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EFFECTIVE DONOR SUPPORT FOR DECENTRALIZATION:
THE PERUVIAN EXPERIENCE IN COMPARATIVE PERSPECTIVE

A.I.D. WORKING PAPER NO. 118

by

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March 1989

The views and interpretations expressed in this report are those of the author and should not be attributed to the Agency for International Development.

TABLE OF CONTENTS

	<u>Page</u>
Foreword	v
Acknowledgments	vii
Summary	viii
Glossary	xv
1. Introduction	1
1.1 Scope and Organization of the Study	2
1.2 The Concept of Decentralization	3
2. The Rationale for Decentralization: Arguments and Evidence	5
2.1 Improved Planning, Management, and Implementation Capabilities	7
2.2 Greater Governmental Responsiveness	8
2.3 Stronger Interorganizational Networks	9
2.4 Improved Mobilization and Maintenance of Resources	10
2.5 Growth With Equity	10
3. Mobilizing Effective Support for Decentralization	11
3.1 The Disparate Costs of Collective Action	13
3.2 Political Entrepreneurship and Decentralization	15
3.3 Windows of Opportunity	17
3.4 Regime Type, Governing Coalitions, and Modes of Decentralization	18
4. Design Issues in Decentralization Programs	19
4.1 Incremental Capacity Building and Institutional Change	22
4.1.1 Evidence Supporting the Incremental Capacity-Building Approach to Decentralization	23
4.1.2 The Limits of the Incremental Capacity-Building Approach to Decentralization	24
4.2 Linkages for Strengthening Capacity and Building Coalitions	27
4.3 Resources and Categorical Transfers	30
5. The Role of International Donors	34
5.1 A Donor-Decentralization Gap?	35
5.2 The Donor-Decentralization Gap in Peru	40

TABLE OF CONTENTS (cont.)

	<u>Page</u>
5.3 Bridging the Donor-Decentralization Gap: Some Insights From Peru	42
5.3.1 Moving Money and the Use of Decentralized Organizations To Implement Projects	44
5.3.2 Linkages and Donor Costs	45
5.3.3 Avoiding Donor Dependence	46
5.3.4 Project Management Units Reconsidered	48
5.4 The Challenge for International Donors	51
6. Conclusions and Implications for Future Research	53
Bibliography	

FOREWORD

As a direct participant in the unfolding of USAID/Peru's work in support of decentralization in Peru from 1983 to 1986, I feel both uniquely qualified and less than completely objective in reviewing Gregory Schmidt's work. I believe that the reader must be the final judge of the extent of this study's usefulness. I can offer commentary only from my personal perspective, which has been profoundly influenced by my experience in Peru. That perspective unabashedly views decentralization of authority, financial management, decision-making, and resource allocation as necessary to empower people who have to live with the results of programs and projects intended to benefit them.

This work examines A.I.D. support for the Peruvian Government's decentralization efforts through the Integrated Regional Development (IRD) project, the Disaster Relief, Rehabilitation, and Reconstruction (DRR) project, and Program Development and Support-funded activities. The common element in the IRD and DRR projects was their use of decentralized organizations, especially Departmental Development Corporations (CORDES), as planning and implementing agencies.

The IRD project began in 1979 as an experimental project that sought to test the viability of linking investments with institutional development in two highland departments. In 1983 its mandate was expanded to promote the institutional development of CORDES and municipalities throughout the country. Operating through CORDES in 15 of Peru's 24 departments during the 1983-1987 period, the DRR project helped the country to recover from the El Niño-related disasters of 1983 by supporting the rebuilding and rehabilitation of infrastructure, the recapitalization of poor farmers, and measures to alleviate the effects of future disasters. During the 1984-1986 period, USAID/Peru tried to link the lessons learned from these projects to more permanent institutional changes through applied research financed by Program Development and Support funds and through policy dialogue with organizations and individuals in the public and private sectors.

Schmidt's work, which is based on an extensive review of these efforts, presents a comprehensive assessment of what these projects contributed to decentralization in Peru and a thorough analysis of how they compare with decentralization experiences in other developing countries. For the reader interested in focusing quickly on major findings and their applicability to development work, the Summary provides an excellent synopsis. For the reader interested in extensive treatment of the Peruvian experience, Schmidt's case study (A.I.D. Working Paper 93, available from the A.I.D. Library, or Schmidt 1988b) offers a detailed account of Peruvian decentralization efforts and supportive A.I.D. assistance. For the reader who wants an analysis of the Peruvian experience vis-a-vis the literature on decentralization

in developing countries, the current Discussion Paper provides insightful commentary and some bold hypotheses, which are offered to guide future research.

Throughout his work, Schmidt displays an exceptional ability to relate the details of two very complex projects to broader issues. The most important lessons drawn out and analyzed by Schmidt deal with the political dynamics of decentralization in the Peruvian context and what can be generalized from that experience. He goes well beyond invocation of the need for political support, examining with keen insight the conditions and strategies conducive to creating such support.

Perhaps Schmidt's most important and original contribution is the treatment of interest group politics and the motivations affecting group and individual behavior toward decentralization. In addition, Schmidt's analysis of the role of donor organizations in the decentralization process is insightful and of particular use to the donor community. He also makes a commendable effort to address the sustainability of decentralization efforts, even though sustainability was not emphasized in either project.

It is fitting that Schmidt's work on government decentralization in Peru is being published just one year after Hernando de Soto's benchmark study of Peru's informal economy called for greater empowerment of the private sector in economic affairs. In his best-selling book, El Otro Sendero, de Soto (1987) argues persuasively that a top-heavy Peruvian Government is suffocating economic growth through overregulation of business and that effective channels for private sector input and feedback in the policy process are necessary for long-term success. Schmidt's work on governmental decentralization draws similar conclusions regarding the need to release regional and local governments from stifling central controls and to increase their accountability to the public.

In conclusion, Schmidt's work is highly relevant for those of us who seek to help governments carry out the process of economic development more efficiently and equitably. By "picking apart" the Peruvian case and analyzing lessons learned there in light of the broader experience with decentralization worldwide, he has made a substantial contribution to our understanding of the dynamics and impacts of governmental decentralization. If, with the help of this study, we can find more effective means of bringing development planning and implementation closer to the intended beneficiaries of such efforts, we will have a better chance of producing meaningful and sustainable results.

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ACKNOWLEDGMENTS

This analysis has benefited especially from conversations with the managers of the Integrated Regional Development (IRD) project and the Disaster Relief, Rehabilitation, and Reconstruction (DRR) project, David Hess and Michael Hirsh, respectively; George Baldino, Paul Dillon, Henry Izquierdo, Keith Kline, and Johannes Oosterkamp of the USAID/Peru Mission; Ray Bromley and José Garzón, both formerly affiliated with the Mission; and Arthur Mudge and Fernando Cruz-Villalba of the DRR final evaluation team. The author also learned a great deal from participation in brainstorming sessions with members of the IRD final evaluation team: Eric Chetwynd, Linn Hammergren, Ronald Johnson, Dennis Rondinelli, and Patricia Wilson Salinas. Maria Reynafarje provided important information and insights on the recent evolution of the public sector and municipal development.

In addition, David Hess, Michael Hirsh, Keith Kline, and Dennis Rondinelli provided written comments on drafts of the study at various stages. Dennis Rondinelli also gave useful advice regarding the focus of the comparative analysis, while Michael Hirsh's extensive written comments on the final draft were especially helpful.

All of this generous assistance does not imply agreement with the content or conclusions of the study, which remain the author's sole responsibility.

SUMMARY

The Center for Development Information and Evaluation (CDIE) sponsored an evaluation and comparative analysis of recent Peruvian decentralization initiatives and of Agency for International Development (A.I.D.) support for these initiatives through the Integrated Regional Development (IRD) project, the Disaster Relief, Rehabilitation, and Reconstruction (DRR) project, and Program Development and Support-funded activities. The results are presented in three studies: A.I.D. Working Paper No. 93 (Schmidt 1988b; available through the A.I.D. Library), this Discussion Paper, and a book (Schmidt 1988a).

The Working Paper analyzes the historical evolution of Peruvian decentralization initiatives, describes the objectives and designs of the IRD and DRR projects and evaluates their direct impacts on decentralized organizations, and reviews USAID/Peru's attempts to link project assistance to institutional reform.

Drawing on the Peruvian case study presented in the Working Paper, the current Discussion Paper critically examines some key issues and working hypotheses identified in the recent literature on decentralization in developing countries. The richness of the Peruvian case also affords many opportunities to formulate alternative and supplementary hypotheses, which could help advance understanding of various decentralization issues. This study relates evidence on the impacts of decentralization in Peru to the larger literature, addresses the mobilization of support for decentralization, critically examines some key design issues treated in the literature, and reviews the role of international donors in supporting decentralization.

The book provides the most comprehensive treatment of the topic, containing both the case study of the Working Paper and the comparative analysis of the Discussion Paper.

These works shed light on a number of interrelated issues: (1) the impacts of decentralization policies, (2) the linking of project assistance to institutional reform, (3) the mobilization of support for decentralization, (4) the balancing of capacity building and institutional change, (5) the use of interorganizational linkages for multiple objectives, (6) the design of financial transfers, and (7) the ability of international donors to effectively support decentralization.

The Impacts of Decentralization Policies

The major legacies of the IRD and DRR projects are decentralized planning and implementation capabilities that are more flexible, efficient, responsive, and innovative than those of the central Government of Peru. The projects also enhanced the abilities of decentralized organizations to mobilize and manage resources, strengthened interorganizational networks at the regional and local levels, reinforced the private sector, made positive contributions to Peru's economic development, and reached economically and socially disadvantaged groups.

These positive impacts not only demonstrate that there is a strong rationale for decentralization in Peru, but they also add to the small but growing body of empirical evidence in favor of decentralization in developing countries.

Linking Project Assistance to Institutional Reform

Notwithstanding the relative successes of the IRD and DRR projects, their impacts would probably have been only temporary and limited if national constraints hindering the development of decentralized institutions had not been loosened. USAID/Peru had considerable success in linking the IRD and DRR project experiences to institutional reforms furthering decentralization. Lessons learned from project experience gave rise to applied research on decentralization issues relevant to the policy dialogue. Proposals developed through this research were articulated by a decentralist lobby that in large part grew out of the IRD and DRR project experiences. Organizations and personnel affiliated with A.I.D. projects played key roles in winning budgetary reforms that give decentralized organizations more predictable funding and greater autonomy. They were also influential in shaping the organization and operation of microregions and in drafting the law that outlines the new system of regional governments.

This experience demonstrates that donor agencies can play a critical catalytic role in securing reforms that increase the viability of decentralized organizations while respecting the self-determination of recipient countries. It also shows that effective donor support for institutional reforms favoring decentralization can be a logical outgrowth of project experience, although the link is not likely to be made within the bounds of the traditional project mechanism.

Mobilizing Support for Decentralization

Analysis of the Peruvian case casts doubt on the recent emphasis on political commitment as a major determinant of decentralization. Although almost all political actors in Peru support decentralization in principle, few, if any, are willing to invest significant amounts of political capital in decentralization initiatives. By applying some elementary concepts from the "public choice" school of policy analysis to the Peruvian case, it is possible to derive hypotheses that may help to resolve this paradox and similar gaps between objectives and results in other developing countries.

Hypothesis 1: Collective action is usually much easier for opponents of decentralization than for its potential beneficiaries. The costs and benefits of collective action for and against decentralization are influenced by the organization and scope of the central government; the importance and alignment of ethnic, religious, and social cleavages; and linkages to other issues.

Hypothesis 2: In competitive political systems, "political entrepreneurs" will seldom invest in the implementation of decentralization policies, which typically provide relatively low returns in the form of political support while entailing high political costs.

Hypothesis 3: Effective political support for decentralization is most likely to be mobilized during "windows of opportunity," when extraordinary events or factors alter the normal calculations of political actors in a direction more favorable to decentralization.

Hypothesis 4: Authoritarian regimes are most likely to support deconcentration, whereas democratic regimes are likely to place at least rhetorical emphasis on devolution. (For definitions of these terms, see Section 1.2.)

Hypothesis 5: Regardless of regime type, the ability of a government to support decentralization is strongly influenced by the strength and programmatic unity of its supporting coalition.

Balancing Capacity Building and Institutional Change

A.I.D.'s experience in Peru suggests that the incremental capacity-building approach to decentralization emphasized in the recent literature is fundamentally sound but incomplete. Capacity-building strategies cannot be designed without reference to the broader political system. In highly centralized political systems such as Peru's, capacity-building efforts soon face limitations that can be changed only through institutional reform at the center. From the Peruvian experience emerge several hypotheses that may shed light on relationships between capacity building and institutional change:

Hypothesis 6: In highly centralized political systems, and perhaps in other contexts as well, technical assistance is best designed and implemented on a rolling basis, as central constraints and the needs of decentralized organizations are better understood.

Hypothesis 7: In highly centralized political systems, incremental capacity building and efforts to achieve institutional reform are both necessary and potentially reinforcing, although simultaneous pursuit of both objectives requires considerable management skill.

Hypothesis 8: In highly centralized political systems, the role of the donor in insulating technical assistance efforts from central political and bureaucratic pressures is crucial to maintaining the integrity of these efforts.

Hypothesis 9: Since capacity building and institutional reform are likely to follow different rhythms, the long-term time perspective required by the incremental capacity-building approach must be supplemented with an understanding of and sensitivity to political cycles and other opportunities for reform.

Using Interorganizational Linkages for Multiple Objectives

The recent literature on decentralization has emphasized an interorganizational approach. Central organizations must be reoriented and strengthened to better support decentralization, while appropriate interorganizational linkages should be used to build on strengths and to compensate for weaknesses at different levels. The Peruvian case provides significant evidence to support such an approach, while suggesting a strategy for achieving reorientation at the center. The Peruvian experience also demon-

strates that interorganizational linkages can serve other functions while building capacity. Two hypotheses emerge from this experience:

Hypothesis 10: In highly centralized political systems, the most effective way of establishing or reinforcing central organizational capacities to assist decentralized organizations is by working through project-related units within key national-level organizations.

Hypothesis 11: Interorganizational linkages formed primarily for the purpose of addressing administrative weaknesses also can be used (1) to increase the access of decentralized organizations to political authority within existing legal parameters, (2) to effectively mobilize support for institutional reforms that favor decentralization, and (3) to spread innovations generated through project experience at the periphery.

Designing Financial Transfers

The recent comparative literature argues that financial transfers, even if modest and supervised from the center, are a key catalyst for effective decentralization. A.I.D. project experience in Peru confirms this view, while providing insights regarding the categorical transfer mechanism employed under both the IRD and DRR projects. Several hypotheses on this topic can be extrapolated from the Peruvian case:

Hypothesis 12: During the initial stages of decentralization, categorical transfers from central project funds to decentralized organizations can be a practical and effective way to increase the role of decentralized organizations in resource allocation. Among the potential advantages of this mechanism are (1) political practicality, (2) predictability, (3) versatility, (4) congruence with the incremental capacity-building approach to decentralization, and (5) stimulation of interorganizational coordination.

