

# DONORS & DECENTRALIZATION IN DEVELOPING COUNTRIES

Insights from AID  
Experience in Peru

Gregory D. Schmidt

Westview Special Studies in Social,  
Political, and Economic Development

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For My Parents, Don and Doris Schmidt

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# Foreword

As a direct participant in the Agency for International Development's efforts to support 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 book examines AID support for the Peruvian government's decentralization efforts through the Integrated Regional Development (IRD) Project; the Disaster Relief, Rehabilitation, and Reconstruction (DRR) Project; and activities financed by Program Development and Support (PD&S) funds. 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 fifteen of Peru's twenty-four 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 reconstruction and rehabilitation of infrastructure, the recapitalization of poor farmers, and measures to alleviate the effects of future disasters. During the 1984–1986 period, AID/Peru tried to link the lessons learned from these projects to more permanent institutional changes through applied research financed by PD&S funds and through policy dialogue with organizations and individuals in the public and private sectors.

The outcome of Schmidt's work is an extensive review of these efforts, a comprehensive assessment of what they 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, Chapters 1 and 10, respectively, provide a useful introduction and an excellent synopsis. For the reader interested in extensive treatment of the Peruvian experience, Chapters 2, 3, 5, 6, and 7 offer a detailed account of Peruvian decentralization efforts and supportive AID assistance. For the reader who wants an analysis of the Peruvian experience vis-à-vis the literature on decentralization in developing countries, Chapters 4, 8, and 9 provide insightful commentary and some bold hypotheses, which are offered to guide future research.

Throughout the study, 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 him 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, his 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.

In conclusion, Schmidt's work is highly relevant for those of us who seek to help governments more efficiently and equitably carry out the process of economic development. By "picking apart" the Peruvian case and analyzing lessons learned there in light of the broader experience with decentralization worldwide, he makes 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.

*David W. Hess*  
Consultant, World Bank  
La Paz, Bolivia

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This book would not be possible without the cooperation, suggestions, and encouragement given by many people affiliated with the United States Agency for International Development (AID), agencies of the Peruvian government, and private sector organizations. Sheer numbers and a desire to protect the anonymity of sources working in the Peruvian public sector make it impossible for me to thank individually each person. Here I would like to express my gratitude to a few key individuals.

David Hess and Michael Hirsh, who were respectively managers of the IRD and DRR projects, took time from impossible schedules to answer conscientiously my many questions. Their interest in my research went well beyond the natural concern for accuracy and fairness in any review of their projects. Both actively encouraged and stimulated my efforts to address broader political, organizational, and design issues.

The analysis especially benefited from conversations with George Baldino, Paul Dillon, David Flood, Henry Izquierdo, Keith Kline, and Johannes Oosterkamp of AID/Peru; Ray Bromley and José Garzón, both formerly affiliated with the AID mission; and Arthur Mudge and Fernando Cruz-Villalba of the DRR final evaluation team. I 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. Previous work with Norman Uphoff and the Working Group on Local Institutional Development at Cornell University greatly stimulated my thinking on decentralization and project-design issues.

In addition, Donald Chisholm, David Hess, Dwight King, Keith Kline, Dennis Rondinelli, and Raymond Waldron provided written comments on drafts of the study at various stages. Michael Hirsh's extensive written comments on the penultimate draft were especially helpful. Dennis Rondinelli also gave very useful advice regarding the focus of the comparative analysis. Weixing Chen, Martin Dubin, Chetan Kumar, Jae-Young Park, and Ladd Thomas helped me to whip the manuscript into its final form.

Finally, I owe a special debt of gratitude to Ray Solem of the Center for Development Information and Evaluation, who oversaw the original

AID-sponsored research on which the book is based. Ray went beyond the call of duty at each stage of the research process. It was my very good fortune to work under his direction.

The generosity of the people listed above does not imply their agreement with the content or conclusions of the study, which remain my sole responsibility.

