1975 led to the overthrow of Velasco by Morales Bermudez. Initially, the Morales Bermudez government announced an ambitious revenue and power sharing plan involving the establishment of regional development authorities, but it was quickly scrapped when they had to confront the reality of economic collapse and the need for a drastic austerity program related to public investment. That austerity program, along with the withering away of SINAMOS which was ideologically incompatible with the more conservative Morales Bermudez military faction and wich was seen as a real threat to the military, led to growing demands from regional groups for increased public investment.

These groups, called Frentes de Defensa, formed in many departments and

had support and membership from local elites, communities, leftist elements of APRA, and various combinations of left political parties. They were strongest in resource rich and traditionally powerful departments such as Arequipa, La Libertad, Piura, Tumbes, and Loreto. In the last three, departmental strikes managed to effectively shut down the flow of petroleum from the jungle and processing in the coastal refineries. The central government was forced to grant a petroleum royalty tax, the Canon Petrolero, to those three departments and to the department of Ucayali when it hived off of Loreto late in the 1970s.

Another related result of the demands for increased decentralization of investment and management was the creation of a new system of organizations. At the highest level below the central government, Regional Development Organisms (ORDE's) were established between 1978 and 1980 to coordinate all sectoral investment, including setting planning and programming priorities for activities of sectoral ministries. Theoretically, the ORDEs were regional governments and, despite tremendous resentment and resistance from the sectoral ministries, at least some of them functioned as such. They were, of course, non-democratic institutions with military officers or non-elected government officials in all management positions. However, they were an interesting precedent and are glorified by some present-day decentralization advocates as representing the halcyon days of past decentralization efforts.

ORDEs were organized in major departments and also combined smaller departments into regions. ORDEs covering combined departments include those in Piura - Tumbes and Loreto - Ucayali. For departments not granted ORDE status, the government established Departmenal Development Committees (CODE's). These did not have the wide-ranging sectoral coordination authorities, but they did take on the role of planning, programming, and implementing public investment, especially the traditional CORDE infrastructure construction role.

In 1978, Morales Bermudez announced his intention to turn over power to a democratically elected government in 1980. An election was held for a Constituent Assembly which held a constitutional convention in 1979 to rewrite the 1933 edition. Belaunde's party did not participate and APRA and the new coalition, the United Left (IU), dominated the assembly.

The most important aspect of that event, for the present discussion, was that great attention was paid to decentralization. The formation of regional governments, consisting of popularly elected regional assemblies which would manage all internal regional affairs is called for, with a deadline for creation of 1988. CORDEs were re-established as organizations to act in the transition period between the signing of the Constitution and the formation of regional governments. Municipal governments, led by popularly elected officials, were to have authority for political and economic affairs, particularly development investment, at the provincial and district levels. Popular participation was called for at all levels in setting planning priorities.

One of the potentially most significant decentralization measures and one which has received little if any attention is the Regional Compensation Fund.

The fund creates the possibility of expansion of the royalty tax on petroleum, then in existence for Piura, Tumbes, and Loreto, to other departments with significant natural resources exploitation or other kinds of industries. For those departments without such industries, the Constitution mandates the creation of the Fund to compensate for this deficiency with transfer of funds based on a formula involving population and other factors. This interesting mechanism has never been established, largely due to austerity in the 1980's and the AP government's lack of commitment to several elements of the Constitution, the writing of which did not include their participation. The only new royalty tax since passage of the Constitution has been the Canon Aduanera involving transfer of a portion of customs revenue to the Constitutional Province (same status as department) of Callao.

In 1980, Belaunde and his party, Accion Popular (AP), won a resounding electoral victory and came to power for the second time. They had made vague rhetorical reference to decentralization in their campaign but did not consider it a major plank in their platform. Belaunde's first government, of course, had worked with and supported the CORDE's between 1963-68. As mentioned above, in Belaunde's second administration, the CORDE's were structured differently. The Law of CORDE's passed in 1981 gave them a uniform structure, mandated that their funding be almost completely channeled through the MEF (except for those receiving the Canon Petrolero), and created a personnel selection system which assured that all the executives, as well as most of the staff, would be selected by the governing party. Thus, the 1980's CORDE's were essentially deconcentrated public works planning and implementing agencies of the central government.

The Departmental Assemblies, supposedly the highest organ of decision making in the CORDE, only rarely disputed decisions of CORDE executive management. Assembly membership was as follows: one third from all provincial mayors, one third from the private sector and organized groups (cooperatives, producer's associatons, etc.), and one third from public sectoral agencies (sectoral ministries, COOPOP, state enterprises). The latter two groups, in almost all departments, were selected from the AP membership or had direct loyalty to the central government. Even after the drubbing AP took in the November, 1983 municipal elections, the CORDE assemblies were weighted to prevent opposition party control. Real power rested with the CORDEs' Executive Officers (President and/or General Manager) the Board of Directors or oscillated between those two. The board of Directors had the same proportional mix as the Assembly, which meant it was structured to be under the control of AP and the central government. That is not to say that CORDE executives and Boards of Directors did not have disputes with the central government executive and legislative branches. However, the relationship guaranteed that no real, effective autonomy existed in CORDE decision-making. The CORDE's, as structured in the 1981 law, were not meant to be departmental governments and, as they were implemented, never functioned to represent the whole spectrum of opinion of the population of the departments. Often, especially after the 1983 municipal election, it was obvious that they did not represent even the majority of the population.

Fifteen of the 25 CORDEs under the second Belaunde government received an

unexpected stimulus to strengthen their investment planning and management capacities when the natural disaster related to effects of the Niño current occurred. The CORDE's were chosen as the principal instruments to manage the vast program of reconstruction and rehabilitation activities funded by national reconstruction bonds and international donor, principally USAID, financing. Given the large number of public works required, the urgency of the situation, the tremendous sums of national and foreign funding involved, and the proven slowness of the financial system of the MEF's Caja Unica, various alternative mechanisms and institutional relationships were introduced.

Most important of these were the creation of the National Development Institute (INADE) and development of the USAID-GOP Disaster Relief, Rehabilitation, and Reconstruction Project. INADE devoted about half of its manpower to the program. The DRRR Project provided, through its $65 million in funding, expatriate advisors to most of the program CORDE's, technical support through short and medium term consultants, and a specially adapted project design approval process based on rigorous yet flexible criteria. Both INADE and USAID intervened on behalf of the CORDE's with the MEF and other central government entities to facilitate rapid and effective program implementation. Within program CORDE's, special project units were set up to give focused attention to the program.

The long term institutional development effects of the program are, of course, yet to be seen. However, the overall efficiency of the structure and procedure established, and of the personnel trained indicate the potential effectiveness of CORDE's management of infrastructure construction, a key area in which they need to function. Future emergency and normal investment programs which will be implemented at the departmental level must take into consideration the lessons of the INADE-CORDE-USAID experience.

A number of key issues have been treated by the USAID/GOP Integrated Regional Development Project. These include the management of overall departmental development, so that linkages between rural production and consumption and urban marketing and consumption zones are strengthened, cross-sectoral coordination of public sector investments, prioritization methodologies which include popular participation and ensure that CORDE investment funding is channeled to efforts with the greatest return and desirability, the role of CORDE's and municipalities in promoting private investment, the relationship of CORDE's with municipal and future regional governments, and the generation of local revenue by CORDE's to invest in departmental development. Beginning in 1979 as a focused technical assistance and investment project in the departments of Junin and Cajamarca, in 1984 the project expanded to include national level technical assistance and training programs for CORDEs and municipalities. The programs have included applied research (especially in planning and prioritization methodologies), direct assistance and training, and policy studies and proposals related to those two organizations. The last area is perhaps the most important for its potential affect on the historical trends of decentralization.