Hypothesis 13: Central project funds must be administered by an agency whose organizational objectives and procedures are congruent with the project and the objective of assisting decentralized organizations.

Hypothesis 14: A prerequisite for successful use of categorical transfers is consensus on clear, easily understood criteria that can be made operational.

Improving Donor Support for Decentralization

The recent comparative literature on decentralization maintains that assistance from international donors is often crucial to decentralization efforts--a conclusion strongly supported by this analysis of A.I.D. experience in Peru, which also provides additional rationales for donor involvement. But much of the more general literature on foreign assistance argues that organizational imperatives of major donor agencies severely constrain their abilities to effectively support the development of decentralized institutions.

The current analysis suggests that there are potential congruities and synergisms, as well as tensions, between the needs of donors and those of decentralized organizations. Working through decentralized organizations may imply benefits, as well as costs, to donor agencies. Appropriate project design may allow donors to transcend some of the apparent trade-offs between effective implementation and institution building. The following hypotheses are posited concerning project implementation and the development of decentralized institutions:

Hypothesis 15: Where project implementation is likely to be hindered by slow or unpredictable resource transfers through the central government, it is faster to work through decentralized organizations that receive resources directly from the donor.

Hypothesis 16: Categorical transfers from project funds can be used not only to facilitate the incremental capacity-building approach to decentralization but also to "move money" in large amounts.

Hypothesis 17: The threat of the money-moving syndrome to institutional development varies considerably by the type of task and project.

Hypothesis 18: Linkages between supportive national agencies and decentralized organizations can drastically lower costs to the donor agency in terms of staff time.

Hypothesis 19: Where there are alternative channels for implementation, direct financial ties between the donor and decentralized agencies can increase the donor's flexibility and lessen the dangers of becoming captive to any one organization.

Hypothesis 20: In highly centralized contexts, project management units within permanent decentralized agencies can be used to facilitate both institution building and implementation objectives.

Hypothesis 21: The long-term institutional impacts of project management units are likely to be greatest when the units are established within agencies with broadly congruent goals rather than merged into existing agencies.

Hypothesis 22: If higher salaries are needed to attract superior personnel to a project management unit, organizational jealousies will be lessened if salary differentials are limited to a few key persons.

Given the importance of appropriate design to not the feasibility and effectiveness of donor support, a new premium must be placed on developing and using donor capabilities for institutional analysis. Donors must (1) find ways of building support for decentralized organizations into a variety of projects and of linking this support to institutional reform; (2) take a more active role in building political support for institutional reform, while respecting the political traditions of the recipient country; and (3) ensure that the long-term objective of decentralization does not become hostage to short-term fads.

GLOSSARY

A.I.D.	- Agency for International Development
CORDES	- Departmental Development Corporations
DRR project	- Disaster Relief, Rehabilitation, and Reconstruction project
FNDE	- National Fund for Economic Development
GAO	- U.S. General Accounting Office
GRR	- Rehabilitation and Reconstruction Division
IIADER	- Institute of Applied Research for Decentralization
INADE	- National Development Institute
INAP	- National Public Administration Institute
INP	- National Planning Institute
IRD project	- Integrated Regional Development project
PATC-CORDES	- Technical Assistance and Training Program for Departmental Development Corporations
PEDMEES	- Special Project for the Development of Microregions in Economic and Social Emergency
PIRR (unit)	- Comprehensive Rehabilitation and Reconstruction Program--project management units under the DRR project
Plan MERIS	- Improved Water and Land Use in the Sierra project
PMS	- Sierra Microregional project
PRODERIN(s)	- Project for Integrated Regional Development--project management units under IRD project
RWSES	- Rural Water Systems and Environmental Sanitation project
U.N.	- United Nations
USAID	- U.S. Agency for International Development Country Mission

1. INTRODUCTION

In recent years, decentralization has become a central concern in the development community. Over the last 15 years, a number of developing countries have attempted significant decentralization initiatives.¹ Also, since the mid-1970s, as major international donors have searched for ways to support more egalitarian, participatory, and self-sustaining development efforts, they have displayed increasing interest in various modes of decentralization in developing countries. During the 1980s, a wide range of donor agencies--including the Commonwealth of Nations, various United Nations (U.N.) organizations, the Agency for International Development (A.I.D.), and the World Bank--have sponsored significant research or conferences on decentralization (see Conyers 1983, 97-98; and 1984, 191-192). This new wave of comparative research has made considerable progress in advancing knowledge of the subject, especially with respect to design issues.²

A.I.D. policy states that "investments in national public institutions must be balanced both by the establishment of decentralized institutions at the regional and local levels and by encouragement to the private sector" (A.I.D. 1983a, 4). From 1979 to 1987, A.I.D. supported decentralization efforts of the Peruvian Government through two major projects--the Integrated Regional Development (IRD) project and the Disaster Relief, Rehabilitation, and Reconstruction (DRR) project--as well as through Program Development and Support-funded activities. These efforts have not only significantly improved the performance of decentralized agencies in Peru, but they have also contributed to significant institutional reform at the national level.

Analysis of Peruvian decentralization initiatives and A.I.D.'s support of these initiatives is worthwhile for five major reasons. First, the experiences of the IRD and DRR projects provide significant evidence of a strong rationale for decentralization in Peru--a rationale that is consistent with the expressed objectives of recent Peruvian governments and with majority public opinion. Second, these projects demonstrate that it is possible for donors to link decentralized project implementation to reforms that are necessary for the long-term develop-

¹The collection of articles in Cheema and Rondinelli (1983) provides the best overview of recent decentralization experiences in different areas of the developing world.

²Among the most notable contributions to this literature are Cheema and Rondinelli (1983), Leonard and Marshall (1982), Rondinelli and Nellis (1986), and Rondinelli, Nellis, and Cheema (1984).

ment of decentralized organizations in many countries. Third, review of Peru's long history of experiments with decentralization sheds much light on the difficulties of mobilizing political support for decentralization--an issue that is poorly understood in the recent comparative literature on decentralization. Fourth, analysis of the IRD and DRR projects provides many insights regarding design issues that have been the central concern of the recent comparative literature. Fifth, contrary to what might be predicted on the basis of much recent writing on foreign assistance, design features incorporated in A.I.D. projects in Peru facilitated the development of decentralized institutions while helping A.I.D. meet its organizational needs.

1.1 Scope and Organization of the Study

In 1987 the Center for Development Information and Evaluation (CDIE) sponsored a case study and comparative analysis of A.I.D. experience with decentralization in Peru. The case study is being disseminated as A.I.D. Working Paper No. 93 (Schmidt 1988b) and is available through the A.I.D. Library. The current Discussion Paper presents the comparative analysis. Both the case study and comparative analysis are also contained in a book published by a major commercial press (Schmidt 1988a).

The case study draws on extensive historical research, project documentation and evaluations, and interviews with key participants to examine in some detail Peruvian decentralization efforts and supportive A.I.D. assistance. It provides background on decentralization issues and initiatives in Peru; describes the two A.I.D. projects; evaluates direct project impacts on decentralized organizations; and analyzes the USAID/Peru Mission's conscious strategy of linking project experience to institutional reform.

The current Discussion Paper draws on the arguments and evidence presented in the Working Paper³ and book to critically examine some key issues and working hypotheses identified in the recent literature on decentralization in developing countries and to make suggestions regarding the direction of future policy and research. This study summarizes available evidence on the impacts of decentralization in Peru, draws on the Peruvian case and

³In order to substantiate arguments and to minimize repetition, extensive references to the Working Paper (Schmidt 1988b) are included. Readers are invited to consult relevant sections of the Working Paper or book (Schmidt 1988a) on points of special interest.

the public-choice school of policy analysis to develop and discuss some hypotheses concerning the mobilization of support for decentralization, critically examines key design issues in light of the Peruvian case, and analyzes factors influencing the capabilities of international donors to support decentralization.

The remainder of this section presents a typology of decentralization, which distinguishes four major modes of decentralization and provides a definitional context for the analysis that follows. Section 2 summarizes available evidence on the direct institutional and developmental impacts of the IRD and DRR projects, arguing that the Peruvian case provides important empirical evidence to support many of the claims made in the literature about the benefits of decentralization. Section 3 attempts to address a major deficiency in the current literature by generating a series of hypotheses concerning the mobilization of political support for decentralization policies. Section 4 argues that the Peruvian experience with decentralization both confirms much of the conventional wisdom about decentralized design and exposes the limits of this wisdom. This section also posits and discusses some hypotheses related to design issues. Section 5 argues that some of the design features employed by the USAID Mission in Peru can be used to address concerns that have been raised in the broader literature about the ability of international donors to support decentralization. Section 6 presents a short conclusion and addresses the implications of the study for future research on decentralization.

1.2 The Concept of Decentralization

Although decentralization is an institutional reform frequently proposed for third world countries, it has proven to be an elusive topic for both practitioners and analysts of development. Studies of centralization and decentralization are overwhelmingly descriptive, monographic, and episodic, often treating the spatial distribution of "power" as an end in itself.⁴ Conceptual confusion is one of the primary culprits for this poor state of the literature. "Decentralization" means different things to different people, who may support different modes for different reasons.

Thus, before proceeding with the analysis, it is necessary to establish some common definitions. The term "centralization"

⁴For useful assessments of the literature, see Beyna et al. (1977), Fesler (1968, 376), Leonard and Marshall (1982, xi), and Rondinelli, Nellis, and Cheema (1984, 70).

has a clear and stable meaning, referring to the concentration of powers in a single head or center. But its antonym "decentralization" is actually an umbrella term for distinct and even conflicting concepts: one can move away from "centralization" on several different dimensions. Political authority, administrative staff, public finance, and economic activity are just a few important dimensions that may be relatively centralized or decentralized. The typology of decentralization chosen ultimately depends on the task at hand (Leonard 1982, 27-29).

The most systematic research on the topic to date distinguishes four major modes of decentralization:⁶

1. Deconcentration of administrative responsibilities or resources to lower levels of the central government
2. Delegation of responsibilities or resources for specific functions to public organizations outside the regular bureaucratic structure--such as public corporations, regional development agencies, project management units, and other parastatal organizations
3. Devolution of legal powers or resources to subnational governmental units substantially outside the direct control of the central government
4. Privatization of governmental functions or responsibilities involving private voluntary organizations, cooperatives, or private enterprise

The typology outlined above, which is followed in this study, is somewhat different from usage in Peru and other Latin American countries.⁶

⁶For discussion of these modes, see Cheema and Rondinelli (1983, 18-25), Rondinelli and Nellis (1986, 5-10), or Rondinelli, Nellis, and Cheema (1984, 9-26).

⁶The Spanish term "desconcentración" is similar to its English cognate "deconcentration"; however, the Spanish term "descentralización" has approximately the same meaning as "devolution." Further distinctions among different types of descentralización are often made: descentralización política generally refers to the granting of legal personality to a subnational unit; descentralización financiera refers to efforts to transfer resources to lower levels or to create greater capabilities for resource generation at those levels; and descentralización económica refers to the establishment of public firms, a usage similar to "delegation" as defined above. See Bustamante Belaunde (1986, 265-277) and Garzón (1986, 15-17).

The four modes identified in this typology are "ideal types," which are often mixed in practice. For example, recent decentralization initiatives supported by USAID/Peru have primarily supported Departmental Development Corporations (CORDES), which include representatives from ministerial field offices, elected municipal officials, and local interest groups. Moreover, CORDES have been established as transitional organizations leading to the formation of regional governments, which are to embody primarily the principle of devolution. The USAID Mission has already supported this last mode of decentralization by providing technical assistance to popularly elected municipal governments under the IRD project.

The typology described here may be further refined in accordance with the objective of the analysis. The scope of decentralization within the public sector is of particular importance to the current study. Deconcentration and devolution both may be relatively general or specific (see Leonard 1982, 29-34).

1. General deconcentration (also called prefectorial deconcentration) occurs to the extent that a variety of tasks are deconcentrated to a horizontally integrated administrative system.
2. Functional deconcentration (also called ministerial deconcentration) occurs to the extent that specific tasks are deconcentrated to the field units of a particular ministry or agency.
3. General devolution occurs to the extent that a variety of tasks are devolved to multipurpose representative bodies--generally speaking, local or regional governments.
4. Functional devolution occurs to the extent that specific tasks are devolved to specialized representative organizations, such as school boards or water-user associations.

2. THE RATIONALE FOR DECENTRALIZATION: ARGUMENTS AND EVIDENCE

Many analysts of development administration have argued or suggested that decentralized organizations in the public and private sectors may facilitate various development objectives:

- More flexible and innovative planning and implementation based on better knowledge of regional and local conditions

- Alleviation of managerial overload at the central level
- Greater governmental responsiveness
- Reinforcement of nongovernmental organizations and private enterprise
- Better horizontal coordination among governmental units and between the public and private sectors
- Mobilization of untapped resources at the regional or local level
- More efficient and less expensive provision of goods and services
- Better maintenance of investments in economic infrastructure
- More cost-effective achievement of development goals
- Greater popular participation in the development process, especially among disadvantaged ethnic and social groups
- Enhancement of such broader political goals as national unity and stability⁷

Thus, decentralization is closely related to most of the major concerns emphasized in the development community over the past decade: the design of more egalitarian development strategies employing appropriate technology; popular participation as a means and an end in the development process; the strengthening of private voluntary agencies, local organizations, and private enterprise; debureaucratization; and the use of a "learning process" approach to development planning and implementation.

Actual evidence to support these propositions, especially those regarding administrative and economic efficiency, is fragmentary. This empirical gap reflects both the limited extent to which decentralization policies have actually been implemented and the difficulty of generalizing about different modes of decentralization, which often have incommensurable objectives, in varying contexts. Nevertheless, evidence is slowly accumulating

⁷For a synopsis of arguments in favor of decentralization, see Cheema and Rondinelli (1983, 15-16) and Rondinelli (1981, 135-136), from which most of this list was drawn.

that at least some decentralization initiatives have indeed facilitated the realization of some of the objectives listed above (Rondinelli and Nellis 1986, 18-19).

Although constrained by the continued importance of central structures and processes, CORDES and other decentralized organizations in Peru that have been supported by A.I.D.'s IRD and DRR projects have achieved positive results in several areas. These positive impacts not only demonstrate that there is a strong rationale for decentralization in Peru, but they also add to the growing body of empirical evidence in favor of decentralization.

2.1 Improved Planning, Management, and Implementation Capabilities

Perhaps the most impressive evidence from the Peruvian case is that decentralization can contribute to the development of more flexible, efficient, responsive, and innovative planning and implementation capabilities.

Central ministries and agencies in Peru typically plan, program, and implement investments and policies from the top down, with little reference to local variability. Regional planning, when it has been undertaken, has almost always been a formalistic and bureaucratic exercise unrelated to resource allocation.