*Gregory D. Schmidt*  
DeKalb, Illinois

# Acronyms and Abbreviations

- AID:** United States Agency for International Development  
**AID/Peru:** the AID mission in Peru  
**AID/Washington:** central AID offices and bureaus in Washington  
**APRA:** American Popular Revolutionary Alliance  
**ATI:** Comprehensive Technical Assistance and Training Program for Municipalities  
**CEPS:** Center for Social Studies and Promotion  
**CER:** Peruvian Center for Regional Development Studies  
**CODE(S):** departmental development committee(s)  
**CONAR:** National Regionalization Commission  
**CORDE(S):** departmental development corporation(s)  
**CORDE-Cajamarca:** Departmental Development Corporation for Cajamarca  
**CORDE-Huancavelica:** Departmental Development Corporation for Huancavelica  
**CORDE-Junín:** Departmental Development Corporation for Junín  
**CRYF:** Corporation for Reconstruction and Development of Cuzco  
**CRYRZA:** Commission for the Reconstruction and Rehabilitation of the Affected Zone  
**DRR (project):** Disaster Relief, Rehabilitation, and Reconstruction (Project)  
**FNDE:** National Fund for Economic Development  
**GAO:** United States General Accounting Office  
**GDP:** Gross Domestic Product  
**GNP:** Gross National Product  
**GRR:** Rehabilitation and Reconstruction Division  
**IIADER:** Institute of Applied Research for Decentralization  
**INADE:** National Development Institute  
**INAP:** National Public Administration Institute  
**INE:** National Institute of Statistics  
**INFOM:** National Institute for Municipal Development  
**INP:** National Planning Institute  
**INP-DGPI:** National Planning Institute, Investment Programming Bureau  
**IPA:** Institute of Public Administration, New York

- IRD (project):** Integrated Regional Development (Project)  
**JDOPs:** departmental public works boards  
**JRYF:** Cuzco Reconstruction and Promotion Board  
**KMTD (fund):** Key Market Town Development (Fund)  
**LRAP:** Local Revenue Administration Project  
**MEF:** Ministry of Economics and Finance  
**MIPRE:** Ministry of the Presidency  
**OFDA:** Office of U.S. Foreign Disaster Assistance  
**ONRAP:** National Public Administration Office  
**ORDE(S):** regional development organization(s)  
**ORDENORTE:** Regional Development Organization for Piura and Tumbes  
**ORDESO:** Regional Development Organization for the Southeast  
**ORDETAM:** Regional Development Organization for Tacna and Moquegua  
**ORDEZA:** Regional Organization for the Development of the Affected Zone  
**PADRU:** Rural Development Support  
**PATC-CORDES:** Technical Assistance and Training Program for Departmental Development Corporations  
**PD&S:** Program Development and Support  
**PEDMEES:** Special Project for the Development of Microregions in Economic and Social Emergency  
**PIRR (units):** Comprehensive Rehabilitation and Reconstruction Program (project management units under DRR project)  
**PL 480:** Public Law 480 (United States)  
**Plan MERIS:** Improved Water and Land Use in the Sierra Project  
**PMS:** Sierra Microregional Project  
**PMU(s):** project management unit(s)  
**PRODERIN(s):** Project for Integrated Regional Development (project management units under IRD project)  
**PRODERIN-Cajamarca:** PRODERIN unit for Cajamarca  
**PRODERIN-Junín:** PRODERIN unit for Junín  
**PVO(s):** private voluntary organization(s)  
**RPW (fund):** Rural Public Works (Fund)  
**RWSES (project):** Rural Water Systems and Environmental Sanitation (Project)  
**SAR:** Secretariat for Regional Affairs  
**SINAMOS:** National Support System for Social Mobilization  
**UFRD:** urban-functions-in-rural-development  
**U.S.:** United States

# 1

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## Introduction

In recent years decentralization has become a central concern of the development community, as many analysts and practitioners have argued that decentralized organizations in the public and private sectors can facilitate various development objectives. Over the last fifteen years, a number of developing countries have attempted significant decentralization initiatives.<sup>1</sup> Moreover, as major international donors have searched for ways to support more egalitarian, participatory, and self-sustaining development efforts since the mid-1970s, they have displayed increasing interest in various modes of decentralization. During the 1980s, a wide range of donor agencies—including the Commonwealth of Nations, various United Nations organizations, the United States Agency for International Development (AID), and the World Bank—have sponsored significant research or conferences on decentralization (see Conyers 1983, 97–98; Conyers 1984, 191–192). This new wave of comparative research has made considerable progress in advancing the state of the literature by distinguishing among alternative modes of decentralization and by improving our understanding of how decentralization policies can be better designed and implemented.<sup>2</sup>

AID policy states that “investments in national public institutions must be balanced both by the establishment of decentralized institutions at regional and local levels, and by encouragement to the private sector” (AID 1983a, 4). From 1979 to 1987, AID supported the Peruvian government’s decentralization policies through two major projects—the *Integrated Regional Development (IRD) Project* and the *Disaster Relief, Rehabilitation, and Reconstruction (DRR) Project*—as well as through activities financed by *Program Development and Support (PDC&S)* funds. These efforts significantly improved the performance of specific decentralized agencies in Peru and also contributed to important institutional reforms at the national level that were necessary for the long-term development of decentralized organizations throughout the country.