Municipal governments fared well under the second Belaunde administration. Two free and democratic local elections were held in 1980 and

1983. Two successive organic municipal laws were passed providing municipalities with expanded authority for guiding development in their jurisdictions. The National Institute for Municipal Development (INFOM) was created to provide national level coordination, technical support and funding for strengthening municipal government. The IRD Project financed an expansion and upgrading of INFOM's capacity to support municipal governments. Finally, in 1985, the municipalities were granted an earmarked one percent of the eleven percent value added tax on goods and services. This was to be distributed through a formula calculated considering size, population, and other variables.

Little if any impact was made on decentralization policy in the 1984-85 period as the Belaunde government finished its last eighteen months in power. However, the groundwork was laid in the IRD programs for comprehensive input to policy formulation under the APRA government which came to power in July, 1985. APRA had dusted off its traditional rhetorical concern for decentralization; within the party, there were many cross-currents of ideas and proposals on policies and programs and how to implement them. IRD advisors and project staffers were involved, some intimately, in formative discussions prior to and after the change of power.

The basic lines of action evident so far indicate a generally sincere, if less than coherent-even piecemeal-approach to decentralization. On the one hand, there are significant indicators of seriousness in facing decentralization tasks including:

1) Sectoral ministries and state enterprises, corporations, and banks are moving to transfer responsibility, authority, and personnel to decentralized locations;

2) CORDEs have been acknowledged as major actors in development and proposals have reached the Congress to revise the 1981 CORDE's law to provide them with an expanded mandate as the principal coordinating entities for development in their departments;

3) The National Micro-Regional Development Program has been launched and is providing expanded funding and authority for the CORDEs and their micro-regional offices to carry out its investment program, including charging the micro-regions with inter-sectoral coordination to a degree unseen since the ORDEs;

4) Revenue generating powers have been increased for municipalities;

5) Great emphasis has been put on the passage of the Basic Law for Regionalization to establish the structure for the formation of the regional governments mandated in the 1979 Consitution, and;

6) The President has been very active in travelling outside of Lima and identifying himself with the various forces demanding increased decentralization and;

7) CORDE's have been provided with larger investment budgets than at any

other time in recent history.

On the other hand, there are signals that decentralization is not the highest priority for all decision makers in the government including:

1) Central Government control over CORDEs' operation has not diminished, especially in the key areas of personnel selection, finances, and approval of investment projects;

2) The responsibility for coordination and support to CORDEs and municipalities has been assigned to a newly created ministry which, as of April, 1986, lacks the dynamism and sense of urgency necessary to coherently organize and push hard to implement decentralization policy;

3) The National Planning Institute (INP) appears to be establishing a strongly centralist management structure for the National Micro-regional program;

4) Very little credence is given to the need, desirability, or practicality of establishing regional governments or taking other measures to really decentralize power and authority;

5) The inter-sectoral coordination role assigned CORDEs is being strongly opposed and covertly undermined by sectoral ministries.

I will discuss later in this paper in greater detail the future directions which decentralization policy may and should take. To conclude this historical overview, it is clear that the trend in Peruvian history has been toward ever-increasing centralization of power, wealth and authority. Reversals in those tendencies have only been temporary. Groups who advocated decentralization when they were active outside of and without influence in Lima, have often become much less interested in decentralization and even have turned decidedly centralist when they gained power in Lima.

II. Overview of Activities

In FY 84, USAID/Peru mission management tasked the Regional Developmet Division of the Office of Agriculture and Rural Development (OARD/RD) to work on gathering ideas about and review experiences in support of Peruvian decentralization in anticipation of the change of government and possible new project activities in the area. Our interest was to have a broad base of knowledge from which policy dialogue positions could be developed.

The RD Division was requested to undertake this task because it was managing the Integrated Regional Development (IRD) Project. Between 1979 and 1983 this Project provided technical assistance, training and funding for infrastructure development and commodity procurement to decentralized institutions in the departments of Junin and Cajamarca. The assistance was focused on transfer and testing of the regional planning methodology,

developed principally by Dr. Dennis Rondinelli, called Urban Functions in Rural Development (UFRD). The premise of this methodology was that strengthening rural-urban linkages around key market towns and centers will enhance rural development in a targeted region. The basic hypothesis was that employment and productivity in a rural region could be increased through this integrating approach if decentralized regional planning and implementation capacity could be strengthened at the national, regional, and local levels.

Through 1983, the IRD Project focused its work in the two departments. In 1984, the Project was expanded to include national level programs of technical assistance and training aimed at strengthening two types of decentralized institutions, CORDE's and municipalities. Thus, the Technical Assistance and Training Program for CORDE's (PATC/CORDE's) and the Integrated Technical Assistance and Training Program of the National Institute for Municipal Development (INFOM/ATI) were launched. USAID/Peru and the GOP began these programs to expand the impact of the lessons the Project learned in Junin and Cajamarca to the national level.

The strategy developed in June - July, 1984 for supporting the decentralization policy dialogue had two aims: 1) to improve the quality of the dialogue by involving the best minds and broadest experiences available; and 2) to ensure that the issues of greatest concern to AID were considered in the dialogue. We especially wanted to see that decentralization was seen as means for good management of public investment, effective private sector promotion, and strengthening of democracy through participation. The strategy would be carried out through grants and direct contracts to produce and publish studies and to hold seminars and workshops.

In June, 1984, we received the first document which formed part of the dialogue activities, the report entitled Syracuse University Technical Assistance to the Integrated Regional Development Project (Peru): Final Report and Asistencia Técnica de la Universidad de Syracuse al Proyecto de Desarrollo Regional Integrado (Peru): Informe Final. This report reviewed the contribution of the Syracuse team in terms of research, training and direct technical assistance. Most important to note from that report was that the Syracuse team had carried out a comprehensive program and had tested the utility of the UFRD methodology, begun ground-breaking urban cadastral surveys, and assisted in launching a major program of important public works and market town development projects.

In July, 1984, I convened a meeting of the IRD Project advisors to discuss how best to organize assignments to produce what we called Decentralization Policy Dialogue Issues Papers. Ray Bromley, the Coordinator for PATC/CORDEs advisors, and Allan Austin, advisor to INFOM/ATI, were designated the leaders in the editing and writing of these papers. The topics covered the history of decentralization in Peru, regional planning, financial mechanisms-both public and private, administrative decentralization, participation of local communities in decentralized development, and municipal development. The work grew out of the authors' academic training and

*All studies produced are discussed in this section and listed in Annex 1. They are all available in the RD Office

experiences, especially their involvement in the IRD Project. These papers served as the bases for various internal AID and GOP documents and for various publications.

Additionally in FY 84, we began to generate the ideas which led to the PD+S-funded Specific Support Grant to Centro Peruano de Estudios para el Desarrollo Regional (CER) and an IRD - funded Specific Support Grant. Basically we were looking for "private sector" or alternative channels to support for carrying out activities of the decentralization policy dialogue.

Bromley made the initial contact with this group, which was then called CEDESA and which was publishing a book on Centralismo y Regionalizacion with financing from the Fundacion Frederick Ebert and the Universidad del Pacifico. Starting in September, 1984, I worked with them closely to develop and approve a work plan for the newly designated CER which AID would finance with FY 85 PD+S funds under a Specific Support Grant.