The IRD project demonstrated that it is possible to create viable regional planning capabilities based on local human resources, simple analytic techniques, and data on local conditions. The project also achieved methodological breakthroughs that can help decentralized organizations transcend the artificial dichotomy between "technical" and "political" decision-making (Schmidt 1988b, Sec. 3.2.3). In the predictable program context provided by the DRR project, disaster units within the CORDES were able to develop more flexible styles of management (Schmidt 1988b, Sec. 3.1).

Of course, the quality of human resources at the regional or local level strongly influences the viability of decentralized planning and implementation. Even within Peru there were marked differences between relatively developed and underdeveloped regions. Nevertheless, the Peruvian case suggests that low levels of education or technical skills in peripheral areas seldom, if ever, justify perpetuation of centralization. Under both A.I.D. projects, technical assistance helped to significantly upgrade human resources and increase the administrative and technical capabilities of decentralized organizations. To fill any remaining critical gaps, these decentralized organizations relied on

supportive linkages and process capacities⁸ to obtain the necessary services from other institutions (Schmidt 1988b, Sec. 3.2). Moreover, decentralization policies can initially emphasize the tasks that are easiest to handle at subnational levels and then transfer additional responsibilities as the capabilities at these levels are increased (see Sec. 4.1 below).

Despite numerous problems attributable largely to central constraints, the implementation records of CORDES and other decentralized organizations under the IRD and DRR projects compare very favorably with those of central agencies implementing similar types of donor-supported projects (see Schmidt 1988b, Sec. 3.3.3). Most components financed by the DRR project--the largest project undertaken in Peru by A.I.D.--were completed within 3 years of the signing of the project agreement. This is an extraordinary achievement, given the scale of the project, the number of components and activities, and the relative inexperience of CORDE personnel. In contrast, similar projects undertaken with central agencies in Peru have suffered serious shortcomings in implementation, hampered by slow movement of funds through the central bureaucracy, excessive red tape, and over-centralization of authority. For example, during the disaster-recovery experience, Peru lost some \$30 million in funding from the Inter-American Development Bank and the World Bank because of inadequate coordination among central agencies in allocating counterpart funds and the failure of some central ministries to satisfy conditions precedents. The DRR project's final evaluation team concluded that the performance of CORDES under the project was noticeably stronger than that of central ministries in implementing disaster-related components financed by multilateral agencies (Checchi 1987, 21).

2.2 Greater Governmental Responsiveness

In Peru, departmental-level agencies outside the ministerial hierarchies were more responsive to local needs and priorities than were central agencies and ministries organized along sectoral lines.

Most IRD components, which were initially implemented by departmental-level agencies called PRODERINS (Project for Integrated Regional Development) and later by CORDES, began as community initiatives. Beneficiaries of IRD rural road and irriga-

⁸Process capacity is the ability to obtain critical services from other institutions instead of developing an internal capacity to provide them (see Bremer 1984).

tion components gave high marks to the implementing agencies for completing components and fulfilling their promises (Schmidt 1988b, Sec. 3.3.1). In contrast, beneficiaries of electrification components, which suffered from long delays caused by central agencies, gave considerably lower evaluations (Schmidt 1988b, Sec. 3.3.3).

The CORDES along the north coast performed heroically during and immediately after the 1983 flood disaster. Under the DRR project, CORDES throughout the country were generally responsive to the needs of their respective departments during reconstruction and rehabilitation (Schmidt 1988b, Sec. 3.3.2). Indeed, the National Planning Institute's program for reconstruction and rehabilitation was essentially a compilation of proposed disaster-related components that had been identified by CORDES (Schmidt 1988b, Sec. 2.3.2).

2.3 Stronger Interorganizational Networks

A.I.D.-supported efforts in Peru also provide some evidence that devolution and deconcentration can strengthen nongovernmental organizations and foster or reinforce organizational networks at the regional and local levels.

For example, the IRD project reinforced community organizations by giving them roles in component selection, implementation, and maintenance; served as a catalyst for cooperation among different communities; and strengthened linkages between CORDES and municipalities (Schmidt 1988b, Sec. 3.5.1). The DRR project appears to have strengthened private voluntary organizations and improved their working relationships with CORDES (Schmidt 1988b, Sec. 3.5.2). Although Peru's sectorally defined governmental structures limit the potential for horizontal coordination, some CORDES have been able to strengthen their working relationships with the field offices of central ministries and agencies, thanks to the DRR project and the policies of the current government (Schmidt 1988b, Sec. 4.2).

Both A.I.D. projects reinforced linkages to the private sector through contracting. The IRD project also stimulated incipient efforts to promote greater collaboration between the public and private sectors (Schmidt 1988b, Sec. 3.5.3).

2.4 Improved Mobilization and Maintenance of Resources

The Peruvian experience also suggests that decentralized organizations have some comparative advantages in mobilizing and managing resources. Under the IRD project, decentralized organizations stimulated substantial contributions of local resources during construction activities (Schmidt 1988b, Sec. 3.4.1). Moreover, by consulting with local inhabitants, encouraging local resource contributions, and helping to develop a local organizational capability during the construction phase, the IRD project appears to have facilitated relatively successful community-based maintenance activities as well (Schmidt 1988b, Sec. 3.4.4). Although national legislation and regulations continue to severely constrain the ability of CORDES to recover investments, some corporations have begun to make assessments for improvements and to charge user fees (Schmidt 1988b, Sec. 3.4.3).

2.5 Growth With Equity

Both of the A.I.D. projects undertaken in collaboration with the CORDES contributed to Peru's economic development and reached economically and socially disadvantaged groups.

The infrastructure components of the IRD project benefited two departments in the less developed sierra region (Schmidt 1988b, Sec. 3.6.1). IRD-sponsored irrigation components contributed to greater agricultural and livestock production by increasing the predictability of water supply, thus facilitating increases in the area under cultivation, crop yields, and number of crops per year. IRD road components facilitated more efficient and economical transportation of farm production and other goods, stimulated commercial activity, and provided rural communities with access to improved or additional services.

In the flood-ravaged departments of the north, CORDES applied developmental criteria to establish priorities for reconstruction components. With assistance from the DRR project, the damaged economic infrastructure on which agricultural production and distribution depend was rapidly restored (Schmidt 1988b, Sec. 3.6.2). The DRR project also reached the southern sierra, the poorest area of Peru, which had been stricken by drought. In this region, the project was generally successful in providing the relief and rehabilitation activities necessary for the future development of some of the most deprived people in the developing world. The project's fast-track approach, however, limited the success of its most developmentally oriented components in the south.

3. MOBILIZING EFFECTIVE SUPPORT FOR DECENTRALIZATION

One of the few areas of consensus in the comparative literature on decentralization is on the wide gap between objectives and results (see, for example, Mathur 1983, 69; Nellis 1983, 171; and Rondinelli 1981, 134). "In most cases, central governments initiated, introduced, and heavily publicized decentralization policies only to see them falter during implementation" (Cheema and Rondinelli 1983, 297). While frequently attributing failures to implement decentralization policies to insufficient "political commitment," "political support," or "political will" (see Rondinelli and Nellis 1986, 15, and Rondinelli, Nellis, and Cheema 1984, 47-51), the literature sheds little light on why these are so frequently lacking. On the one hand, these terms tend to be used in a shallow psychological sense, detached from considerations of the costs, risks, and trade-offs of decentralization policies. Thus, some of the leading experts in the field have complained of a kind of "schizophrenia" among elites in developing countries that sometimes allows decentralized organizations to assume broad, formal powers without adequate financial resources and personnel (see Cheema and Rondinelli 1983, 297, or Rondinelli and Nellis 1986, 15-16). On the other hand, most discussion of the potential benefits and costs of decentralization is cast at the level of the political system, rather than from the perspectives of the political actors involved. Although such systemic analysis is useful for assessing the comparative advantages of various modes of decentralization, it is inappropriate for understanding patterns of support, opposition, and ambivalence to decentralization.

The case study of Peru (Schmidt 1988b) demonstrates the utility of examining the costs, benefits, and trade-offs that accompany decentralization policies from the point of view of the actors involved. Only through this approach can the paradox of decentralization in Peru be resolved: that many important political actors are committed to decentralization in principle but do not support it in practice. Given the gap between objectives and results in other developing countries, this paradox does not seem to be peculiarly Peruvian. It follows that analyses of decentralization in other countries should pay closer attention to the calculations of relevant political actors rather than focusing solely on the purported benefits or costs to the political system as a whole. Such an approach may lead to policy-relevant theories for identifying factors that influence the calculations of political actors and to strategies for more effectively mobilizing support for decentralization.

Although theory building is well beyond the scope of the current study, it is possible to derive illustrative hypotheses by applying some elementary concepts from the public-choice school of policy analysis to the Peruvian case.

Hypothesis 1: Collective action is usually much easier for opponents of decentralization than for its potential beneficiaries. The costs and benefits of collective action for and against decentralization are influenced by the organization and scope of the central government; the importance and alignment of ethnic, religious, and social cleavages; and linkages to other issues.

Hypothesis 2: In competitive political systems, "political entrepreneurs" will seldom invest in the implementation of decentralization policies, which typically provide relatively low returns in the form of political support while entailing high political costs.

Hypothesis 3: Effective political support for decentralization is most likely to be mobilized during "windows of opportunity," when extraordinary events or factors alter the normal calculations of political actors in a direction more favorable to decentralization.

Hypothesis 4: Authoritarian regimes are most likely to support deconcentration, whereas democratic regimes are likely to place at least rhetorical emphasis on devolution.

Hypothesis 5: Regardless of regime type, the ability of a government to support decentralization is strongly influenced by the strength and programmatic unity of its supporting coalition.

Using examples from the Peruvian case, this section discusses these hypotheses,⁹ and where possible, speculates on conditions that might influence their range of applicability.

⁹It should be noted that these hypotheses address the question of how centralized structures might be changed, rather than the impacts of such structures. For an original and insightful effort to address the latter issue from a public-choice perspective, see Thomson, Connerley, and Wunsch (1986).

3.1 The Disparate Costs of Collective Action

It is well established in the literature that various modes of decentralization are usually opposed by those in the central bureaucracy who stand to lose authority. The patterns encountered in the Peruvian case study are consistent with those found in other developing countries. Line ministries, for example, usually oppose both general deconcentration and general devolution but may be willing to support some form of functional deconcentration within their sector--or to "dump" unwanted responsibilities on decentralized organizations without providing commensurate resources. The Finance Ministry, however, is not that concerned with deconcentration or devolution of authority per se but wants to tightly control the transfer of resources to decentralized organizations and to prevent these organizations from acquiring significant taxing powers. National agencies in charge of uniform administrative regulations resist reforms that exempt decentralized organizations or increase their discretion.

Less obvious is why central ministries and other actors opposed to decentralization usually prevail, even when there is broad support for decentralization among potential beneficiaries and political parties, as is the case in Peru. Mancur Olson has argued convincingly that small groups have an organizational advantage over larger ones in obtaining collective goods because the share of benefits declines as the size of the group increases (1965). This argument can be extended to shed much light on why opponents of decentralization are usually successful. Not only is the bureaucratic elite in central ministries much smaller than the group comprising the many people who stand to be better served by the establishment of decentralized political organizations, but the former group is strategically placed and linked through mechanisms such as the cabinet, whereas the latter group is dispersed throughout the country and can coordinate its actions only at high cost. Moreover, the costs of losing current authority are quite apparent to central bureaucratic elites, whereas any benefits from decentralization are much less tangible to the provincial population and will only be obtained in the future. However, provincial actors may develop a vested interest in decentralized organizations if these can be established.

These considerations may explain why groups opposing decentralization usually prevail over potential beneficiaries. Nevertheless, several factors may affect the costs and benefits of collective action at the center and on the periphery.

First, the organization and scope of the central government affect the costs and benefits of collective action by central bureaucratic elites. During the 1956-1968 period, the fragmented

character of the Peruvian state hindered collective action among bureaucratic elites, who in any case had little at stake given the limited administrative penetration of the central government into the provinces at that time (Schmidt 1988b, Sec. 1.3.1). Since 1968 the more integrated structure of the state has facilitated central bureaucratic resistance to decentralization, while the expansion of the central ministries into the provinces makes general devolution or general deconcentration a greater threat to central bureaucratic elites (Schmidt 1988b, Secs. 1.3.2, 1.3.3, and 1.4.1).

Second, the organization and scope of the central government also influence the costs of collective action by groups on the periphery. When centralized structures and processes are established, as in Peru after 1968, they encourage political behavior that reinforces and perpetuates the system.¹⁰ Political actors on the periphery are reluctant to invest time and resources to deal with decentralized organizations whose scope of action and efficacy are severely limited by national legislation and regulations. Similarly, when decentralized organizations lack autonomy, incentives for meaningful negotiation at subnational levels are reduced because any decision reached can be overturned. Indeed, groups in the minority on a given decision have an incentive to appeal to central actors or organizations, thereby undermining the integrity of the decentralized organization (Schmidt 1988b, Sec. 1.4.1).

Third, the costs of collective action on the periphery are influenced by the importance and alignment of ethnic, religious, and social cleavages. Collective action is likely to be especially difficult in countries like Peru, where political groups generally have not been organized along ethnic or regional lines (Schmidt 1988b, Sec. 1.2). Where major ethnic cleavages fall along regional lines, as in many African countries, the costs of collective action among potential beneficiaries of decentralization may be reduced, although this factor also increases the risk of national disintegration.

Fourth, peripheral actors find it less costly to support decentralization when this objective is closely linked to other goals. However, both opportunities and risks may be increased by linking decentralization to other issues. On the one hand, issue linkage may greatly enhance the possibilities of mobilizing support for decentralization on the periphery during specific his-

¹⁰While the self-perpetuating character of centralism is a theme in the comparative literature on decentralization, it is often treated at a psychological level, independently of incentive structures (see Rondinelli, Nellis, and Cheema, 1984, 73).

torical periods. For example, in Peru, the regional movements of the 1920s and early 1930s and the regional popular fronts of the late 1970s and early 1980s supported political and administrative decentralization primarily as a means to other objectives (Schmidt 1988b, Secs. 1.2 and 1.4). On the other hand, political or administrative decentralization may be the most expendable of the various demands by peripheral actors. Thus, during the 1930s, commercial and middle-class sectors in southern Peru gradually dropped their demands for political and administrative decentralization as the policies of the central Government tilted in their favor. Similarly, during the late 1970s and early 1980s the demands of the regional populist fronts were largely defused by strategic policy concessions from the center (see, especially, Garzón 1986, 170-188).

3.2 Political Entrepreneurship and Decentralization

One potential solution to the problem of the high cost of collective action is the provision of public goods by political entrepreneurs in exchange for support (see, especially, Frohlich and Oppenheimer 1978, Chap. 4). Organizations provide channels for collective action and can provide public goods; indeed, some analysts suggest that certain kinds of organizations possess some of the characteristics of public goods (see, in particular, Uphoff 1986, 14-16). Given these similarities, political entrepreneurs might be expected to support the establishment of decentralized governmental organizations through devolution or deconcentration in exchange for votes. Indeed, almost all political parties in Peru profess support for at least one mode of decentralization.