## 1. Scope and Organization of the Study

This study examines AID's efforts to support Peruvian decentralization in light of recent comparative research on decentralization in developing countries. It places recent policies of the Peruvian government in historical perspective and reviews the experiences of the IRD and DRR projects. On the basis of this case material, the study assays key working hypotheses identified in the recent literature. The richness of the Peruvian case also affords many opportunities to formulate alternative and supplementary hypotheses that should be useful for future research and policy.

Chapters 2 and 3 provide historical background on decentralization issues and initiatives in Peru. Drawing on the Peruvian case, Chapter 4 addresses a major deficiency in the current literature by using analytical tools from the "public choice" school of policy analysis to develop new insights on the problem of mobilizing support for decentralization.

Chapter 5 describes the objectives and designs of the IRD and DRR projects. Chapter 6 examines the projects' contribution to the political empowerment of decentralized agencies and institutional reforms at the national level. Summarizing available evidence on the direct institutional and developmental impacts of the IRD and DRR projects, Chapter 7 argues that these projects provide important empirical evidence to support some of the claims made in the literature about the benefits of decentralization in developing countries.

Chapter 8 maintains that the Peruvian experience with decentralization both confirms much of the conventional wisdom about decentralized design and exposes the limits of this wisdom. Chapter 9 argues that design features incorporated in AID/Peru projects can be used to address concerns that have been raised in the literature about the ability of international donors to support decentralization.

Chapter 10 summarizes the major conclusions of the study, assesses their implications in light of the broader literature, and makes suggestions regarding the direction of future policy and research.

## 2. The Concept of Decentralization

Although decentralization probably is the institutional reform most 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, formalistic, or episodic, often treating the spatial distribution of power as an end in itself.<sup>3</sup> Conceptual confusion is one of the primary reasons for this poor state of the literature. The term *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.<sup>4</sup> The term *centralization* has a clear and stable meaning, referring to the concentration of powers in a single head or center. But its antonym *decentralization* is an umbrella term for a number of distinct and even conflicting concepts because one can move away from centralization on 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 depends ultimately on the task at hand.

Rondinelli and Nellis (1986, 6–9), who have undertaken the most systematic research on decentralization in developing countries, distinguish four major modes of decentralization:

- *Deconcentration* is “the handing over of some administrative authority or responsibility to lower levels within central government ministries and agencies.”
- *Delegation* “transfers managerial responsibility for specifically defined functions to [public] organizations outside the regular bureaucratic structure,” such as public corporations, regional development agencies, and other parastatal organizations.
- *Devolution* is “the creation or strengthening, financially or legally, of sub-national units of government, whose activities are substantially outside the direct control of the central government.”
- *Privatization* refers to the divestiture of governmental “responsibility for functions either by transferring them to voluntary organizations or by allowing them to be performed by private enterprises.”

This study employs the above typology, which is somewhat different from usage in Peru and other Latin American countries.<sup>5</sup> It should be emphasized that the four modes identified are ideal types, which are often mixed in practice.

The typology outlined above may be further refined in accordance with the objective of the analysis. Three additional sorts of distinctions are appropriate for this study. First, the term *governmental decentralization* refers to deconcentration, delegation, and devolution, as opposed to privatization. This term is useful because the present study primarily focuses on the three modes of governmental decentralization in Peru.

Second, the *scope* of decentralization in the public sector is an important concern in this study. Deconcentration and devolution both may be relatively general or specific (see Leonard 1982, 29–34):

- *General deconcentration* (also called prefectorial deconcentration) occurs to the extent that a variety of tasks are deconcentrated to a horizontally integrated administrative system.
- *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.
- *General devolution* occurs to the extent that a variety of tasks are devolved to multipurpose representative bodies, such as local or regional governments.
- *Functional devolution* occurs to the extent that specific tasks are devolved to specialized representative organizations, such as school boards or water user associations.

Third, in the Latin American context, it is useful to distinguish delegation to agencies dominated by interest groups or political parties from delegation to agencies in which bureaucratic elites predominate:

- *Political delegation* occurs to the extent that interest groups or political parties have predominant representation or influence in public agencies outside of the regular bureaucratic structure.
- *Bureaucratic delegation* occurs to the extent that bureaucratic elites have predominant representation or influence in public agencies outside of the regular bureaucratic structure.