In the first quarter of FY 85, we finished all the preparatory steps to signing the Specific Support Grant for CER. CER's first major activity was the organization of a workshop to be held in March, 1985 entitled the "Seminario - Taller: Decentralizacion y Regionalizacion". Attending the workshop were researchers and experts in decentralization themes, together with people working in decentralized institutions and representatives of the four major political forces then contesting each other in the national elections.

In preparation for the workshop, working papers were developed on key topics related to decentralization. Lizarraga, Izquierdo, and Monge were among these authors and Dillon had an important role in the workshop. The workshop was held near the end of March and was well attended. In particular, five official representatives of the PAP or APRA were there throughout the sessions, while representatives of AP and PPC attended the final plenary session.

Following the workshop, CER personnel edited the discussion papers in the light of results of the discussions held. They produced draft volumes in the following areas: 1) structure and management of the decentralized state; 2) decentralism and planning: analysis and proposal; 3) financial systems and decentralized budgetary management; and 4) decentralization, regionalization, and microregionalization. The main findings of these volumes were presented in a major event held in June in Lima entitled the "Seminario Nacional: Propuestas para el Descentralizacion del Estado y el Desarrollo Regional". The seminar was well attended by researchers, decentralized public sector employees, and others. Principal authors of the above mentioned volumes participated including: Lizarraga, Monge, Izquierdo, and Alberto Garcia of PATC/Cordes; Jaime Johnson, then of INADE's Proyectos Microregionales en Sierra, soon to become major advisor to the new GOP's INP Chief; and Eduardo Durand of INADE's APODESA.

In August and September, 1985, CER published those volumes in very professional editions which are serving as important contributions to serious

thinking and policy analysis on decentralization and regionalization. They included: Descentralismo y Planificacion: Balance y Propuesta by Ernesto Gonzáles Roberto and Eduardo Durand López-Hurtado, Sistemas Financiero y Presupuestario Descentralizados by Raul Lizarraga Bobboi and Henry Izquierdo Larrea, Estructura y Gestion del Estado Descentralizado by Jaime Johnson Rebaza del Pino and Alberto Garcia de Romaña and Fredy Monge Pimentel, Descentralizacion Regionalizacion Microregionalizacion by Alfredo Stecher Shauer and Jose Gonzales Vigil Alarcon and Nicole Bernex de Falen. They also published a volume which was not a direct part of the March workshop or June seminar, entitled Estrategias para la Descentralizacion y el Desarrollo Regional by Lizarraga. This is his major work to date covering the key issues related to the topic. In many ways, it synthesized results of various PATC/CORDEs' efforts and has reportedly been well received by Peruvian policy makers.

In September, 1984 Bromley, fellow IRD advisor Paul Dillon, and Peruvian counterparts helped launch a decentralization policy institute in a decentralized location - Huancayo. Paul began working with a group of planners, social scientists, and development experts from the central sierra who became the founding members of the Instituto de Investigacion Aplicada para la Descentralizacion y Regionalizacion (IIADER). In FY 85, we worked with IIADER to develop and approve a proposal and work plan which was then formally presented by CORDE/Junin to the Mission for its approval. We are presently financing the IIADER program using IRD Grant T.A. funds, under a Specific Support Grant. IIADER operates under the auspices of CORDE/Junin.

During FY 86, IIADER has held several important and well attended seminars on micro-regional development, decentralization issues in the APRA government's initial policy statements, municipal finance and administration, and small and medium scale irrigation projects in the central sierra. They are publishing two important volumes entitled Sustentación de la Participación de las Organizaciones de Base en las Corporaciones y el Gobierno Regional and el Catastro Urbano y el Desarrollo Local en el Perú.

FY 85 was the principal year for our Decentralization Policy Dialogue activities. We continued meetings of the advisors' group, producing discussion papers which provided the basis for much of the work which followed. Specifically, Ray Bromley, Allan Austin, Raul Lizarraga, Paul Dillon, Rob Kent (IRD advisor), Henry Izquierdo (PATC/CORDEs) and Fredy Monge (PATC/CORDEs) wrote papers on the six topics related to decentralization, regionalization, and municipal governments which we discussed in sessions in July, September and November of 1984. These were almost all drafted by the end of CY 84.

Bromley was contracted in January, 1985 to edit these individual studies. Patricia Wilson (University of Texas) was contracted to synthesize and combine the individual papers into a coherent package. Her final report was titled Decentralization: The Next Five Years. She completed this work in March, 1985. In May, 1985, Izquierdo translated this paper and updated Wilson's work using the title Descentralización: El Próximo Quinquenio.

Another major Decentralization Policy Dialogue PD+S funded effort in FY

85 was the Final Evaluation of the IRD Project. Much time and attention were devoted to crafting the terms of reference to ensure the evaluation's maximum contribution to the Policy Dialogue. I coordinated closely with Eric Chetwynd of the AID/Washington S+T/RD office which manages the SARSA Cooperative Agreement, involving the major regional plannning issues of the IRD Project. Chetwynd served as evaluation team coordinator. Besides his leadership and substantive contributions to the analysis and the writing of the final document, he assisted in the contractual paperwork in AID/Washington which provided three of the five experts who worked on the evaluation.

The evaluation was divided into four subject areas: 1) regional planning (Dr.'s Dennis Rondinelli and Patricia Wilson); 2) management and administration of decentralized institutions (Dr. Lynn Hammergren); 3) municipal development (Dr. Ronald Johnson); and 4) socio-economic input and participation in public works planning, construction and maintenance (Dr.John Hatch and Rural Development Services Staff). From mid-April through the end of June, the team members carried out their tasks reviewing Project and non-Project documentation and literature, interviewing many participants and beneficiaries, and travelling to Junin, Cajamarca, and other locations. They produced an excellent text with a succinct summary report and a series of detailed and useful annexes. The report was entitled Integrated Regional Development: Final Evaluation. The March, 1985 synthesis of decentralization issues by Wilson was also included as an annex. While all team members spent much time in the field, the Rural Development Services staff spent the most time, organizing and implementing an impact evaluation based on a methodology whereby a large number of project beneficiaries participated in the evaluation tasks. The final version of the entire volume was completed by the beginning of July and we immediately had it translated under the title of Desarrollo Regional Integrado: Evaluación Final and ready to share with the new GOP in its first months of operation.

Another activity integrally related to the Decentralization Policy Dialogue was the work of Dr. Gregory Schmidt, funded by the Disaster Reconstruction, Relief, and Rehabilitation Project. Schmidt's report, entitled USAID Assistance and Departmental Development Corporations in Peru: Context, Project Experiences, and Future Prospects, exhaustively reviewed the institutional development impact of the DRRR and IRD Projects in a sample of CORDEs. Schmidt reviewed documentation about, traveled to and conducted interviews in six CORDEs. His report has been subsequently translated, edited and shared with the GOP, entitled La Asistencia de la A.I.D. y las Corporaciones Departamentales de Desarrollo en el Perú: Contexto, Experiencias del Proyecto y Perspectivas para el Futuro.

Between June and September, Bromley returned to Peru to work under a PD+S funded purchase order. He conducted archival and field research on decentralization issues and produced three reports:

1) The Perspective for Regionalization and Decentralization in Peru in Light of the Characteristics and Power Base of the New National Government, 1985 - 1990; which argued that there existed a strong momentum toward decentralization within the new government, but that it would require adequate support and favorable conditions to be manifested in the implementation of effective decentralization.