But equally striking in Peru and elsewhere is the reluctance of political parties to actually invest political capital in support of decentralization. Although this absence of sustained support in Peru may be partially attributable to the thorny issue of the territorial demarcation of regions (Schmidt 1988b, Sec. 1.4.2), it also appears that decentralized organizations (or perhaps organizations in general) have certain characteristics that are different from those of conventional public goods, and from which different sorts of political calculations follow. Any benefits from the establishment and operation of decentralized organizations are likely to be less tangible than those of conventional public goods, more difficult to attribute to the provider, and realized only over a longer time frame.

Given these differences between the characteristics of organizations and conventional public goods, a governing party is most likely to maintain support by providing the latter through

established sectoral channels and by incrementally expanding field offices of the central ministries as needed. Thus, the tendency of Peruvian political parties to call for sweeping schemes of decentralization when out of power but to be more centralist once in power is not simply a matter of duplicity. Nor are such frequent about-faces in Peruvian electoral history necessarily betrayals of provincial supporters, who value the more tangible benefits of conventional public goods and other policy concessions from the central Government over institutional changes that might be beneficial in the future (Schmidt 1988b, Sec. 1.2).

Various modes of decentralization are also likely to have high political costs to political entrepreneurs in power, especially in the short run. A majority party at the national level that promotes devolution will lose some of its authority if the subnational governments are controlled by other parties. Thus, it is not surprising that the Belaunde administration (1980-1985) and the current García administration (at least until 1988) have supported devolution only to the extent that they could be assured of controlling the CORDES (Schmidt 1988b, Sec. 1.4.1). Moreover, central ministries, on which the political entrepreneur depends for policy implementation, are likely to oppose both general devolution and general deconcentration. Furthermore, by altering the channels through which conventional public goods are provided, both devolution and deconcentration reduce or eliminate the roles of certain central political entrepreneurs, such as congressmen and party brokers.

Nor do political entrepreneurs on the periphery have much to gain from decentralization in a country like Peru, with its marked class differences in the provinces. It is much easier and less risky for political entrepreneurs to aggregate demands and direct them to the capital than to make hard choices about resource allocation through decentralized organizations. If the centrally directed demands are met, the entrepreneur reaps the credit; if they are not, elites in the capital bear the blame (Garzón 1986, 290).

In sum, whatever the merits of decentralization from the standpoint of the political system as a whole, it appears that in the context of competitive politics, certain attributes of decentralized organizations make their support a risky investment for political entrepreneurs. Perhaps it is not a coincidence that the most concerted attempts to decentralize have tended to take place in authoritarian or one-party political systems whose leaders have been sold on the merits of decentralization--for example, Argentina during the most recent period of military govern-

Morales Bermudez, and Tanzania under Nyerere (for further discussion, see Harris 1983; Nellis 1983; Rondinelli 1983a; and Schmidt 1988b, Sec. 1.3.3).

3.3 Windows of Opportunity

To the extent that hypotheses 1 and 2, discussed above, are correct, it follows that most modes of decentralization are unlikely to be initiated during periods of "politics as usual." Rather, decentralization initiatives are most apt to be successful when extraordinary events or factors alter the "normal" calculations of political actors, prompting them to view decentralization more favorably. Such an event or factor may have this effect by (1) calling established institutions into question, (2) increasing or highlighting the potential benefits of decentralization, (3) lowering the costs of decentralization by linking them to other objectives, or (4) increasing the available resources for investment in decentralized organizations.

During Peruvian history two principal factors--natural disasters and transitions from authoritarian to democratic regimes--have opened windows of opportunity for decentralization (Schmidt 1988b, Secs. 1.2, 1.3, and 1.4). Natural disasters in the provinces increase the comparative advantages of decentralization from the perspectives of various actors and lessen the costs of implementation because organizational changes are concomitants of urgent policy implementation. The availability of foreign assistance earmarked to the affected region provides an additional incentive (Schmidt 1988b, Sec. 2.2).

During transitions from authoritarian to democratic governments, decentralization is addressed as part of a larger process of redefining institutional relationships; thus, the costs of establishing decentralized organizations are lowered. Moreover, political capital for decentralization is most likely to be available immediately following a regime transition since governing coalitions tend to be strongest and most united during their "honeymoon" periods (Schmidt 1988b, Sec. 1.5; see also Sec. 3.4 below). Furthermore, the potential benefits of decentralization are likely to be particularly salient to provincial actors when the policies of the previous regime are viewed as having been detrimental to the periphery (Schmidt 1988b, Secs. 1.2 and 1.4).¹¹

¹¹Further research may identify additional factors in other contexts that "open" or "close" windows of opportunity for decentralization.

Although this line of argument is different from that contained in much of the recent literature, which suggests that governmental longevity and the absence of crisis enhance the effectiveness of decentralization (see Rondinelli, Nellis, and Cheema 1984, 71), it is not incompatible with it. This latter view is based primarily on economic and managerial considerations from the perspective of the overall system, whereas the argument developed here attempts to explain why political actors support decentralization in the first place. Indeed, considering both approaches may help to resolve yet another paradox identified in the literature: although decentralization is usually justified in terms of managerial efficiency, most decentralization initiatives are in fact motivated by political considerations (see Rondinelli, Nellis, and Cheema 1984, 27). Moreover, a crisis that initially opens a window of opportunity for decentralization may at a later point reach a threshold that makes greater centralization imperative. A regime transition, for example, may afford an opportunity to give greater autonomy to a certain region only as long as national unity is not threatened.

3.4 Regime Type, Governing Coalitions, and Modes of Decentralization

There is a curious asymmetry in the recent comparative literature between the way "decentralization" has been defined and the way of its implementation has been analyzed. On the one hand, different types or modes of decentralization are carefully defined, and a conscientious effort is made to sort out their impacts. On the other hand, discussions of factors affecting the success of decentralization efforts seldom distinguish among different modes.¹²

Careful analysis of the Peruvian case suggests two interesting hypotheses regarding relationships between macropolitical variables and modes of decentralization. First, authoritarian regimes, such as those of the 1968-1980 period in Peru, are most likely to support deconcentration, whereas democratic regimes, such as those of the 1956-1968 and post-1980 periods in Peru, are likely to place at least rhetorical emphasis on devolution (Schmidt 1988b, Secs. 1.3, 1.4, and 1.5). Indeed, fluctuation between devolution and deconcentration at regional and local levels appears to be a concomitant of regime changes in Latin America. To the extent that this generalization holds in other developing countries--and available case studies tend to confirm

¹²For example, compare pages 13-46 and 46-69 in Rondinelli, Nellis, and Cheema (1984).

the hypothesis--many efforts by international donors to promote devolution and deconcentration may be misdirected.

It should be emphasized that the relationship hypothesized here involves only deconcentration and devolution; it does not necessarily follow that the type of regime influences the other modes of decentralization. Indeed, an influential study by Cornell University's Rural Development Committee suggests that regime type affects the success of local organizations only very indirectly or in extreme cases, if at all (Uphoff 1986, 217-219). Much more careful and systematic research is needed in this area.

While the Peruvian experience indicates that different types of regimes will tend to support different modes of decentralization, it also suggests that the ability of any government--democratic or authoritarian--to implement decentralization policies--whether these be devolution or deconcentration--is strongly influenced by the strength and programmatic unity of the governing coalition (Schmidt 1988b, Secs. 1.3, 1.4.2, and 1.5). This variable needs to be considered in conjunction with "political commitment," which is accorded great importance in the current literature. A president may be committed to a mode of decentralization, but in the absence of a strong and united governing coalition, any reform is likely to be undermined or strongly influenced by pressure groups or bureaucratic agencies. Such was the case of the Morales Bermudez administration in Peru during the 1975-1980 period (Schmidt 1988b, Sec. 3.1.3). Conversely, an administration with a strong and united governing coalition may have little interest in decentralization, as exemplified by the Velasco administration during the 1968-1975 period in Peru (Schmidt 1988b, Sec. 3.1.2).

Although decentralization should be an incremental process (see Sec. 4.1), major reforms facilitating its various modes are most likely to succeed at the beginning of presidential administrations, when governing coalitions are usually strongest and most united. It is not a coincidence that all major decentralizing reforms in Peru since 1956 have been initiated within the first year or two of successive presidential administrations (Schmidt 1988b, Secs. 1.3, 1.4, and 4.6).

4. DESIGN ISSUES IN DECENTRALIZATION PROGRAMS

Although recent comparative research has not shed much light on the mobilization of support for decentralization, it has advanced current knowledge by positing a number of "actionable hypotheses" regarding the design of decentralization programs. Three major propositions may be identified in the literature:

1. Decentralization should be viewed and designed as an incremental process of capacity building (see Rondinelli, Nellis, and Cheema 1984, 41-46, or Rondinelli and Nellis 1986, 15-19).
2. Decentralization policies should establish or strengthen the capacities of central organizations to assist decentralized organizations and should promote appropriate interorganizational linkages among complementary capacities at different levels (see, especially, Leonard 1982 or 1983).
3. "Decentralization policies that transfer adequate financial resources as well as powers and responsibilities will be more successful than those that merely call for consultation with or participation of local officials or citizenry" (Rondinelli, Nellis, and Cheema 1984, 75).

These propositions embody important insights from thorough comparative research and provide much-needed direction for future program design and evaluation.

The Peruvian experience with decentralization provides important support for each of these propositions. But at the same time, analysis of this experience suggests that current thinking about design does not adequately address issues of political power and institutional relationships at the center. The literature tends to assume that capacity building takes place in a vacuum and involves primarily the diffusion of standardized technical and organizational skills. The Peruvian case demonstrates, however, that successful technical assistance components for decentralized organizations cannot be designed without reference to the broader political system, which may facilitate or hinder capacity-building efforts. Although the literature acknowledges that decentralization cannot be implemented without conflict, it tends to attribute conflict to attitude more than to interest and to assume, rather naively, that the conflict can be overcome through education and persuasion (for example, see Rondinelli, Nellis, and Cheema 1984, 72).

Not only is A.I.D. experience in Peru useful for testing the limits of conventional wisdom concerning the design of decentralization programs, but on the basis of this experience several additional or supplementary hypotheses can be ventured:

Hypothesis 6: In highly centralized political systems, and perhaps in other contexts as well, technical assistance is best designed and implemented on a rolling

basis, as central constraints and the needs of decentralized organizations are better understood.

Hypothesis 7: In highly centralized political systems, incremental capacity building and efforts to achieve institutional reform are both necessary and potentially reinforcing, although simultaneous pursuit of both objectives requires considerable management skill.

Hypothesis 8: In highly centralized political systems, the role of the donor in insulating technical assistance efforts from central political and bureaucratic pressures is crucial to maintaining the integrity of these efforts.

Hypothesis 9: Since capacity building and institutional reform are likely to follow different rhythms, the long-term perspective required by the incremental capacity-building approach must be supplemented with an understanding of and sensitivity to political cycles and other opportunities for reform.

Hypothesis 10: In highly centralized political systems, the most effective way of establishing or reinforcing central organizational capacities to assist decentralized organizations is by working through project-related units within key national-level organizations.

Hypothesis 11: Interorganizational linkages formed primarily for the purpose of addressing administrative weaknesses also can be used (1) to increase the access of decentralized organizations to political authority within existing legal parameters, (2) to effectively mobilize support for institutional reforms that favor decentralization, and (3) to spread innovations generated through project experience at the periphery.

Hypothesis 12: During the initial stages of decentralization, categorical transfers from central project funds to decentralized organizations can be a practical and effective way to increase the role of decentralized organizations in resource allocation. Among the potential advantages of this mechanism are (1) political practicality, (2) predictability, (3) versatility, (4) congruence with the incremental capacity-building approach to decentralization, and (5) stimulation of interorganizational coordination.

Hypothesis 13: Central project funds must be administered by an agency whose organizational objectives and procedures are congruent with the project and the objective of assisting decentralized organizations.

Hypothesis 14: A prerequisite for successful use of categorical transfers is consensus on clear, easily understood criteria that can be made operational.

This section discusses the major propositions from the literature in light of the Peruvian experience and the additional hypotheses that emerge from analysis of that experience.

4.1 Incremental Capacity Building and Institutional Change

The view of decentralization as a process of incremental capacity building is grounded in several important generalizations about decentralization in developing countries: negative experiences with comprehensive reform, the reality of generally lower administrative and technical capabilities at subnational levels, and an appreciation of the slow but perceptible results achieved by decentralization initiatives during the 1970s and 1980s. Several interrelated arguments that support the view of capacity building as an incremental process are posited:¹³

1. Scope. Small-scale decentralization programs designed for limited impact are likely to generate more positive and durable results than large-scale, sweeping organizational reforms. Programs supporting decentralization should, therefore, be planned on a small scale and expanded incrementally.
2. Simplicity. Abstract and complex planning and administrative procedures are unlikely to be implemented effectively in most developing countries, and therefore decentralization programs should be kept simple, flexible, and appropriate to the capacities of the organizations to which responsibilities are being transferred.
3. Time horizons. Decentralization requires a lengthy period of gestation before its benefits will be

¹³These hypotheses are drawn directly from Rondinelli and Nellis (1986, 20); only the British punctuation and spelling have been changed. For further discussion, see also Rondinelli, Nellis, and Cheema (1984, 72-73).

realized, and programs must therefore be planned for the long term.

4. Tutorial planning. Decentralization programs in which the first stages are closely supervised efforts to teach local staff and citizens how to handle new responsibilities will be more successful than those that transfer large numbers of tasks or great responsibilities all at once. Programs should therefore be planned tutorially.

It should be noted that each of these hypotheses probably applies to institutional development in general, not just to the development of decentralized institutions.

4.1.1 Evidence Supporting the Incremental Capacity-Building Approach to Decentralization

Both positive and negative lessons from A.I.D.-supported decentralization initiatives in Peru provide some important support for the incremental capacity-building approach to decentralization.

Despite the problems encountered during the early years of the IRD project, it achieved tangible results in increasing planning, administrative, and implementation capabilities by focusing on a manageable range of activities in two pilot departments, using relatively simple planning techniques, and employing a tutorial mode of technical assistance (Schmidt 1988b, Secs. 2.1, 2.3.3, 3.2.2, and 3.2.3). The lessons learned during the early years of this project were later invaluable in expanding the technical assistance components of the project throughout the country and in designing the much larger DRR project to address natural disasters.

The tasks of reconstruction and rehabilitation led to fast-track implementation of the DRR project over a broad geographic area (Schmidt 1988b, Sec. 2.2); however, several characteristics consistent with the incremental capacity-building approach account for much of its success in increasing the administrative, technical, and process capabilities of the CORDES (Schmidt 1988b, Secs. 3.2.2, 3.2.4, and 4.2). Although DRR advisers tended to be expeditors more than teachers, CORDES received strong technical assistance under the project; by no means were the extensive responsibilities for reconstruction and rehabilitation simply dumped on them (Schmidt 1988b, Secs. 2.3.3 and 3.2.2). The procedures developed for component selection, monitoring, and liquidation were simple but effective and allowed technical studies to be performed on a rolling basis (Schmidt 1988b, Sec. 2.3.2).