In summary, the recent comparative literature distinguishes four major modes of decentralization: deconcentration, delegation, devolution, and privatization. The primary empirical focus of the present study is the first three modes, which can be called types of governmental decentralization. In order to facilitate the analysis that follows, it is also useful to distinguish among six submodes of governmental decentralization: general deconcentration, functional deconcentration, general devolution, functional devolution, political delegation, and bureaucratic delegation. All of these modes and submodes are ideal types, which may be combined in actual decentralization policies.

### 3. Sources

The description and analysis of AID projects in Chapters 5–7 are based on a review of project documentation, reports, and evaluations, as well as on interviews with key participants. The key documentation and evaluations consulted are listed in the bibliography. Of particular importance are the midterm and final evaluations of the IRD project (French et al. 1983; Chetwynd et al. 1985); cost-effectiveness evaluations

and surveys of beneficiaries undertaken for the IRD project by Rural Development Services, Inc. in 1983 and 1985 (see French et al. 1983, 87–127; Hatch et al. 1985); the final report of the university technical assistance team to the IRD project (LRAP 1984); an extensive analysis written by the director of an IRD-supported technical assistance agency (Franco Temple 1986); and the final evaluation of the DRR project (Checchi 1987). During May–July 1985 and March 1987, the author interviewed twenty-three officers and professionals in AID; nine officials in the Office of the Prime Minister and the Ministry of the Presidency (MIPRE); six officials in the National Development Institute (INADE); four officials in the National Planning Institute (INP); fifty-two officials and professionals from departmental development corporations (CORDES) in the departments of Cajamarca, Junín, Lambayeque, Piura, Puno, and Tacna; eighteen leaders of other public and private organizations in these departments; and members of two peasant communities in the Department of Puno.

The historical analysis in Chapters 2 and 3 is based on sources cited in the text and endnotes. Chapters 4, 8, and 9 relate the Peruvian case to the broader literature on decentralization in developing countries, which is cited in appropriate places. Peruvian legislation (laws, decree laws, and legislative decrees) is cited by sequential number and may be found in the government newspaper, *El Peruano*, and standard Peruvian legal compendia. All translations from the Spanish were done by the author.

### Notes

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

2. Among 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). AID recently initiated an ambitious five-year program of applied research on decentralization in the developing world.

3. For 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).

4. This paragraph draws on Leonard (1982, 27–29).

5. The Spanish term *desconcentración* is similar to its English cognate *deconcentration*; however, the Spanish term *descentralización* has approximately the same meaning as the English term *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 the English term *delegation*, as defined above. See Bustamante Belaunde (1986, 265–277) and Garzón (1986, 15–17).

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## The Peruvian Context: An Overview

Today almost all major political forces in Peru—from the center-right to the Marxist left—support some sort of governmental decentralization, although there is considerable debate over which mode is most appropriate (see Iguíñiz et al. 1986). Many Peruvians, including President Alan García, view the strengthening of regional or local governments as a prerequisite for a more self-sustaining and equitable pattern of economic growth. During the 1980s the emergence of the extreme Maoist Shining Path guerrilla movement in one of the poorest and most neglected regions of the country has served to dramatize the decentralization issue.

This chapter provides a brief introduction to the context in which Peruvian decentralization initiatives have been attempted. Successive sections below (1) provide an overview of Peruvian geography, (2) describe the territorial organization of the Peruvian state, (3) sketch major patterns of center-periphery relations in Peruvian history before 1949, and (4) examine the spatial implications of major economic and demographic trends since that year.

### 1. Geography

Covering almost one-half million square miles, Peru is the third largest country in South America after Brazil and Argentina.<sup>1</sup> Superimposed upon the midwestern United States, it would cover almost all of Minnesota, Wisconsin, Iowa, Missouri, Illinois, Indiana, and Ohio. The country is divided into three very different natural regions:

- The Pacific coastal desert, commonly called the *coast*, which accounts for approximately one-tenth of Peru's land surface
- The Andean mountains, commonly called the *sierra*, which constitute about one-quarter of the national territory

- The Amazonian lowland forest, commonly called the *jungle*, which covers almost two-thirds of the country

The *high jungle* (*ceja de la selva*), a transitional area between the sierra and the jungle that has been the focus of recent colonization attempts, is sometimes identified as a fourth major region.