2) Una Evaluación Crítica de Tres Programas Nacionales de Descentralización y Participación Popular: El Fondo Nacional de Desarrollo Económico, la Primera Cooperación Popular y SINAMOS with an annotated bibliography of references relating to the Fondo Nacional de Desarrollo Económico, the first Cooperación Popular, and SINAMOS; which reviewed the experiences of these organizations related to decentralization, basically finding that all three contributed to testing important models and methodologies.

3) Interviews with Arq. Jorge O'Brien (ex-INP, ex-ORDE official), Ing. Juan Carlos Malaga Arce (ex-COOPOP, ex-SINAMOS, ex-CORDE official), Ing. Ramon Ponce de León (ex-Secretario General, FNDE) and In. Eduardo Sanchez Portocarrero (ex-Regional Coordinator, FNDE) as key leaders of pre-1982 regional development organizations in Peru. These interviews provided important material for the first two reports.

PATC/CORDEs, under the IRD Project, also developed and published documents in CY 85 which were direct contributions to the policy dialogue including: 1) Bases para el Diseño de Programas Integrados de Desarrollo Microregional, con referencia especial a la región del centro del País; 2) Análisis de las Relaciones entre Corporaciones Departamentales de Desarrollo y Municipales; 3) Sistema de Priorización de Inversiones al Nivel Regional; 4) Coordinación entre Gobiernos Locales y Regionales: Problemas y Propuestas; 5) Estrategias para la Organización y el Financiamiento del Desarrollo Descentralizado, and 6) Centralismo y Políticas para la Descentralización Productiva en el Perú. These were distributed widely in government circles and with private institutions. The purpose again was to stimulate interest in decentralization issues, inform decision makers, and outline various means to implement decentralization.

At the end of FY 85, two high level officials from the Belaunde government were contracted to carry out studies related to decentralization issues. Jaime de Althaus, former INFOM President, worked under contract to CER to produce a report entitled Realidades Municipales en el Perú: Bases para una Política de Descentralización y Fortalecimiento Municipal and participate in municipal development events sponsored by CER. Juan Gil Ruiz, former CORDE/Huanuco president and MEF official, worked under a sub-contract to Bromley to produce two additional studies: 1) Problemas y Perspectivas de la Integración de los Proyectos Especiales en Selva con las Corporaciones Departamentales de Desarrollo y Probables Gobiernos Regionales; and 2) Factores que Impliden el Gasto Público en los Programas de Desarrollo Regional. Gil completed those papers in February, 1986. These argued further the case for decentralization through transfer of authority and responsibility to CORDE's and municipalities. They were widely distributed to key Peruvian decision makers.

In FY 86, we are continuing decentralization policy dialogue activities with IIADER, CER, PATC/CORDEs, INFOM, a new institution in Puno called the Centro de Estudios y Promoción Social (CEPS) QOLLAW and individual studies.

The Mission intends at this writing to approve a final increment to IIADER complete the planned program under the Specific Support Grant based on

their excellent performance to date. The Institute will produce a regional development plan for the Central Highlands and a manual on development project implementation through interinstitutional agreements.

In April, 1986 CER held a very successful forum on decentralization of Peru's development finance system. Representatives of the private and public sector aired all the important issues on this theme. Discussion focused on a paper by the head of COFIDE, Dr. Jose Salaverry Llosa, entitled Descentralización del Sistema Financiero. At this time, we are negotiating with CER on further grant funding for activities in FY 86 focused on public discussion of the Basic Law of Regionalization and applied research on decentralization issues in the central coastal region outside of metropolitan Lima. A further element would be a seminar on the role of regional universities in promoting and implementing decentralization.

PATC/CORDEs continues to play a central role in the decentralization policy dialogue and, in many ways, is the focal point for the government's formulation of decentralization policy. They have been closely involved with the initiatives on micro-regional development, the new organic law of CORDEs, a supreme decree on CORDE productive investment promotion, the chapter on decentralized financial management in the 1986 budget law, and the Ley de Bases de Regionalización scheduled for debate and approval in the Congressional session in April, 1986.

INFOM has become more active in the area of policy. It is focusing principally on the questions of municipal government participation in micro-regional development activities and the role of inter-sectoral coordination of municipal governments. Attention is also being paid to issues of municipal financial and service delivery management.

A new center for regional development studies will be supported through the implementation of a Specific Support Grant. The members of CEPS QOLLAW are important decision makers and prominent community members in Puno. They have proposed a series of studies and seminars on regional planning, development finance, and community participation. Their activities will include a regional development diagnostic, a study on the impact of development interventions in a sample of the southern region's communities, and support to the implementation of an urban cadastral survey in Juliaca. Funding will come from PD+S.

Finally, in FY 1986, we are funding a study by Ignacio Franco tentatively titled Análisis de la Experiencia de la Ley de CORDEs de 1981. He also is analyzing the results of AID involvement, in general, in support to CORDEs and, specifically, in the implementation of the IRD Project's PATC/CORDEs. Franco will provide conclusions and recommendations for future support activities in decentralization.

The impact of these efforts has been noted in the discussion above. To conclude, it is obvious that the various institutions, studies, and events have provided a great amount of grist for the mill of policy analysis and implementation. Direct impact can be seen in the National Microregional

Development Program, the 1986 National Budget Law, the Nationl and Regional Multi-Sectoral Coordination Commision, the Ley de Bases de Regionalización, the new Municipalities funding mechanisms, various departmental and provincial development plans, and many other areas.

OARD will continue to play a lead role in Mission activities related to decentralization. The IRD Project will terminate at the end of CY 86, but the office will provide support, in any manner necessary, on decentralization issues in USAID/Peru's program.

III. Decentralization Policy Dialogue: Three Basic Themes.

In this section the three basic themes of the decentralization policy dialogue will be discussed. They are: 1) good management of public investment and local resources; 2) effective private sector promotion; and 3) strengthering of democracy through participation. For each theme, I will lay out the theoretical argument, discuss current status of the theme in Peru, and provide findings and lessons of the AID - supported activities.

A. Good Management of Public Investment and Local Resources.

The first basic theme of the decentralization policy dialogue is that effective decentralization leads to good management of public investment and local resources. Management is defined here as resource generation, mobilization, and utilization. Public investment refers to those resources available through transfer from the central government. Local resources refers to all revenue generated from sources below the national level including taxes and fees as well as to all labor and other non-monetary input contributed by groups and individuals. The latter are mobilized through the development of formal and informal relations and structures established between public sector agencies or local governments and the collaborating groups and individuals. The concept of utilization of those resources includes planning, programming, budgeting, construction and/or other implementation of projects and activities, monitoring and supervision, evaluation and establishment of how maintenance will be done and recurrent costs will be covered.

Decentralization can lead to more effective revenue generation. Property taxes, titling fees, licenses, and other local charges can be most efficiently organized, collected, supervised, enforced, and sanctioned by decentralized institutions because they are in much more constant and close contact with the local population.

At the lower levels of decentralized institutions, especially in small towns and communities, the link between revenue collection and service delivery can be made easily for those paying and those collecting. At these lower levels, informal, familiar, and communal ties can be used to pressure members to meet their fiscal responsibilities. At the same time, at these lower levels, the population can easily and directly express their desires for the delivery of services and other benefits for which the decentralized institution needs to collect the revenue. Most institutions at these lower

levels are community councils and district and provincial municipalities which in Peru are called local governments. They enjoy a number of taxing and licensing privileges.

As discussed in Section I, municipalities have been favored by the 1981 and 1984 versions of the Organic Law of Municipalities which provided them, at least on paper, greater authorities and responsibilities in the planning and implementation of development. They have benefitted from 1984 and 1985 laws providing new and expanded revenue sources. Between 1983 and 1986, the IRD Project has developed and tested methodologies for urban cadastral surveys which it adapted to the realities of small to medium size municipalities.