Given considerable latitude by the high proportion of grant money, multiple modes of subproject implementation, and some influence in component selection, DRR project management conscientiously made adjustments to fit the capabilities of CORDES (Schmidt 1988b, Secs. 3.1.1 and 4.2; see also Sec. 4.3 below).

It is also interesting to note that two national agencies affiliated with the IRD and DRR projects played crucial roles in helping the García administration define a more incremental, capacity-oriented approach to microregionalization (Schmidt 1988b, Secs. 3.2.1 and 4.4).

Problems in both projects demonstrate the potential dangers of inflexible or short project time frames for the development of decentralized institutions. Decisions taken to expedite implementation during the early days of the IRD project reduced its long-term institutional impact (Schmidt 1988b, Secs. 2.1 and 3.2.3). The efforts of the Technical Assistance and Training Program for Departmental Development Corporations (PATC-CORDES)¹⁴ probably would have had greater impacts if they had taken place over a longer period (Schmidt 1988b, Secs. 2.3.1 and 3.2.2). Problems with some new irrigation components under the DRR project are attributable primarily to the project's fast-track approach, which reduced the available time for technical studies and undercut the potential for community participation in design and follow-up (Schmidt 1988b, Secs. 3.3.2 and 3.6.2).

4.1.2 The Limits of the Incremental Capacity-Building Approach to Decentralization

Although analysis of A.I.D.-supported decentralization initiatives in Peru provides evidence supporting the general thrust of the incremental capacity-building approach, it also suggests that a focus on capacity building alone is incomplete and potentially misleading. The literature tends to speak of building capacity as though this takes place in a vacuum, whereas capacity-building efforts in highly centralized systems such as Peru's soon run into limits related to central constraints (Schmidt 1988b, Sec. 2.1). The experience of the initial IRD technical assistance team is instructive:

While some useful field research can be conducted in Cajamarca and Junín, and some interesting initiatives

¹⁴The PATC-CORDES was established in the Prime Minister's Office by the IRD project in 1984 to provide technical assistance and training to CORDES throughout the country.

can be taken while working in those departments, the dynamics of the Peruvian governmental system clearly emanate from the center. Thus, many of the most interesting ... [technical assistance] efforts in Cajamarca and Junín were eventually frustrated because some of the ground rules of the existing system must be changed at the central Government level before effective decentralized planning and project implementation can take place in peripheral parts of the country (LRAP 1984, 69).

Although other political systems may pose fewer problems for capacity building through decentralized pilot efforts such as the IRD project, at some point political and administrative adjustments at the center will be needed to allow expansion of such efforts. Much of the literature naively assumes that these adjustments follow as a matter of course or can be achieved through mere persuasion if pilot efforts are successful.

Moreover, while most of the decentralization literature speaks of capacity building primarily as the diffusion of standardized technical and organizational skills, with perhaps a dose of citizenship training as well, A.I.D. experience in Peru indicates that technical assistance components for decentralized organizations cannot be designed without reference to the broader political system. In highly centralized systems, much of the training effort, at least initially, must be devoted to compliance capacity building, that is, teaching local organizations how to comply with central regulations (Schmidt 1988b, Sec. 2.3.1). At least in these contexts, technical assistance may be best designed and implemented on a rolling basis, as central constraints and the needs of decentralized organizations are better understood. The willingness of the IRD project to experiment at the departmental level led to such methodological breakthroughs as the decision-tree methodology¹⁶ (Schmidt 1988b, Sec. 3.2.3). The adaptability and flexible management style of the DRR project resulted in innovations such as the control card and financial liquidation systems, which greatly improved subproject approval and project monitoring processes and allowed technical studies to be undertaken on a rolling basis (see Sec. 2.3.2 above).

¹⁶The decision-tree methodology enables decision-makers to use relatively simple techniques (1) to identify and assign priorities to various objectives, (2) to rank the relative returns of different investments in accordance with these objectives, and (3) to select the most appropriate investments in a process that is open to public scrutiny. Thus, the methodology can help decentralized organizations transcend the artificial dichotomy between technical and political decision-making.

A.I.D. experience in Peru also suggests that incremental capacity building and efforts to achieve institutional reform are both necessary and potentially reinforcing in highly centralized political systems (Schmidt 1988b, Sec. 4). On the one hand, some attention must be devoted to both substantive and compliance capacity building in order to strengthen the case for additional decentralization and to ameliorate short-term political pressures. Moreover, the understanding of central constraints gained during efforts to increase compliance capacity can be extremely valuable for formulating strategies of institutional reform, as exemplified by the PATC-CORDES experiment. On the other hand, if institutional reform is not attempted or proves to be unsuccessful, central constraints will eventually undermine capacity-building efforts or make them little more than programs for enhancing compliance with central regulations. When capacity-building and institutional reform efforts are both undertaken, a mutually reinforcing dynamic may be created over several iterations, as capacity building enhances the possibilities for institutional reform, which in turn increases the effectiveness of capacity building, and so on.

While the Peruvian case suggests that incremental capacity building and institutional reform are both necessary in highly centralized political systems, it also demonstrates that simultaneous pursuit of both objectives requires considerable management skill for at least two reasons. First, there is the danger that technical assistance components will be reduced to programs that build only compliance capacity, or will be distorted to meet the goals of central actors. The experience with PATC-CORDES demonstrates that the donor's role in insulating technical assistance efforts from central political and bureaucratic pressures can be crucial to maintaining the integrity of these efforts (Schmidt 1988b, Sec. 3.1.3).

Second, capacity building and institutional reform are likely to follow different rhythms, the former being more incremental and the latter tending to occur when windows of opportunity are opened as a result of transitions in regime, changes in government, or extraordinary events such as a natural disaster. Thus, the long-term time perspective required by the incremental capacity-building approach must be supplemented by an understanding of and sensitivity to political cycles and other opportunities for reform (see Sec. 3.3 above). For example, USAID/Peru's ability to influence institutional reform was greatly enhanced by its imaginative response during the 1983 disasters (Schmidt 1988b, Sec. 2.2) and its anticipation of a sweeping victory by the opposition in the 1985 elections (Schmidt 1988b, Sec. 4.1).

4.2 Linkages for Strengthening Capacity and Building Conditions

Centralized and decentralized organizations are not part of a zero-sum continuum: making decentralized organizations stronger does not necessarily mean that centralized organizations should be weakened. Indeed, processes of decentralization typically require the reorientation and strengthening of some organizations at the center. Through interorganizational linkages, functions can be allocated so as to take advantage of strengths and to compensate for weaknesses of organizations at different levels (Leonard 1983, 271). Although linkages to international donors may be beneficial to decentralized organizations in the short run, sustainability requires the establishment and institutionalization of central organizational capacities to assist decentralized organizations.

Some of the best recent literature on decentralization has focused on the design of appropriate linkages between central agencies and decentralized organizations (see, in particular, Leonard 1983 and Leonard and Marshall 1982). Since such linkages emphasize assistance more than controls, they usually imply a new set of roles and new costs at the center. At least two policy implications follow from this emphasis on appropriate linkages. The first is that decentralization programs should work with existing or new national-level agencies committed to the program's objectives and at least potentially able to provide support to decentralized organizations (Leonard 1982, 21-27). Second, decentralization programs should include training components for central as well as local organizations (see Rondinelli and Nellis 1986, 20-21, or Rondinelli, Nellis, and Cheema 1984, 74-75), if not additional resources to assist existing or new central organizations in developing more supportive roles.

IRD and DRR project experiences confirm the importance of interorganizational linkages for increasing the administrative and technical capabilities of decentralized organizations. To be effective, such linkages must be developed with supportive central organizations, not with organizations whose primary orientation is toward excessive control, as is the case with most Peruvian central agencies (see Schmidt 1988b, Secs. 1.4.1 and 3.1.2).

IRD and DRR project linkages to USAID/Peru-supported agencies at the national level--the Rehabilitation and Reconstruction Division (GRR), PATC-CORDES, and the Sierra Microregional project (PMS)--and to USAID/Peru itself enhanced the performances of CORDES by (1) providing a predictable flow of resources and a predictable program context, (2) strengthening intraorganizational capacities, (3) developing extraorganizational process capacities, and (4) temporarily compensating for low capacity. The

provision of a predictable flow of resources and a predictable program context through interorganizational linkages contributed to more effective management and was a prerequisite for effective technical assistance (Schmidt 1988b, Secs. 3.1.1 and 3.1.2). PATC-CORDES and USAID Mission departmental advisers contributed to perceptible improvements in the areas of basic organization, cost-indexing and contracting, technical studies, computerized information systems and programming, regional planning, and public works (Schmidt 1988b, Secs. 2.3.1, 2.3.3, and 3.2). Under the DRR project, CORDES developed process capacities through their dealings with consulting firms (Schmidt 1988b, Sec. 3.2.4). The GRR and PATC-CORDES both temporarily assigned personnel to CORDES to assist with technical or administrative problems, while technical specialists from the GRR and USAID/Peru compensated for CORDES' low capacity in specific technical areas. USAID/Peru departmental advisers to CORDES also performed monitoring and general troubleshooting functions.

Although the main focus of both projects was CORDES and their predecessors, the IRD project also strengthened linkages among different communities, as well as between CORDES and municipalities (Schmidt 1988b, Sec. 3.5.1). The DRR project appears to have strengthened private voluntary organizations and their working relationships with CORDES (Schmidt 1988b, Sec. 3.5.2).

While A.I.D. experience in Peru supports most of the conventional wisdom about interorganizational linkages, it also suggests a possible solution to a dilemma faced by donors wishing to establish or support national-level agencies in highly centralized political systems. On the one hand, a politically marginal national-level organization is unlikely to be effective in serving decentralized organizations. On the other hand, established central organizations are likely to overemphasize control linkages and unlikely to have decentralization as a high organizational goal. The experiences of the IRD and DRR projects suggest that an appropriate strategy in such a context is to establish project-related units within key national-level organizations, such as the GRR, PATC-CORDES, and the PMS (Schmidt 1988b, Sec. 2.3.1). This approach enhances the chances of gaining adequate political support and managerial flexibility, which are both necessary. Project units also increase the donor's ability to insulate supportive central organizations from political and administrative pressures that might undermine their assistance orientation (Schmidt 1988b, Secs. 3.1.3 and 3.2.1).

With any strategy based on project units, sustainability is a potential problem, but there are at least three mutually reinforcing ways to enhance the chances for sustainability. First, project agreements can stipulate establishment of a permanent supportive organization as an objective; the project unit thus

remains after completion of the project, as in the case of PATC-CORDES. Second, the project unit might be used to change the orientation of the overall agency of which it is a part. Third, as discussed below, linkages between the national-level project unit and decentralized organizations can be used to achieve institutional reform.

A.I.D. experience in Peru also demonstrates that interorganizational linkages can serve decentralized organizations in at least three ways that are seldom, if ever, discussed in the literature. First, linkages may increase the access of decentralized organizations to political authority within existing legal parameters (Schmidt 1988b, Secs. 3.1.3 and 4.2). Indeed, the GRR's role in speeding disbursements, securing approval for budget transfers, and cutting through other red tape was even more important to the effectiveness of CORDES than was its role in providing technical assistance. In contrast, before the establishment of PATC-CORDES and the beginning of stronger support from USAID/Peru, IRD project and counterpart management spent an inordinate amount of time in Lima resolving administrative and disbursement problems (Schmidt 1988b, Sec. 2.1).

Second, the Peruvian experience demonstrates that interorganizational linkages formed initially and primarily for the purpose of addressing administrative weaknesses can also be used to effectively mobilize support for institutional reforms that favor decentralization (Schmidt 1988b, Sec. 4). Thus, not only did PATC-CORDES training courses diffuse substantive knowledge and help CORDES to comply with central regulations, but they often were also consciousness-raising experiences, as managers and staff from different CORDES found that they shared similar problems. The "decentralist lobby" that emerged around PATC-CORDES was able to (1) produce and disseminate groundbreaking research on decentralization issues, (2) achieve changes in the budgeting system that have increased the predictability of funding for CORDES and their autonomy in using this funding, (3) strengthen CORDE planning offices, and (4) influence legislation on regional governments and microregions. It is worth noting that much of the research generated by the decentralization movement was diffused through a private research institute not associated with any political party, interest group, or government agency (Schmidt 1988b, Sec. 4.1).

Third, the Peruvian case demonstrates that interorganizational linkages not only facilitate the diffusion of expertise from the center, but also can be used to spread innovations generated through project experiences at the periphery. Many of the most important advances in such areas as investment prioritization methodology, recuperation of investments, and computer programming emanated from research or applications in the field by

CORDES or their USAID/Peru advisers. Workshops and seminars sponsored by PATC-CORDES allowed CORDES to adopt innovations from other regions and to share ideas.

4.3 Resources and Categorical Transfers

The comparative literature also argues that decentralization policies that transfer financial resources will be more successful than those that only devolve authority or delegate responsibilities to lower levels (Rondinelli and Nellis 1986, 21). This proposition is both potentially tautological and insightful. On the one hand, increased authority over or responsibility for resources is inherent in the definitions of devolution and deconcentration (see Section 1). When policies give decentralized organizations greater control or influence over resources, they will be more successful by definition, unless success is explicitly defined by some other criterion.

On the other hand, this proposition is insightful if success is independently defined in terms of some impact--such as citizen participation, managerial efficiency, or contribution to economic development--and if one explicitly bears in mind the incremental capacity-building view of decentralization. As leading scholars in the field have pointed out, "It is better to start decentralization by giving the organizations to which responsibilities are transferred money to allocate rather than rules to follow. Even when funds are modest and the final authority remains with central agencies, the concrete tasks of allocating resources will do more to galvanize local action than the grandest abstract discussions" (Rondinelli, Nellis, and Cheema 1984, 75).

The Peruvian experience provides strong evidence to support this view. Until recently, citizens in the provinces have had little incentive to invest time and energy in dealing with CORDES because under the normal budget process CORDES have had only tenuous authority over a very unpredictable resource base (Schmidt 1988b, Sec. 1.4.1). Indeed, as long as authority over resources remained concentrated at the center, political actors primarily directed their demands to central organizations instead of interacting with one another through decentralized organizations. This pattern not only leads to demand overload at the center but also undermines the development of responsible bargaining--the spirit of "give and take," which is so crucial to democratic institutions.

Although the recent comparative literature suggests that grants are the best way to provide financial resources to decentralized organizations in most developing countries (see Rondi-

nelli, Nellis, and Cheema 1984, 75), it offers little direction regarding the structure and operation of appropriate grant mechanisms. The IRD and DRR projects both established central project funds that were used to finance certain types of components selected later by CORDES or PRODERINS (project management units under the IRD project) in accordance with project criteria (Schmidt 1988b, Sec. 2.3.2). Although this approach is by no means uncommon in donor-supported decentralization efforts, its implications for the development of decentralized institutions have not been analyzed.