In the case of Huancayo and Cajamarca, the cadastral work allowed an increase in the property tax revenue base between 500% and 800% in one year. Municipal revenue generation has also been a major concern of INFOM's program for Technical Assistance and Training for municipalities under the IRD Project. It is developing direct technical assistance and training courses and manuals to help local governments increase revenue generation. Various methods exist for collection of taxes and licenses which can be adapted to the level of sophistication of each municipal administration are being taught through INFOM.

User fees are another important area in decentralized revenue generation. They can play a crucial role in providing financing of recurrent costs of maintenance and repair. Unfortunately, almost no precedents exist in Peru for municipalities or other levels of decentralized public sector institutions to take these actions. A number of municipalities collect or have collected relatively trivial sums through tolls and similar road fees. This mechanism could be used to greatly increase the municipal revenue base.

The organizational level above that of the local government in Peru is currently occupied solely by the CORDE. As discussed in Section I, CORDEs in the 1950's and 1960's had a considerable number of revenue sources. They derived from special local or regional taxes and portions of national taxes most often called ear-marked taxes. However, as also described in the previous section, these were all eliminated with the founding of the Caja Unica System which channeled all revenue through the MEF.

The principal exception to the Caja Unica system in existence today is the natural resource exploitation tax or canon. Only five departments receive this revenue, four for petroleum exploitation and the other for customs fees exploitation. Further, there exists a Constitutional basis for the implementation of the Fund for Regional Compensation discusse in Section I. The fund would create the possibility for extension of natural resource exploitation royalty taxes to many more departments. At the same time it would create funding sources for departments without such resource bases, compensating them with funding proportioned on the basis of a formula weighted for population and other factors. However, given the current GOP austerity budget and its likely persistence over the next years, the fund will probably not be implemented in the short term, perhaps not even in the medium term.

A more likely source of revenue at the departmental level will be user

fees or some similar mechanism for cost recovery for investment projects. Whether roads, irrigation canals, schools, health posts or other programs or activities, the CORDEs could look for ways to collect fees to at least cover recurrent costs of maintenance and repair. PATC/CORDEs is the only Peruvian entity working on this topic. In May, 1985, it held the first national seminar on cost recovery. There was excellent participation from many CORDEs and municipalities. In 1986, they are continuing in this area with the publication of materials for all CORDEs and a pilot effort with CORDE/La Libertad.

Local resource mobilization is another important area of decentralization. It affects CORDEs as well as municipalities in that they have the authority and responsibility to organize the implementation of investment projects. Therefore, it is their role to call upon communities or other groups of beneficiaries to invest their own resources of labor, funds, and time in the implementation of those projects. At the same time, such an investment can promote the beneficiaries acceptance of responsibility for project maintenance and repair. Even if the beneficiaries are incapable of financing all of the costs for maintenance and repair, the organizations which form and actions which are taken as part of participation in implementation can provide the basis for self management for maintenance and repair. In other words, lacking funding for undertaking maintenance, a community which organized itself for working with its CORDE or municipality in infrastructure construction could be in a better position to find support to undertake the tasks of upkeep.

The IRD Project has had a very successful experience in mobilizing beneficiary community participation in the planning and implementation of the investment projects financed by the component entitled the Rural Public Works Fund. Evaluation of implementation of the component proved that the beneficiaries had a high regard for the impact of the projects and were committed to the maintenance of those works. Economic data showed that community participation lowered costs and shortened implementation time. Preliminary evidence indicates that the works are being maintained largely through community action.

The final advantage of decentralization is better management in the utilization of public investment and local resources. The concept, as used here, covers planning, programming, budgeting, construction and/or other implementation of projects and activities, monitoring and supervision, evaluation, and establishment of how project activities will be maintained, and how they will cover recurrent costs.

Decentralized planning, programming and budgeting contributes to better use of public investment and local resources because it allows those most closely associated with implementation and maintenance to set priorities. In Peru, setting of investment priorities through the elaboration of plans is formally structured as a participatory process in which groups, at various levels, express their needs and planners integrate these and pass them to the next higher level. Thus, community plans should be passed to the district, district to province, province to department, and department to central government. Based on those plans, investments are programmed for each level.

The real working of the planning system is entirely different. It is true that at the departmental level and, in some cases, at the provincial level, plans are put together. However, they have little if anything to do with the programming of investments. Often they are no more than "laundry lists" of desired investments, but even if they are based in analysis of data leading to the identification of various investment options, they are only rarely referred to in the programming of investments through budgeting. Rather, many investment decisions, often the largest ones, are made by CORDE Boards of Directors and/or top executives on a "political" or "pork barrel" basis. Local, district, or provincial priorities, socio-economic analyses, or the existence of technical feasibility studies and technical plans and designs are only rarely considered by the controlling elements of CORDEs.

What is even worse is that often the decisions made at the departmental level, whether "pork barrel" or technically based, are often discarded or overlooked when CORDE investment budgets are reviewed by the MEF and then processed by the Congress. The MEF often arbritarilly reduces funding levels so that projects and activities which were legitimately budgeted are seriously or fatally underfunded. The Congress often introduces projects which promise a direct political payoff, but which have even less of a technical or socio-economic justification than those programmed by the CORDEs.

Effective decentralization would mean that district and provincial level councils and departmental assemblies would have the capacity to weigh alternative investment projects, aided by technical and socio-economic analyses done by planning staff, and select investments for their jurisdictions in open and public sessions. Those projects would then be scheduled for technical and socio-economic feasibility studies. No funding for project implementation would be budgeted until these studies were completed and verified the feasibility of the investment. Then the CORDE would have the authority to program their investment budget with minimal interference from the central government, especially the MEF or Congress. Based on the greater autonomy of planning, programming, and budgetting, decentralized institutions would become more responsive to the people living in their jurisdictions. This could also improve the technical quality of their investments and, thus, their impact on improving the quality of life of those people.

The IRD Project and several of the USAID/Peru's PD+S funded activities have built the analytical base to support the contention that decentralization of planning, programming, and budgeting stimulates more efficient and effective use of public investment and local resources. PATC/CORDEs, with the guidance of Paul Dillon, has produced ground-breaking work on planning, prioritization, and reprogramming methodologies. Planning has been based on field application and adaptation of the Urban Functions in Rural Development (UFRD) methodology. The 1985 IRD Final Evaluation team, particularly UFRD pioneer Dr. Dennis Rondinelli, judged the UFRD application in the Mantaro Valley in Junin to be the best field use of that methodology worldwide to date. In 1986, PATC/CORDEs is providing direct technical assistance and training to CORDEs in use of UFRD as part of an overall investment prioritization methodology. The methodology, based on decision tree analysis,

is structured to allow the group making decisions about investments to: 1) disaggregate and prioritize their goals and objectives they have; 2) graphically and numerically project relative payoffs of various investments relative to those goals and objectives; and 3) openly and clearly reach a judgment on which investments will most likely achieve goals. UFRD is integrated as one of the bases for projecting results of investments relative to goal achievement. The most recent work along these lines is the development of a reprogramming methodology. Using UFRD and other methodological considerations, PATC/CORDEs is providing CORDEs with the analytical tools to prioritize their on-going projects when, for example, implementing budget cuts from the MEF.

Effective decentralization of investment management also requires that decentralized entities be autonomous in the management of their funding and local resources. To be responsive and responsible, they must be able to know the quantity of resources available to them and to have them available on a timely basis. If funding is provided from the central government, the financial flows must be sufficiently agile to provide adequate and dependable transfers. Accounting and reporting procedures must be streamlined so that a minimal but acceptable amount of information is available. If local resources are supplying financial, logistical or other kinds of support, their use must be well organized.

The present system of central government funding management, is not at all similar to the optimal situation just discussed. The Caja Unica system, as presently operational in Peru, imposes a large number of restrictions and regulations on the flow of funds. Elaborate accounting and reporting requirements lead to the employment of an inordinate number of staff working just to complete forms and reports. Due to austerity, budget deficits, and shortfalls in revenue collected, funding levels approved in the National Budget Law often are not available on a regular and reliable basis. It has become the rule for CORDEs, for example, to not expect significant transfers until after the first quarter of the year due to slow revenue collection and backlogs of paperwork in clearing books from the previous year. The overbearing control of the existing system leads to a series of inefficiencies as dependent agencies cannot plan or program the timely implementation of their investments. Further, the limitations of the present system often lead to a high degree of personnel instability and procurement problems as providers of needed materials or machinery cannot be paid on time.

IRD's PATC/CORDEs achieved a breakthrough in beginning an incremental reform of the present system with the drafting and approval by Congress of a chapter in the 1986 National Budget Law. The chapter focuses on the flows of funding and the requirements for accounting and reporting for decentralized entities. It provides for longer periods for programming and using disbursements with a concomittant reduction in required paperwork. It also provides for quarterly reprogramming to allow decentralized institutions to bring their investment implementation up to date.

Another area of decentralized utilization of investment and local resource management is the construction and/or implementation of projects and activities, including monitoring, supervision, and evaluation. Decentralized

entities can do these tasks effectively given that they are located close to project sites, share social and cultural background with beneficiaries, and are easily identifiable, thus making clear lines of responsibility and facilitating assignment of credit or blame. Technical capacities of those entities must be of sufficient quality to permit completion of these tasks. Moreover, given the experience of earlier CORDEs, COOPOP, SINAMOS, ORDEs and later CORDEs, for the departmental level of project and activity implementation, it is clear that, in general, these technical capacities exist or can be introduced through further training and assistance.

The INADE-DRR experience has been particularly useful in that it created an efficient investment project implementation system for the use of AID and GOP funds. A series of brief yet sufficiently detailed control cards are filled out, with a substantial input of T.A. for monitoring project implementation. The cards and the other elements of the project implementation system have provided effective control over the largest program of small to medium scale public works construction in AID's history in Peru. PATC/CORDEs and INFOM/ATI have also worked with CORDEs and municipalities in strengthening their implementation capacity with direct technical assistance and training events and materials.

Decentralized entities are also in a good position to evaluate the utilization of public investment and local resources. They have to live with results, intended or unintended, of projects and activities. They are in place to follow-up by gathering information and analyzing impact. The fact that personnel in CORDEs often change and that municipalities often have a great deal of turnover every three years as a result of elections impedes monitoring to some extent. However, as the evaluation process should involve participation of beneficiaries, the decentralized institutions are in a good position to recruit that participation. Evaluation of public investment and local revenue resource utilization can be done effectively by decentralized institutions.

The final area related to utilization is maintenance and repair by decentralized institutions. The argument is based again on the proposition that these institutions are close to beneficiary populations and responsible and responsive to them. They implement the original projects or activities. They can monitor maintenance needs and carry out necessary tasks better than central government entities. Unfortunately, almost no organization in Peru occupies itself with planning and carrying out maintenance and, therefore, there is little experience or precedent for decentralized agencies to do so. PATC/CORDEs will be focusing on infrastructure maintenance in 1986 as the issue has become especially relevant for CORDEs. This is because the Ministry of Transport and Communications has transferred maintenance responsibilities for all roads below the level of national, inter-regional highways to respective CORDEs. This will be a tremendous challenge to CORDEs that, in general, already feel understaffed to carry out required infrastructure construction tasks. Nevertheless, maintenance is something which CORDEs should carry out and for which their capacity should be strengthened.

B. <u>Effective Private Sector Promotion</u>

The second basic theme of the Decentralization Policy Dialogue is that decentralization can bring about effective private sector promotion as strengthened public sector institutions actively leverage private investment in development. Private investment can come from local individuals, cooperatives, producers associations, enterprises, and businesses. There are three principal ways in which private sector promotion can be done: 1) provision of infrastructure; 2) identification of opportunities for investment; and 3) financial promotion.

Decentralized public sector institutions can provide basic infrastructure to create the necessary conditions in which rational and profitable private investment can be made. The first step is involvement of private sector individuals and groups in the planning and programming of investment projects and activities. By participating, they will be able to affect the decisions about where infrastructure projects will be constructed. Once projects have been programmed and budgets finalized, private investors can begin to plan their own investments with a degree of security that the necessary infrastructure will exist. Of course, given the possible delays and modifications in investment project programming and implementation, private investors cannot be absolutely assured that the decentralized public sector institutions will deliver on their commitment. Equally possible is that private investors for whatever reason may not be able to carry out their plans for using provided infrastructure.

However, once the decentralized public sector institution implements the infrastructure project and the private investor executes the related activity, then the reciprocal relationship leads to economic growth in a decentralized location. For example, the public sector installation of a road, electrification and potable water can be linked to private sector construction of an agro-industrial plant. Other examples include energy and housing projects by the public sector to entice private investment. In addition, the prioritization methodology developed by PATC/CORDEs builds in the mechanisms for private sector participation in CORDE investment planning.

This kind of collaboration of public and private sectors does not occur frequently in Peru. Traditionally there has existed suspicion of one for the other, even competition and open resistance to cooperation. However, there are indications, at least at the level of rhetoric, that the present government and private sector institutions are open and amenable to greater collaboration. PATC/CORDEs has drafted a Supreme Decree that is being presently reviewed by top GOP decision-makers to facilitate and encourage CORDE activity in the creation of private sector opportunities. It would empower CORDE's to enter into joint ventures with the private sector to undertake productive investments.

A second important area in which decentralized institutions can work to promote private sector investment is the identification of opportunities. As mentioned above, private sector investors should be involved in the planning and programming of decentralized public sector resources. This provides the private sector with an opportunity to have a voice in decision-making. Besides this participation, the public sector agencies should develop and carry out active information programs on the opportunities which exist for

private sector investment. Widespread publicity and specially adapted packages of information for individual opportunities and investors should be developed by the public sector. Once the private sector investors find that the decentralized public sector institutions are reliable sources of information, they will continue to look to them.

This function is quite underdeveloped in Peru. The CORDEs and municipalities which do make efforts in the identification of opportunities do not do so consistently. Often because of lack of consistent communication with private investors, they are unable to involve those investors in the programming of investments which create opportunities and do not know in which kinds of investments the private sector is interested. The Peruvian decentralized public sector needs to develop an entrepreneurial attitude to actively communicate with the private sector about investment opportunities.

The third area in which the decentralized public sector can actively support and assist the private sector is in financial promotion. Financial promotion can include: 1) support to assure a decentralization of credit institutions so that the banking infrastructure exists for financing private investment and that the decentralized branches have sufficient authority to process, approve and disburse necessary funds; and 2) direct involvement in financing investment projects through supply of collateral, seed capital, and joint venture funding.