A.I.D. experience in Peru suggests that categorical transfers (transfers for specific types of project components) from central project funds can be a practical and effective way to increase the role of decentralized organizations in resource allocation during the initial stages of decentralization. Among the potential advantages of this mechanism are (1) political practicality, (2) predictability, (3) versatility, (4) congruence with the incremental capacity-building approach to decentralization, and (5) stimulation of interorganizational coordination.

In most parts of the developing world, categorical transfers are probably the most politically acceptable way to initiate policies supporting decentralization. Given the almost universal reluctance to give decentralized organizations adequate financial resources (see Cheema and Rondinelli 1983, 297, and Rondinelli and Nellis 1986, 16), block grants or taxes are seldom feasible financial strategies during the early stages of decentralization. Although categorical transfers are made in accordance with central regulations, A.I.D. experience in Peru demonstrates that they can be designed to fit the needs of decentralized organizations and to give these organizations significant roles in the process of resource allocation (Schmidt 1988b, Secs. 2.3.2, 3.3.1, and 3.3.2). The key issue is the character and predictability of any central controls, rather than the existence of such controls per se (Schmidt 1988b, Sec. 3.1.2).

A.I.D. experience in Peru also demonstrates that central project funds can be used to avoid or to ameliorate the disbursement delays that so frequently occur when project funds are channeled through central agencies (Schmidt 1988b, Secs. 1.4.1 and 3.3.3). The DRR project and the IRD project's Rural Public Works Fund dramatically increased the predictability of CORDE funding by channeling A.I.D. grant and loan money directly to the CORDES instead of through the Finance Ministry. The DRR project also demonstrates that special arrangements by the recipient country to handle counterpart funding can be part of the central project fund mechanism (Schmidt 1988b, Secs. 2.3.1, 2.3.2, and 3.1.1).

Categorical transfers can also be used to pursue a wide range of objectives and are compatible with various modes of technical assistance. The IRD project employed primarily a didactic mode of technical assistance to test a development strategy (Schmidt 1988b, Sec. 2.3.3). The flexibility of the Rural Public Works Fund facilitated the testing of an urban-rural linkage strategy; some experimentation with the urban-functions-in-rural-development methodology, which is premised on adaptability to local conditions and on the generation of a local database; and a high degree of popular participation in component identification, design, and construction (Schmidt 1988b, Secs. 2.3.2 and 3.2.3).

In contrast, DRR project officials generally followed an accountability style of management, providing CORDES with resources through categorical transfers, supportive technical assistance, and a predictable program context, while holding them responsible for successful completion of subprojects and components (Schmidt 1988b, Secs. 2.3.2, 2.3.3, and 3.1.2). DRR project experience suggests that project funds are best employed in this manner where objectives are relatively well defined and existing capacities relatively strong, as in the northern flood areas (Schmidt 1988b, Secs. 3.2.4 and 3.6.2). Under the DRR project, the flexibility of central project funds also facilitated experimentation with revolving credit in drought areas of the sierra (Schmidt 1988b, Sec. 3.4.5).

In addition, categorical transfers from project funds can facilitate the incremental capacity-building approach to decentralization. While potentially giving decentralized organizations a significant role in resource allocation, transfers for specific types of components also provide a specific focus for technical assistance. During the early stages of a decentralization program, relatively modest amounts can be invested through such a fund; as experience is gained, the fund provides a convenient and flexible mechanism for expansion. It is instructive to note that both the small, experimental IRD project and the large DRR project used this mechanism effectively. Similarly, qualitative requirements for receiving transfers and the accompanying modes of technical assistance might be altered as the capabilities of decentralized organizations increase. DRR project experience also demonstrates that managers of central project funds can adjust disbursements to fit the capabilities of different decentralized organizations.

Whereas most efforts to achieve interorganizational coordination in the field through sanctions or persuasion fail, the DRR project demonstrates that transfers from project funds can be used creatively to provide positive incentives for such coordination (Schmidt 1988b, Sec. 4.2). In the current context of severe

economic austerity, most ministerial field offices have very limited resources for investments, as normal operating expenses typically account for over 90 percent of their budgets. Nevertheless, competent professionals are sometimes found in these offices and they are responsible for interpreting and implementing sectoral policies. The flexibility of the central project fund and DRR project management's performance-oriented philosophy facilitated mutually beneficial implementation agreements between CORDES and some ministerial field offices that had complementary resources.

Similarly, the flexibility of the project fund mechanism facilitated coordination among local communities under the IRD project (Schmidt 1988b, Sec. 3.5.1) and between CORDES and private voluntary organizations under the DRR project (Schmidt 1988b, Sec. 3.5.2).

Of course, donors that provide project funds during the initial stages of decentralization must address the issue of sustainability. One approach is to increase the ability of decentralized organizations to generate resources independently of the central government. A second, but not mutually exclusive approach, is to institutionalize the categorical transfer system. USAID/Peru had only very modest success with the first approach, because national laws and regulations continue to undermine the ability of CORDES to recover investments (Schmidt 1988b, Sec. 3.4.3). Although USAID/Peru did not explicitly attempt the second approach, its use of the project fund mechanism provided invaluable experience to Peruvian officials, who are now following the same basic strategy in managing the microregional development fund (Schmidt 1988b, Sec. 4.4). USAID/Peru had the greatest success with a third approach: supporting reforms that increase the access of decentralized organizations to financial resources through the regular budgetary process (Schmidt 1988b, Secs. 4.3, 4.4, and 4.6).

Analysis of DRR and IRD project experiences also suggests two lessons that should be considered in designing project funds in the future.

First, central project funds must be administered by an agency whose organizational objectives and procedures are congruent with the project and the objective of assisting decentralized organizations. For example, the purpose of the Key Market Town Development Fund under the IRD project was to make loans to decentralized agencies, municipalities, and private organizations for revenue-generating urban infrastructure in selected provincial towns. However, the fund was administered by the Housing Bank, which is a rigid agency that primarily promotes more traditional modes of urban development in Lima and other major cities

and that is accustomed to working with central agencies and public firms. The Housing Bank had little interest in the innovative objectives of the project and little sympathy for PRODERINS or CORDES, which it considered to be inefficient agencies run by semiprofessionals. As a result of its rigid adherence to established policies and procedures, only electrification components were funded by the Key Market Town Development Fund.¹⁶ Moreover, the Bank's standard operating procedures severely delayed implementation of the electricity components that were finally approved, undermining the IRD project's strategy of coordinating investments in urban and rural areas.

Second, IRD project experience suggests that a prerequisite for the successful use of categorical transfers is consensus on clear, easily understood criteria that can be made operational. For example, the different criteria for selecting rural works components in Cajamarca and Junín Departments reflected disagreement over a linkage approach within the original IRD technical assistance team. In both departments, proponents of a linkage approach failed to articulate their strategy and plans in terms that could be easily understood by CORDE officials and the general population, thus lessening the chances of building public support. Indeed, the term "key market town," a central concept of the project, was inaccurately translated as centro poblado (populated center), giving the erroneous impression that any settlement would be eligible for investments from the Key Market Town Development Fund. This ambiguity increased the project's susceptibility to political influence in component selection.

5. THE ROLE OF INTERNATIONAL DONORS

One of the major conclusions of the recent comparative literature on decentralization is that support from international donors is often crucial to decentralization efforts and that donor involvement should be encouraged, with appropriate provisions for sustainability (see Rondinelli and Nellis 1986, 20, and Rondinelli, Nellis, and Cheema 1984, 73-74). The preceding analysis strongly supports this conclusion. Indeed, to the extent that the hypotheses developed in Sections 3 and 4 are true, the case for donor involvement is strengthened. The roles of donors are likely to be particularly important when central structures and processes leave little institutional space for the development of decentralized organizations, when central organizational capacities to assist decentralized organizations are weak or lacking, or when incentives are needed to mobilize polit-

¹⁶The only exception was a refrigerated slaughterhouse and trout processing plant constructed by a large rural cooperative in the Junín Department.

ical entrepreneurs and potential beneficiaries to support decentralization.

Yet much of the more general literature on foreign assistance argues that the organizational imperatives of major donor agencies severely constrain their ability to effectively support institutional development, including the development of decentralized institutions. This literature implies that tendencies to use a "blueprint" approach in project design, to "move money" rapidly, and to insulate projects from uncertainty severely limit or even undermine donor support for effective decentralization. The apparent discrepancy between what donors increasingly view as a desirable objective worthy of their support and the constraints they face in supporting this objective can be termed the donor-decentralization gap. Although this gap was first identified over a decade ago by Judith Tendler (1975, especially 107-108), it is seldom addressed in the burgeoning literature on decentralization. Most analysts avoid the thorny issue altogether, often didactically giving policy prescriptions without realistically assessing the donor's ability to implement them.¹⁷

Section 5.1 examines the apparent donor-decentralization gap through a review of the relevant literature. Section 5.2 assesses the extent to which there were tensions between donor imperatives and institutional development in A.I.D.'s decentralization projects in Peru. Drawing on A.I.D. experience in Peru, Section 5.3 argues that there are potential congruities and synergisms, as well as tensions, between the organizational needs of donors and decentralized organizations and that some of the design features of the IRD and DRR projects can be used to help bridge the donor-decentralization gap. Section 5.4 extracts three broader lessons for donors from A.I.D. experience in Peru.

5.1 A Donor-Decentralization Gap?

Much of the recent literature on foreign assistance suggests that external pressures and internal organizational processes severely constrain the ability of major donor agencies to support institution building in general and the building of decentralized institutions in particular. This section examines three inter-

¹⁷The major exception to this pattern of neglect is the "bureaucratic reorientation" approach, which holds that the structures, processes, and orientations of official donor and recipient agencies must be modified to support more flexible, decentralized, and participatory approaches to development (see especially Kortten and Uphoff 1981).

related organizational biases--the blueprinting, money-moving, and insulation syndromes--alleged in the literature to discourage or limit the ability of donor agencies to effectively support the strengthening of various kinds of permanent decentralized organizations in the project cycle.

The blueprinting syndrome¹⁸ characterizes development planning, implementation, and evaluation in most international donor and many recipient country agencies. On the basis of supposedly replicable pilot projects and prefeasibility studies, projects are identified and prepared in sufficient detail for their economic, financial, administrative, and technical feasibility to be assessed by means of complex techniques. As projects are formulated and negotiated, detailed schedules are drawn up for implementing agencies to rigorously follow. Implementation is monitored through elaborate information systems and controlled through legally binding conditions of effectiveness or conditions precedent written into contracts. At the end of implementation, project impacts are measured by evaluation researchers so that the blueprints can be revised. Although donors may provide technical assistance to increase host country institutional capacity for project identification, preparation, or implementation, it is assumed that such assistance represents easily diffusible knowledge with universal applicability.

The literature on development assistance is equivocal about the causes and potential remedies for the blueprinting syndrome. More optimistic analyses suggest that although blueprinting is in part prompted by donor agencies' need to maintain credibility with the governments and investors providing funding, the major challenge is identifying and overcoming a largely self-perpetuating and self-defeating bureaucratic logic (see Rondinelli 1983b, 116, and Strachan 1978, especially 469, 474-476). More pessimistic interpretations would be that the donors' need to maintain credibility leaves little room for innovative behavior

¹⁸Korten coined the term "blueprint approach" to refer to the style of programming summarized in this paragraph. Close approximations of this approach have been labeled the "synoptic" approach by Lindblom (1965), "comprehensive planning and management" by Rondinelli (1983b), and the "rational paradigm" by Strachan (1978, 469). The term "blueprinting syndrome" calls attention to the fact that this style has become deeply embedded in the organizational processes and procedures of both donor and recipient agencies. The characterization of the blueprinting syndrome in this paragraph is based on Korten (1980, 496) and Rondinelli (1983b, 65-74). The latter also provides a useful survey of procedures used by specific donor agencies.

or that the syndrome cannot be overcome without drastically altering the professional socialization of development practitioners, whose professional roles are inextricably tied to the authoritative style or complex techniques of the blueprint approach.

External and internal factors also contribute to the money-moving syndrome.¹⁹ The most salient measure of a donor agency's accomplishment is its expenditure-to-staff ratio, rather than the developmental impact of its projects. International donor agencies, in order to enhance their public image, to maintain or to increase their budget, and sometimes to compete with other donors, become as preoccupied with moving money as with promoting development. Similarly, the performance of managers within development agencies is typically evaluated in terms of the rate at which they can generate and complete projects. As a result "movability," rather than developmental impact, becomes the chief criterion for project selection.

The insulation syndrome is the product of typical organizational behavior and the specific environment in which international donors operate. Like other organizations, donor agencies seek to minimize uncertainty and to maximize control over their environment.²⁰ Such behavior is motivated not only by pursuit of organizational objectives but also by the need to demonstrate accountability to funding sources and watchdog agencies. Development projects, however, are almost always implemented by agencies of the recipient government,²¹ or more recently by non-governmental organizations in the recipient country. Consequently, donors typically attempt to insulate the projects they finance by insisting that the implementing agency have congruent organizational priorities, high levels of technical competence, and low levels of susceptibility to political interference.

¹⁹For discussion of the causes and consequences of the money-moving syndrome, see Gow and VanSant (1985, 111), Morgan (1980, 6-9) and (1983), and Tendler (1975).

²⁰For discussion of the general tendency of organizations to manage their environments, see Aldrich (1979, chaps. 9-13). The rather special case of donor agencies is examined in Morgan (1980, 6-8), Rondinelli (1982), and Tendler (1975), from which most of the arguments in this paragraph are drawn.

²¹During the early years of project assistance, donors often identified and designed projects as part of their strategies to reduce uncertainty (Tendler 1975). In more recent years this "backward supply linkage" typically occurs in poorer countries that lack trained planning staffs (Morgan 1983, 334-335).

Indeed, donors sometimes insist that a separate, autonomous agency be set up to implement "their" project or program.²² Some donors, most notably the World Bank, have also bypassed the permanent organizations of the recipient country by relying on temporary project management units to expedite implementation of projects that they support (see Sec. 5.3.4 below).

These three syndromes, it is argued, prompt donors to develop and manage large-scale, geographically concentrated projects--which are often capital or technology intensive--in collaboration with a few select agencies of the recipient government or through special organizational arrangements, such as project management units. Such a combination allegedly (1) increases the chances of absorbing large amounts of money during short periods of time (Chambers 1978, 211; Korten 1980, 474); (2) involves lower ratios of staff time per unit of expenditure (Tendler 1975, chap. 7); (3) is more amenable to complex techniques of feasibility analysis (Rondinelli 1983b, 77); and (4) facilitates donor supervision and control (Tendler 1975, 105).

In contrast, working with established decentralized organizations seems to involve greater organizational costs to the donor agency and to reduce its control over the environment.²³ Decentralized organizations in developing countries generally have lower levels of technical competence than do central government organizations, especially in the kinds of analytic techniques presumed by the blueprinting syndrome. In any case, working with numerous decentralized organizations apparently places a greater burden on the donor, especially when decentralized organizations are located in areas of limited accessibility. Moreover, implementation through decentralized organizations is thought to be less insulated from political and bureaucratic pressures because the concurrence of more actors must be gained. Finally, projects involving effective popular participation through decentralized organizations cannot be neatly blueprinted or programmed.