Decentralized institutions can work to promote the effective decentralization of the finance system. Public and private banking can be encouraged to establish branches in decentralized locations with sufficient authority to review credit applications, work with clients, and approve and manage credit. Public sector agencies can offer assistance in the establishment of branches of financial institutions in a number of ways by providing basic infrastructure. Further, they can use their institutional identity and contacts to influence financial institutions to establish branches by informing them of the benefits which could accrue to them through growth in the particular area. This would specifically involve information dissemination on CORDE investment planning and programming.

A second area of financial promotion is that of direct involvement in the financing of investment projects. First, the decentralized public sector could play a role in securing loans by offering its resources as collateral, or as a loan guarantee. In so doing, they might provide the final crucial ingredient in putting together a financial package for private investment. Another way to promote private sector investment is the financing of initital expenses for private investment projects, otherwise called seed capital. This financing could be repaid directly by the private investor prior to initiation of project or activity operation or it could be repaid if the public institutions remained as financial backers and participated in the sharing of profits. In the case of these joint ventures, it would be important to establish clearly the role that the public entities and private investors play in management of the activity.

The definition of roles is even more important in the final aspect of financial promotion. In this case, the public entity has a majority share in

the investment and may even manage it with a minor role played by the private investor. The latter may even limit its participation to investment and not enter into enterprise management. However, the private investor may also manage the enterprise under agreement with the majority holder public sector agency. This form of private sector financial promotion is the least desirable in that, based on past experience with state and para-statal enterprise, inefficiencies of investment and management may occur. To date, only the last aspect of financial promotion has been tested. Several CORDF's have managed productive for profit operations with limited success. PATC/CORDEs is attempting to promote other alternative means of support in the finance of private sector investment.

C. Strengthening of Democracy Through Participation.

The third basic theme of the Decentralization Policy Dialogue is that decentralization provides the means for strengthening democracy through participation. Participation is defined broadly as involvement in decision making through open public meetings, departmental assemblies, municipal councils, public elections and referenda, and other means of allowing for expression of opinion and gauging public will. There are two aspects of the argument: 1) decentralization can be a "school for democracy" as pluralist participation provides experience in responsible government at levels below the national government; and 2) decentralization of decision-making contributes to the positive effects previously cited in Section IV and V, especially related to local resource recruitment, accountability and adequacy of investment planning and private investment promotion.

Decentralization of decision-making and investment management can provide a "school for democracy". At succeeding levels, from the community up, the individuals and groups involved, if given meaningful responsibility, can learn how to exercise their right to authority. For example, independent individuals and representatives from minority political parties would get opportunities they would not get if only the majority political party's candidates are selected to occupy decision-making positions at the sub-national levels. Sharing of decision making leads to the development of judgment, political self-discipline, compromise, analytical thinking, acceptance of responsibility, and evaluation of results, all part of the building of democracy. The argument does not state that control should be in one individual or group's hands even if not the majority national party but rather that it should be shared. For example community, district, and provincial level municipal councils should involve the widest possible base of participation for elections, public meetings, and any other sessions which set priorities, select investments, establish new or modify old revenue generating mechanisms, monitor implementation or evaluate results.

The same assertion is true of CORDEs and future regional governments. Due to the size of territory and population covered, these organizations may have to rely on participatory mechanisms which are representational rather than direct. Elections for departmental regional assemblies and special referenda on specific issues would be the mechanisms for participation. The assemblies would, of course, need to have full and legitimate authority over investments and other internal decisions (while obviously not impinging on

necessarily national issues of defense and foreign relations). Open and free participation would give valuable experience to all groups and individuals, improving the base of support for investment decisions and creating greater capacity for responsible and responsive government.

The reality in Peru, as described in detail in the previous sections, is different from the ideal situation just described. Municipal and community councils are probably close to that ideal, but departmental assemblies are quite far from it. They are manipulated by the central government's selected CORDE executives and by the local political party leaders of the party which controls the central government. Indications that APRA would change CORDE participatory structures to allow for departmental elections for the presidency of the CORDEs and greater representation and voice for elected officials in the departmental assemblies turned out to be premature. The APRA government is continuing the previous system of selection "al dedo" of CORDE Presidents by the President of the Republic. No regional governments have been implemented yet, but the draft Basic Law of Regionalization does include the holding of regional elections for the regional assembly. However, it would probably be wiser to withhold judgment until the Law is approved. The validity of the "School for Democracy" argument is acknowledged by many, but the reality of letting the electorate make choices which could embarrass and even seriously block central government decisions could prevent the structuring of open participation of the electorate in regional governments.

Decentralization of decision-making through effective participation also contributes to the positive effects previously cited in Section III A. and III B. First, participation in decision making can result in a greater commitment to dedicate local resources to support projects and activities. Funds, labor, and other resources are much more likely to be forthcoming if those who are called upon to supply them are given a part in decision-making and stand to benefit from whatever activity is planned. Local organizations would work much more actively to contribute and would have a precedent established for continuation of common efforts in such areas as maintenance and repair. As mentioned in III. A. , the IRD Project involved community participation in planning and implementation. Cost of projects were reduced and the beneficiaries are working hard in maintenance of those projects.

Second, accountability of decentralized institutions can be markedly improved if there is full and widespread participation. Public disclosure of investment management practices and problems is especially important. Only through such disclosure can corrective actions be identified and public appreciation and understanding of the complexities of implementation problems be established. The latter is crucial if public support and additional input of local resources were needed. The various "sunshine" laws and regulations in the U.S. are good examples of how this principle can work.

Third, decentralized investment planning and private investment promotion is improved through effective participation in decision-making of decentralized institutions. In the case of the former, planning can benefit from the ideas, desires, and needs expressed by individuals and groups living in the jurisdiction of the institutions. It also leads to greater access to local resources as participation in planning can result in readiness to

contribute to implementation. Finally, as indicated in Section III B., private investment promotion can be positively affected by participation of those who might make these investments. They can provide ideas and suggestions and they can plan their own actions with more knowledge of what contributing investments might be forthcoming from the decentralized public sector.

All three of these aspects of how participation can positively effect other benefits of decentralization are underdeveloped in Peru. The historical and current factors behind this underdevelopment are explained above. It is important to note here that there are efforts being made to link participation to decentralized decision-making in order to strengthen democracy and enhance the positive effects in resource generation, accountability, planning, and private investment promotion. PATC/CORDEs is working actively in these areas.

IV. Conclusions.- Implications for Peru and AID.

The decentralization policy work we have undertaken in FY's 84, 85 and 86 has contributed significantly, through concrete accomplishments and thoughtful analyses, to the promotion of Peruvian decentralization. The studies, papers, events, discussions, and legislation have clarified issues and initiated actions which could result in greater decentralization of public investment management, private investment promotion, and strengthening of democracy through greater participation. There remain, however, serious economic, political and social barriers to decentralization in today's Peru.

The first major conclusion is that there exists much support in and out of Lima and in the public and private sectors for decentralization. Almost all major political parties (except PPC) place high rhetorical priority on decentralization. Discussion of issues related to decentralization appear regularly in political tracts and policy declarations. Public sector agencies are currently making the first apparently genuine efforts to decrease the number of their personnel in Lima and increase authority and size and quality of staff in their offices outside of Lima. Further actions being currently taken by the public sector include: 1) the National Micro-Regional Program with its emphasis on creating and building micro-regional planning and implementation capacity; 2) the AID-INADE-DRR-PIRR implementation structure through CORDE's; 3) PATC/CORDEs decentralized policy work and technical assistance and training program; and 4) INFOM's technical assistance and training program, Municipal Development Fund, and actions to decentralize its program with municipalities. The government is also developing alternative proposals for decentralizing its development banking system. The Basic Law of Regionalization will soon be brought up for final consideration and approval by the Congress. The 1985 National Budget Law included the establishment of mechanisms for streamlining the transfer of central governments funding to decentralized organizations. All of these actions have directly benefitted from the work funded through AID's projects (IRD and DRRR) and program activities (PD+S). Through discussion, studies, and publications, ideas have been generated which have contributed to the accomplishments just listed.

There may also be some willingness on the part of the private sector to

decentralize more of its investment. Major meetings of business and producer associations often include mention of decentralization on their agenda. Recently, the Cuzco Chamber of Commerce held a regional seminar on how to increase private investment. They obtained an impressive turnout of public and private sector representatives. PATC/CORDEs is assisting CORDE/La Libertad in the preparation of a series of events on the promotion of private investment in the region of the north coast.

The second major conclusion is that, despite these indications and accomplishments, Peru remains a highly centralized economy and society. Centralization has actually accelerated in the last fifty years as Peru's vacillated between being an export oriented economy or one based on import substititions.

Indeed what has been evident has been the lack of growth of strong decentralized institutions (with some exceptions noted in Section I). Rather, the moderately autonomous JOP's and CORDE's of the 1950's and 1960's gave way to SINAMOS in the 1970's, a highly centralized organization. The ORDE's were given substantial formal autonomy but were undermined by a lack of independent funding and the outright resistance of central ministries. The 1981 - 85 CORDE's were overall quite weak and dependent on central government and that situation has changed little since the arrival in power of Alan Garcia.

Another area of evidence of increasing centralization in modern history is the increase in the proportion of Peru's industrial plant and financial markets in Lima. The commonly cited statistics show that 70-90% of industry and finance is based in Lima. If anything, this increased even more rapidly in the last fifteen years.

The third conclusion is that rural-urban and highlands-coastal migration is closely linked to Peru's ever increasing centralization. Lima's growth rate in the period 1965-80 was, on average, twice that of Peru's overall population growth rate and much higher than any other urban area in the country. Many of the highland departments experienced zero or negative population growth during the same period. It is true that Lima's growth rate slowed between 1981-85, mainly due to the severe worsening of the economic situation, notable in increasing unemployment and underemployment in Lima and decreasing public investment available for development outside of Lima.

The growth in the number of poor and marginalized people in Lima has paralleled the growth of support for various leftist parties and coalitions. They have gained support by defending the interests of the poor, especially as regards public investment in services for those people. Increases in investment for electrification, sanitation, potable water, and housing for the poor, particularly those who have migrated in recent times, is another factor in creating expectations of potential migrants that they can get these services if they migrate. In other words, a peasant in Huancavelica who is eking out his existence on half a hectare of land could think that at least he would have electricity, light and potable water, if not a job, if he joined his uncle in Villa El Salvador, a Pueblo Joven in the Cono Sur of Metropolitan Lima.

This example indicates the final aspect of the interrelatedness of

centralization and Lima-bound migration. Lack of effective investment in the highlands and, to a lesser degree, in the non-Lima coastal and jungle regions of Peru exacerbates centralization and migration. This is not to say that there is no investment in those regions, but that it has not had sufficient impact to brake the flow of human and capital resources to Lima. The working together of all these factors has produced and is producing growth of migration and concentration of resources in Lima.

A final conclusion is that, down through history to the present day, it is clear that no matter how much groups and individuals advocate decentralization when not controlling central authority, they inevitably lose interest if they gain that authority. One telling example from the nineteenth century was Mariscal Caceres who led the Peruvian resistence forces in the central Sierra. When his mostly peasant troups outlasted the Chilean army in a guerilla war, Caceres came to Lima with great promises of reform and power to the provinces. He turned out, though, to be just one more gamonal albeit one of the most important. Once installed in the Presidency, he had no further truck with the notion of decentralizing power. Another clear case was in 1919, when Leguia entered power and created equally grandiose expectations of transfer of authority and responsibility to the provinces. After a few years, they went the way of all such earlier promises. It is too early to tell, but the decentralist policy statements of the enormously popular Alan Garcia APRA government could very well follow the historic tendencies. Given the ever-increasing centralization of Peru, it becomes increasingly difficult to change that pattern. The temptations offered by using the centralized power structure may now be far too strong to permit meaningful decentralization.

These conclusions present two direct and important implications for the future of Peru and several additional implications for AID's program in Peru and, by extension, in other countries. First, a solid base of policies, institutions, and people exists to plan and implement decentralization. Sufficient research and analysis has been done to proceed to a stage of thorough-going tests of transferring power, authority and responsibility to levels below the national government. The basic themes discussed in Section III, stated one way or another, have widespread if not unanimous support in Peru. Even without implementation of regional governments, existing CORDEs and municipal goverments are legitimate decentralized public sector investment management institutions eligible for taking on larger roles. Sectoral ministries, especially the Ministry of Health, seem poised to decentralize their personnel and authority for decision making. Of course, decentralization will only work well combined with continual technical assistance, training, and financial support. Private sector groups and individuals appear to be ready to increase investment for decentralized development, once they are convinced of a reasonable opportunity for profit and the existence of a cooperative and supportive public sector.

Second, the research and other activities conducted with AID's support, strengthen the argument for further decentralization of authority and investment as necessary for the future development of the country. It is clear that increasing centralization of power, population and investment has

gone past the point of achieving economies of scale through concentration. Human, financial, and physical resources are being wasted and underutilized to an increasing degree in Peru. The decentralization of investment needed to rationally use those resources cannot be done without simultaneous transfer of authority and power in the public sector. Convincing the private sector to collaborate in decentralization cannot be done without strengthened public sector institutions, including regional governments, CORDEs, municipalities, sectoral ministries, and state development banking and other financial organizations. It will only be increasingly difficult to decentralize, if the opportunity presented to the new government to do so is not seized. It is not hyperbole to state that decentralization is not an option, it is a necessity if Peru wants to move out of its present social and economic quagmire.

The implications of the work on decentralization policy for AID's future program in Peru and perhaps elsewhere are several. First, for AID in Peru, decentralization is going to be a necessary issue which we must confront in the short and medium term. Whether we continue to provide support to decentralized public sector institutions, private sector investors and producers, private and voluntary organizations, or sectoral ministries, we must consider the promotion of decentralization as a basic operating principle. For example, while continuing to implement our program largely through sectoral ministries, we need to explore the ways to maximize decentralizalization within those organizations. It is necessary for Peru and for the success of our efforts in Peru. Our work to date has produced a tremendous wealth of experience in the areas of policy, planning, finance, and implementation which should be used to guide future efforts. Second, for AID's work in Peru and in other countries, the decentralization policy work has proven the crucial nature of decentralization in development. One of the clearest examples of the wider implications is the ground-breaking work on applying the Urban Functions in Rural Development methodology to practical development planning in Peru. Coupled with the investment prioritization and reprogramming methodologies, very important advances have been made which could be adapted and modified for use in other countries. There are many other examples of issues in the decentralization policy work done in the last three fiscal years which have worldwide relevance including: 1) public-private sector collaboration for decentralized development; 2) the adaptation of urban cadastral survey methodologies for various sizes of municipal governments; 3) in-depth experiences with participation of communities in project planning and implementation; and 4) decentralized development financing and implementation systems which have completed the largest public work program in Peruvian history.

As a final note, I want to say that the work has been extremely stimulating and rewarding. Despite the fact that promoting decentralization in Peru is comparable to the labors of Sisyphus, the quality of ideas, people, and institutions with which I have worked has made me a believer in its historical necessity for Peru and its worldwide significance.

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