Given the organizational imperatives of donor agencies and the apparent weakness and vulnerability of subnational organiza-

²²Ayres (1984, 122-123) and Tendler (1975, 106-107) note that this is a common practice of the World Bank. Many autonomous agencies in Latin America can trace their roots to the Inter-American programs established during World War II (see Anderson 1967, 226-227).

²³For elaboration of the arguments in this paragraph, see Bryant and White (1982, 159, 163), Gow and VanSant (1985, 111), and Tendler (1975, 105-108).

tions in recipient countries, it is not surprising that donors have collaborated primarily with central government agencies or worked through special implementation arrangements. For example, in a representative sample of 21 A.I.D.-sponsored integrated rural development projects, most of which were initiated during the late 1970s, only 5 were implemented through permanent sub-national units of the recipient governments, and 4 of these 5 were geographically targeted to only one subnational unit (Honadle and VanSant 1985, Appendix B).

The donor-decentralization gap does not preclude donor attempts to support the strengthening of decentralized organizations. Indeed, in recent years major donors have displayed a greater willingness to undertake such efforts. Nevertheless, available evidence suggests that donor attempts to support decentralized institutional development are typically displaced at some point in the project cycle by more basic organizational imperatives.

For example, during the McNamara presidency at the World Bank, the Bank moved from a reliance on project management units in rural areas to the use of geographically targeted integrated regional development projects employing various mechanisms for administrative coordination among line agencies or regional development authorities (Ayres 1984, 47-48 and 94-96). Despite built-in mechanisms to reduce uncertainty, these new-style projects had greater disbursement shortfalls and were more staff-intensive than general agricultural projects (Ayres 1984, 126-128). They were thus problematic from the standpoint of the Bank's need to demonstrate accountability to the governments and private sources from which it raises investment capital. Moreover, to compensate for the institution-building components of such projects, very high production targets were set so that they would have an acceptable internal rate of return (Lele 1975, 129; Morgan 1980 and 1983). So much management attention was devoted to these high targets that the institution-building goals became displaced (Morgan 1983).

Similarly, in analyzing A.I.D. efforts to support municipal governments in Latin America, Pirie Gall writes:

In those instances where funding has been provided for municipal development, many observers find that decentralization has been hampered by the pressure to produce a given number of subprojects.... Donor loans have been made for short time periods (three to five years) and thus pressure exists to place subloans as quickly as possible to meet preestablished disbursement projections. This then produces a situation in which the following things happen:

Rapid start-up of lending is necessary, so pre-planning of priority areas of lending either does not occur or is ignored; and

The institution-building training and technical assistance activity (which is by its nature slow and gradual) takes second place.

This overtakes the needed efforts to reform municipal personnel and tax laws, to define a clear role for municipal governments in the overall scheme of development, to build linkages with regional plans, and to upgrade the quality of local development plans and service delivery. In short, the capacity-building which would make decentralization effective is bulldozed aside by the pressures to disburse funds for works (1983, 11).

5.2 The Donor-Decentralization Gap in Peru

The review of the literature in the preceding section suggests that there are often trade-offs between satisfying the donor's imperatives to move money, blueprint projects, and insulate them from uncertainty and efforts to strengthen decentralized organizations. Indeed, some significant tensions between the imperative to move money and institutional development appeared in A.I.D. projects in Peru. In particular, inflexible or short project time frames resulted in some adverse institutional impacts. Nevertheless, particular characteristics of the IRD and DDR projects, the orientations of their management, and perhaps more general changes in A.I.D. allowed the blueprinting syndrome to be at least partially transcended. Moreover, as is argued in the next section, there also were some congruities and synergisms between the organizational needs of USAID/Peru and the CORDES. Even project management units, which are associated with the insulation syndrome and are often considered to be antithetical to institutional development, facilitated both implementation and institution-building objectives.

The money-moving syndrome proved to be a serious impediment to institutional development in both projects. The IRD project got a very slow start, primarily as a consequence of the transition to a democratic regime during 1979 and 1980. Pressures from A.I.D. Washington to get the project underway contributed to two unfortunate decisions during the initial stages of the project that lessened its long-term institutional impact: to work with obsolete departmental-level agencies and to produce the initial

development plans on a crash basis (see Schmidt 1988b, Secs. 2.1 and 3.2.3).

Because of the reconstruction and rehabilitation focus of the DRR project, it had a short implementation time frame, which limited the scope for community-level participation and the effectiveness of more developmentally oriented components (Schmidt 1988b, Secs. 3.3.2 and 3.6.2). But it should be noted that most of the direct pressure to move money in the DRR project came from politicians and the press in Peru. Although moving money has been a major concern in USAID/Peru during recent years, the DRR project did not feel the pressure because it was one of the Mission's most efficient projects (Schmidt 1988b, Sec. 3.3.3). Indeed, given its large size, the performance of the DRR project helped the Mission to move money at a significantly faster rate than it had done in the past.

The susceptibility of the two projects to the blueprinting syndrome apparently was reduced by recent trends within A.I.D., the orientations of USAID/Peru and the respective project managers, and characteristics of the projects themselves.

In recent years, the adoption of institutional development as one of four basic elements in A.I.D. strategy has made the Agency more sensitive to the blueprinting syndrome. Although motivated primarily by a desire to cut expenses and expedite implementation, attempts since the late 1970s to reduce the time and resources devoted to project planning and preparation and to delegate more project approval authority to the Missions (GAO 1985) have permitted more flexible modes of programming and implementation.²⁴ However, low direct-hire ceilings and personnel reductions through attrition have stretched Mission staffs thin, making it more difficult to support organization-intensive projects.

Delegation of greater project approval authority to field Missions facilitated initial approval of the DRR project, the badly needed 1983 revision of the IRD project, and extension of both projects (Schmidt 1988b, Secs. 2.1 and 2.2). In USAID/Peru, the Mission Director who served from late 1982 to late 1986 was especially sensitive to institutional development and supportive of decentralized organizations. The IRD project was considered to be experimental, while the DRR project's goals of reconstruc-

²⁴There is no systematic research assessing the implications of such changes for A.I.D.'s institution-building capabilities, although a more general analysis of A.I.D. projects in Asia (Korten 1983) suggests that the impact of the changes has been minimal. See Hermann (1986) for a discussion of the arguments for and against flexible and blueprint design approaches.

tion and rehabilitation meant that it did not have to satisfy developmental criteria. After revision of the IRD project in 1983, its management style approximated the learning-process approach²⁵ (Schmidt 1988b, Sec. 3.2.3; see also Sec. 4.1.2 above). Although the goal of replacing or restoring damaged infrastructure in the north in some ways made the DRR project ideal for blueprinting, the project's management consciously adopted a flexible managerial style (Schmidt 1988b, Sec. 3.1.2; see also Secs. 4.1.2 and 4.3 above).

Some problems associated with the blueprinting syndrome were evident in the IRD project before 1983. The project had not been adapted to fit the rapidly changing institutional context at the regional level. Moreover, even though it soon became evident that one of the basic assumptions of the original Project Paper--that municipalities could borrow money for urban public works--was erroneous (Schmidt 1988b, Sec. 2.1), corresponding design changes were not made.

Although the DRR project was generally successful in bridging the donor decentralization gap, it may ultimately turn out to be the "exception that proves the rule." A GAO report (1986) strongly criticized the project for excessive emphasis on institution building and inadequate attention to rapid implementation, even though it was implemented faster than most projects in Peru. The DRR project was compared unfavorably with a similar project in Ecuador whose purported virtues included limited geographic coverage and use of strong, centralized agencies with previous experience working with donors. Although the report's conclusions were based partially on the erroneous assumption that all activities in these projects were time-critical, a career-sensitive officer in a USAID Mission would conclude that he or she should blueprint, insulate, and rapidly move projects along in order to avoid such criticism.

5.3 Bridging the Donor-Decentralization Gap: Some Insights From Peru

The preceding section reveals that some of the problems associated with the donor-decentralization gap, especially the money-moving syndrome, did indeed have negative repercussions for the development of decentralized organizations in Peru. Analysis of A.I.D. experience in Peru, however, provides evidence that there are also potential congruities and synergisms, which have

²⁵See Korten (1980) for a discussion of the learning-process approach.

not been widely appreciated, between the organizational needs of donors and those of decentralized organizations . Moreover, design features employed by the IRD and DRR projects offer some potential advantages to donors that may help them to bridge any gap between their willingness and their ability to assist decentralized organizations.

More specifically, the Peruvian case lends support to the following hypotheses:

Hypothesis 15: Where project implementation is likely to be hindered by slow or unpredictable resource transfers through the central government, it is faster to work through decentralized organizations that receive resources directly from the donor.

Hypothesis 16: Categorical transfers from project funds can be used not only to facilitate the incremental capacity-building approach to decentralization but also to move money in large amounts.

Hypothesis 17: The threat of the money-moving syndrome to institutional development varies considerably by the type of task and project.

Hypothesis 18: Linkages between supportive national agencies and decentralized organizations can drastically lower costs to the donor agency in terms of staff time.

Hypothesis 19: Where there are alternative channels for implementation, direct financial ties between the donor and decentralized agencies can increase the donor's flexibility and lessen the dangers of becoming captive to any one organization.

Hypothesis 20: In highly centralized contexts, project management units within permanent decentralized agencies can be used to facilitate both institution building and implementation objectives.

Hypothesis 21: The long-term institutional impacts of project management units are likely to be greatest when the units are established within agencies with broadly congruent goals rather than merged into existing agencies.

Hypothesis 22: If higher salaries are needed to attract superior personnel to a project management unit,

organizational jealousies will be lessened if salary differentials are limited to a few key persons.

Sections 5.3.1-5.3.4 below draw on A.I.D. experience in Peru to explicate and discuss these hypotheses.

5.3.1 Moving Money and the Use of Decentralized Organizations To Implement Projects

Even if donors are concerned primarily with the very narrow objective of moving money, working through decentralized organizations may still be their best choice for implementing a project.

Much of the bias against decentralized organizations stems from their lower levels of technical competence relative to central government organizations and high vulnerability to political and bureaucratic pressures from above. However, A.I.D. experience in Peru suggests that donors are well equipped to overcome these problems through supportive technical assistance and direct financial linkages (Schmidt 1988b, Secs. 2.3.2, 2.3.3, 3.1, and 3.2). In contrast, it is much more difficult to reform structures and processes at the center that impede implementation progress. In cases where project implementation is likely to be hindered by slow or unpredictable resource transfers through the central government, a common problem in many developing countries (see Rondinelli, Nellis, and Cheema 1984, 3), working through decentralized organizations that receive resources directly from the donor may actually be faster. Indeed, the implementation record of the CORDES compares very favorably with that of central agencies implementing similar types of donor-supported projects (see Schmidt 1988b, Sec. 3.3).

Also, categorical transfers from project funds, which can facilitate the incremental capacity-building approach to decentralization (see Section 4.3 above), can be used to move money in large amounts. A large number of smaller undertakings can match a few larger ones in scale. For example, the \$65 million DRR project--the largest ever financed in Peru by A.I.D.-- was divided into dozens of subprojects and literally hundreds of components (see Schmidt 1988b, Sec. 2.2). Similarly, very large-scale but disaggregated A.I.D. projects in Indonesia and Egypt have also been implemented in collaboration with many subnational governmental units. Indeed, given the limits to the absorptive capacities of geographically focused projects and national agencies, collaboration with numerous decentralized units in different regions appears to be the most efficient way to invest relatively large sums of money in rural development.

Moreover, DRR project experience suggests that the threat of the money-moving syndrome to institutional development varies considerably with the task and project involved. Although the project's fast-track approach was sometimes inappropriate for more developmentally oriented rehabilitation efforts in the south, the need to work fast actually may have enhanced the institutional development of CORDES in the flood areas, where the nature of the reconstruction task was much better defined (Schmidt 1988b, Secs. 3.3.2 and 3.6.2). In a sense, the project challenged the CORDES by assigning them major and sometimes unprecedented tasks in a relatively short time period. Many CORDES met the challenge and achieved the project's objectives. This achievement involved significant institutional learning and contributed considerably to the corporation's self-confidence. Had the project been implemented over a longer time frame, bureaucratic lethargy might have set in among the CORDES.

5.3.2 Linkages and Donor Costs

The recent enthusiasm of donor agencies for decentralization is tempered by concern with the allegedly high staff intensity of decentralized implementation. The experiences of the IRD and DRR projects demonstrate that linkages between supportive national agencies and decentralized organizations not only have numerous potential advantages for institutional development (see Sec. 4.2 above), but they can also drastically lower costs to the donor agency in terms of staff time. The screening of dozens of subprojects and hundreds of components by the GRR made it feasible for the DRR project to work with CORDES throughout the country, rather than through just a few chosen corporations or central agencies (Schmidt 1988b, Secs. 2.2 and 2.3.1). DRR project managers emphasized that the GRR's role as the CORDES' "consul" (Schmidt 1988b, Sec. 3.1.3) substantially reduced A.I.D. staff time devoted to interagency coordination. In contrast, before the establishment of PATC-CORDES, lack of effective central support had severely adverse repercussions for the IRD project: the technical assistance advisers and Peruvian officials of the PRODERINS and CORDES had had to devote much of their time to resolving administrative problems in Lima (Schmidt 1988b, Sec. 2.1; see also Sec. 4.1.2 above).

Of course, even when donor costs are lessened by interorganizational linkages, decentralized implementation might still be too staff intensive in an era of decreasing personnel. Or donors may economize on their own staff only by providing inordinate amounts of operational support to central government agencies of the host country. In Peru, however, the DRR project's

expenditures for technical assistance and operational support were in line with those for comparable projects implemented through central agencies.²⁶ This record is especially impressive given the high percentage of expenditures on expensive expatriate technical assistance under the DRR project. Had more technical assistance been procured in Peru, as suggested by the DRR final evaluation report (Checchi 1987, 37-38), overhead costs for the DRR project might have been significantly lower than for centrally implemented projects.

5.3.3 Avoiding Donor Dependence

The legally binding mechanisms written into project agreements to penalize inadequate implementation are seldom invoked because political--rather than managerial or development--considerations ultimately determine project initiation and termination (Rondinelli 1983b, 84-85; Strachan 1978, 472). Thus, ironically, once disbursement begins, the donor often becomes dependent on implementing agencies and organizations in the recipient country. Indeed, USAID/Peru's frustration with lethargic central agencies prompted the Mission to collaborate with CORDES on the DRR project, despite their recent origin and weaknesses (Schmidt 1988b, Secs. 2.2 and 3.3.3).

DRR project experience demonstrates that, where there are alternative channels for implementation and more activities requiring funding than there are funds, direct financial ties between the donor and decentralized agencies (see Schmidt 1988b, Sec. 3.1.1) can increase the donor's flexibility and lessen the dangers of becoming captive to any one organization. Not only was the DRR project implemented through 15 CORDES rather than a single central agency, but each CORDE could implement subprojects and components by forced account, contract them out to private

²⁶Based on an analysis of comparable data, the ratio of expenditures for technical assistance and operational support to expenditures for construction was 16.7 percent under the DRR project, 17.2 percent under Improved Water and Land Use in the Sierra project (Plan MERIS), and 17.3 percent under the Rural Water Systems and Environmental Sanitation project (RWSES). The DRR project placed greater emphasis on operational support, which was the equivalent of 6.16 percent of construction costs, in contrast to the 4.6 percent ratio of MERIS and the 4.8 percent ratio of RWSES. But the ratio of expenditures for technical assistance to construction was only 10.5 percent under the DRR project, compared with 12.5 percent under RWSES and 12.6 percent under Plan MERIS.

firms, or delegate implementation to other agencies--which in turn could employ forced account or contracting mechanisms (Schmidt 1988b, Sec. 4.2). Furthermore, disaggregation into numerous components gave DRR project managers some flexibility in adjusting the rhythm of implementation to suit the capabilities of the implementing agency.

In most cases this combination of disaggregation, alternative channels, and multiple modes of implementation allowed USAID/Peru to avoid or lessen its dependence on any one implementing agency.²⁷ Although not defined in terms of rigid timetables, performance was repeatedly emphasized in project implementation letters and other correspondence with CORDES and was linked to future assistance. By reprogramming within a given year or adjusting the subsequent year's budget to reflect implementation progress, DRR project management was able to favor the more efficient CORDES over the less effective corporations. Efficient CORDES tended to get more money; inefficient ones usually received budget cuts and in some cases were forced to return improperly used funds to A.I.D.

An interesting contrast to the DRR project is the Provincial Development Program in Indonesia, in which there were no direct financial links between the Mission and the provincial and local governments implementing project components. Instead, funds were released to the lower tier governments from the central treasury, which received reimbursement from USAID/Indonesia in a paper transaction. Under these conditions, Mission monitors had little leverage with officials implementing the program at the grass-roots level (King 1982, 15).

Thus, redundancy among decentralized agencies potentially allows the decision to support a particular implementing agency--which should be based on managerial and developmental considerations--to be separated from the decision to support a general project in a given country--which is often influenced by political considerations. Although the performance of some CORDES was inadequate, the overall project was implemented more efficiently than were most USAID/Peru projects.

²⁷The exceptions occurred in departments with inefficient CORDES that lacked alternative implementation channels or alternative financing through reconstruction bonds. Not wanting to deny reconstruction and rehabilitation components to the citizens of these departments, USAID/Peru had little choice but to work with the inefficient corporations.

5.3.4 Project Management Units Reconsidered

As discussed in Section 5.1, international aid donors often have attempted to insulate the projects they finance from political and administrative uncertainty by implementing them through temporary project management units. Such units are often "virtually autonomous with minimal connections to their environments" (Smith et al. 1980, 9). They have their own sources of funds, hire their own staffs, follow their own administrative and personnel procedures, and purchase their own equipment. Most of the recent literature suggests that project management units facilitate short-term implementation objectives at the expense of longer term institution-building objectives.²⁸ For instance, high salaries and other incentives used to attract the "best and brightest" may increase the capabilities of the project management unit, but such incentives may also weaken permanent organizations that often lose key personnel and may contribute to bureaucratic rivalries that undermine the effectiveness of the project.

As institution building has become a more important priority for international donors, project management units increasingly have been rejected (often categorically) as organizational alternatives by development practitioners and donors. The most dramatic example is the World Bank, which for many years employed the project management unit strategy, but which has virtually abandoned it in recently funded projects (see Ayres 1984, 47-48, and Honadle and VanSant 1985, 14-15).

Although the concerns expressed by critics of project management units are genuine, A.I.D. experience in Peru suggests that the conclusions of these critics are overgeneralized and not based on careful analysis of different types of project management units and factors affecting their comparative advantages. The literature tends to gloss over important distinctions among project management units: that they can be set up within or outside of existing organizations, operate at different levels, and perform different types of tasks. Moreover, attention tends to be focused on individual units, rather than on ways that they can be linked to other organizations. Finally, the effectiveness and institutional impacts of project management units may vary with the management philosophy and design of the project.

The experiences of the IRD and DRR projects demonstrate that in highly centralized political systems, working through project

²⁸For example, see Honadle and VanSant (1985), Korten (1980), Morss and Gow (1985), Smith et al. (1980), and Tendler (1975).

management units within key national-level organizations is an effective strategy for establishing or reinforcing central organizational capacities to assist decentralized organizations (Schmidt 1988b, Sec. 2.3.1; see also Sec. 4.2 above). Under the DRR project, the formation of a unit in the Finance Ministry to regularize disbursements greatly increased the predictability of funding to CORDES (Schmidt 1988b, Sec. 3.1.1). Under both the DRR and IRD projects, the creation of central project management units to administer project funds and to provide technical assistance reinforced the performance and political power of CORDES, improving their chances for long-term viability (Schmidt 1988b, Secs. 2.3.1, 3.1.3, 3.2.2, and 4).

Similarly, DRR project experience suggests that at least in highly centralized contexts, project management units within permanent decentralized agencies can be used to facilitate both institution-building and implementation objectives. From the perspective of USAID/Peru, project management units established within CORDES under the DRR project (generically called PIRR units²⁹) furthered the traditional donor objectives of rapid implementation and program insulation by facilitating compliance with USAID/Peru requirements, increasing the likelihood that DRR components would have high priority, decreasing the probability that DRR resources would be diverted to other purposes, focusing technical assistance on DRR-supported components, and helping DRR-supported activities to circumvent externally imposed administrative bottlenecks. But by pursuing these traditional concerns of the donor, USAID/Peru also insulated the project management units within CORDES from many centrally imposed constraints that severely limit the possibilities for CORDE development (Schmidt 1988b, Secs. 1.4.1 and 3.1.2). For example, although the Lambayeque Corporation had perhaps the most rigid, centralized, and formalistic administration of any CORDE visited by the author, its PIRR unit was characterized by a flexible, decentralized, and goal-oriented style of management.

PIRR units were implemented in a way that left considerable room for institutional learning, perhaps at some cost to expediency. To its credit, DRR project management did not attempt to impose special units at the onset of the project. In cases of slow or inadequate implementation through normal CORDE structures, USAID/Peru could threaten to cut off funds, and this threat was made implicitly or explicitly to several CORDES. But, again to its credit, DRR project management did not attempt to dictate the actual structure of the PIRR units. The PIRR units

²⁹"PIRR" is the Spanish acronym for the "Comprehensive Rehabilitation and Reconstruction Program." For discussion of PIRR units, see Schmidt 1988b, Sec. 2.3.4.

in the CORDES visited tended to evolve in stages--from advisory units with no line or administrative functions, to separate line units, and finally to semiautonomous units with both administrative and implementation functions.

PIRR units had positive impacts on the larger CORDES of which they were a part. Most CORDES emulated improvements in programming and technical capacity achieved within their PIRR units. Moreover, on average, 70 percent of professional personnel in PIRR units were retained by CORDES and their microregional offices after the completion of the DRR project. Some other professionals from PIRR units have found employment with the field offices of central ministries and agencies.

The largely successful integration of PIRR units into CORDES stands in sharp contrast to the less successful experience of the PRODERINs under the IRD project (Schmidt 1988b, Secs. 2.1 and 3.2.3). A comparison of these experiences suggests two hypotheses regarding the institutional impacts of decentralized project management units.

First, the long-term institutional impacts of project management units are likely to be greatest if they are established within agencies that have broadly congruent goals (such as the PIRRs within the CORDES) rather than merged into existing agencies. Organizational mergers between PRODERINs and CORDES were processes fraught with conflict and, although fading, the strains from this experience are still evident in the Corporations of the Cajamarca and Junín Departments.

Second, if higher salaries are needed to attract superior personnel to a project management unit, organizational jealousies will be lessened if salary differentials are limited to a few key personnel. The higher salaries initially paid to PRODERIN staff under the IRD project greatly complicated the organizational merger between the PRODERINs and CORDES. In contrast, by paying higher salaries through the GRR to only a few key personnel, the DRR project largely avoided conflict and alleviated the shortage of required staff. Some conflict resulted from giving bonuses to PIRR personnel of selected CORDES in recognition of overtime services. But in two CORDES visited, this conflict was ameliorated by also giving bonuses to deserving staff in administrative and line units who had contributed to the reconstruction and rehabilitation program.

5.4 The Challenge for International Donors

To the extent that the line of argument in Section 5.3 is correct, the ability of donors to effectively support decentralization is less likely to be constrained by any intrinsic conflict with their organizational imperatives than by their ability to design and implement appropriate projects. Similarly, to the extent that the hypotheses developed in Sections 3 and 4 are true, a new premium must be placed on developing and using donor capabilities for institutional analysis. Donors not only must have the patience to support incremental capacity building, but they also must understand contextual variables influencing the costs of collective action for and against decentralization and be able to recognize and take advantage of opportunities for institutional reform (see Secs. 3 and 4.1.2 above). They must use interorganizational linkages to enhance political sustainability as well as performance (see Sec. 4.2). Financial mechanisms must be designed to take advantage of natural synergisms between implementation and institution-building objectives (see Secs. 4.3 and 5.3.1).

Reflection on both positive and negative aspects of A.I.D. experience in Peru suggests three major lessons for donors wishing to support decentralization. First, they must find ways of building support for decentralized organizations into a variety of projects and of linking this support to institutional reform. Second, while respecting the political traditions of the recipient country, donors should take a more active role in building political support for institutional reform. Third, donors must not allow the long-term objective of decentralization to become a hostage to short-term fads.

Regarding the first lesson, the potential contributions and limitations of providing support for decentralization through project assistance can be inferred from A.I.D. experiences in Peru. Much of the analysis presented in this study suggests that implementation and institution building can be compatible and even mutually reinforcing in ways that have not been widely appreciated. Appropriate project design may allow donor agencies to transcend some of the apparent trade-offs between these two objectives (Schmidt 1988b, Sec. 3.1; see also Secs. 4 and 5.3 above). Moreover, support for decentralized organizations can be channeled through sectorally or programmatically defined projects, such as the DRR project, as well as through institution-building projects, such as the IRD project. The project mechanism itself does not appear to significantly constrain the ability of donors to support capacity-building efforts in decentralized organizations.

The Peruvian case study suggests that donor support for institutional reforms favoring decentralization can be a logical outgrowth of project experience in countries with a strongly centralized government; however, the link is not likely to be made within the bounds of the traditional project mechanism. Experience with central constraints under the IRD project greatly increased USAID/Peru's attention to institutional reform (Schmidt 1988b, Sec. 2.1); also, the IRD and DRR projects both helped to mobilize a decentralist lobby in support of reform (Schmidt 1988b, Sec. 3.1.3). But the major push for institutional reform during 1985 and 1986 occurred as a result of special circumstances (a window of opportunity) that could not have been anticipated at the beginning of the IRD project in 1979 or the DRR project in 1983. Moreover, USAID/Peru actively supported institutional reforms because the Mission Director took a personal interest in this area. The IRD project manager was charged with coordinating the Mission's efforts, using Program Development and Support funds and some relevant resources from the project (Schmidt 1988b, Sec. 4.1).

With respect to the second lesson, international donors are understandably hesitant to actively intervene in the internal politics of recipient countries, given their role as external actors. Indeed, donor agencies cannot and should not dictate institutional arrangements to their clients. The primary impetus for decentralization, and indeed development in general, should come from within the developing country.

But a legitimate concern for self-determination frequently leads to a passive or merely advisory stance vis-a-vis institutional change, a response that is inappropriate for two inter-related reasons. First, the governments of recipient states are not monolithic. Second, donor agencies providing significant assistance inevitably, even if inadvertently, influence organizational networks in both the public and private sectors of recipient countries. The question is not whether donor assistance should have institutional impacts, but rather what those impacts should be.

Recent A.I.D. experience in Peru demonstrates that donor agencies can play a critical catalytic role in securing reforms that increase the viability of decentralized organizations, while respecting the self-determination of recipient countries (Schmidt 1988b, Sec. 4). On the one hand, USAID/Peru project experiences and the skillful use of Program Development and Support funds stimulated the formation and development of a political lobby in favor of greater decentralization. On the other hand, this process of coalition building took place within the parameters of Peru's political system and was subject to the scrutiny and at least acquiescence of the country's elected governments. More-

over, the demands articulated by the lobby were logical outgrowths of the country's constitutional tradition and recent government policies, rather than foreign ideological transplants.

Finally, the experience of A.I.D. in Peru demonstrates that donor support for decentralization is susceptible to short-term developmental fads. In 1983, when the IRD project was redesigned and the DRR project was initiated in response to the natural disasters of that year, decentralization had a high priority in A.I.D./Washington. But by 1985, when a follow-up project to the IRD and DRR projects came under consideration, decentralization was somewhat out of fashion in Washington, primarily because the term had become associated with the public sector. Despite the recent successes of the IRD and DRR projects and the window of opportunity at hand, the Mission tilted its priorities to please A.I.D./Washington. The IRD project was extended for a year in 1986, but the proposed follow-on project continued to be ranked low and was eventually dropped once Gramm-Rudman-related budget cuts began to take effect.

The point here is not that decentralization should always be the primary development objective. Indeed, this study suggests that decentralization usually is best pursued in conjunction with other objectives. Rather, the point is that project selection should be based on careful analysis, not on developmental fads.

6. CONCLUSIONS AND IMPLICATIONS FOR FUTURE RESEARCH

This paper has examined key issues in the recent literature on decentralization and international assistance in light of the Peruvian case study. Section 2 summarizes significant empirical evidence on the impacts of decentralization in Peru that supports some of the principal arguments in favor of decentralization. Careful analysis of the Peruvian case highlights some of the strengths and exposes some of the weaknesses of the recent comparative literature on decentralization. On the one hand, it provides strong evidence that the incremental capacity-building approach to decentralization is fundamentally sound and that recent emphases on interorganizational linkages and financial transfers in the literature are well founded. On the other hand, analysis of the Peruvian case suggests that the current literature does not adequately consider how to mobilize political support for decentralization, and current thinking about design does not adequately address the frequent need for institutional reform at the center, or the ability of the donor to support decentralization.

During the course of the analysis, a number of hypotheses have been developed that address weaknesses in the literature. Those in Section 3 suggest that it is possible to use concepts from the public-choice school of policy analysis to understand factors that facilitate or hinder the mobilization of support for decentralization. Hypotheses in Section 4 shed light on how to design decentralized projects that will increase capacity and build support for needed institutional reforms. The thrust of the hypotheses posited in Section 5 is that design features employed by A.I.D. projects in Peru not only facilitate capacity building and institutional reform but also offer some potential advantages to international donors.

The comparative research on decentralization that emerged during the early 1980s made significant progress in advancing knowledge beyond ad hoc case studies. Some of the hypotheses developed in this study may further improve our understanding of how effective donor support might help to achieve decentralization in developing countries.

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67-