Although some of the pre-Inca civilizations were centered on the coast, the population of the Inca empire was concentrated in the sierra at the time of the Spanish conquest in 1532. For strategic reasons the Spanish founded the capital city of Lima and its port, Callao, on the coast.

The major cities of the north and central coast—Piura, Chiclayo, Trujillo, Chimbote, Lima-Callao, Pisco, and Ica—are situated near sea level in the principal coastal valleys, as are Moquegua and Tacna in the south. The cities of Juliaca and Puno are located on the *Altiplano*, a high plateau surrounding Lake Titicaca. The other major cities of the sierra are situated in intermontane valleys. With its strong hispanic tradition, Arequipa, the major southern city, culturally belongs to the coast but is located in the sierra. Iquitos, a port on the Amazon, is the principal city of the jungle.

## 2. Territorial Organization

During most of its history, the unitary Peruvian state has had three levels of territorial organization: departments, provinces, and districts. Departments are divided into provinces, and provinces into districts. These levels are administratively linked by a prefecture system, but elected governments currently exist at only the provincial and district levels and within officially recognized peasant and native communities. Elected governments at the departmental level have not functioned since 1919, though departments remain the primary administrative jurisdiction.

At the time of independence in 1821, there were 7 departments and 58 provinces, which were based on colonial territorial units (*intendencias* and *corregimientos*). Since that time population growth, the workings of the electoral and the budgetary systems, and rivalries among cities, towns, haciendas, and peasant communities have contributed to a proliferation of territorial units at each level. By 1986 there were 24 departments; the Constitutional Province of Callao, which has quasi-departmental status; 179 provinces; and 1,747 districts (INE, 1986).

The 1979 Constitution and the recent Basic Law of Regionalization (Law 24,650) provide for regional governments but do not define the regions. These can be existing departments, units consisting of more than one department, or units cutting across present departmental boundaries. As discussed in Chapters 3 and 6, the García administration is

currently attempting to implement multidepartmental regional governments. Multidepartmental regions previously functioned under the Morales Bermúdez administration (1975–1980).

Municipal governments at the provincial and district levels have been elected during recent periods of constitutional rule: from 1963 to 1968 and again since 1980. These bodies have traditionally provided such services as civil registration, public markets, sanitation, parks, sports fields, and public libraries. The 1979 Constitution and subsequent laws give municipalities greater scope for undertaking nontraditional activities in education, public health, public transportation, public utilities, rural development, and urban planning. But municipal governments have woefully inadequate resources and technical capacity to take on such tasks, despite some recent improvements in their revenue capabilities (see Chapter 7.3; Garzón 1986, 233). None of the more developmentally oriented activities specified or suggested in recent legislation has been assumed by a majority of municipalities; indeed, most of these newer activities are carried out by less than one-fifth of local governments (Althaus Guarderas 1986, 26–29).

Yet another level of organization is microregions, which have gained prominence under the current García administration. Microregions are an effort to shape developmental jurisdictions to fit the complex reality of the Andes, which perhaps contain more environmental variation than any area of comparable size in the world (Brush 1977, 2). Delineated by the National Planning Institute (INP), these units roughly correspond to river basins, with some modifications to take transportation patterns into account. The García administration is attempting to use microregions as the basic developmental unit, though they are subordinate to departmental development corporations (CORDES) and will continue to be under the authority of future regional governments. Microregions sometimes cut across provincial lines but respect the boundaries of districts, whose elected officials double as representatives to microregional assemblies. Thus, microregions also represent an effort to link the representative function of local government to a unit having greater resources and larger economies of scale.

### **3. Center-Periphery Relations Before 1949**

Although there was little institutional continuity between colonial and republican Peru, several key features of the colonial system—an administratively determined pattern of urbanization, an elitist political culture, and bureaucratic mediation of disputes—contributed to a cultural predisposition to look toward the geographic and political locus of authority for resolution of conflicts and problems. Most cities and towns were

founded as administrative centers, their physical layouts being shaped by meticulous instructions from Spain. Beginning in colonial times, a sophisticated urban culture emerged well before industrialization (see Véliz 1980, 218–236). Wealth and power were concentrated in cities and towns, especially in Lima, whereas the dominated indigenous masses were primarily inhabitants of the rural sierra. Corporatist political structures were legitimized by an elitist political culture, which made the monarch responsible upward to the will of God, rather than downward to the will of the people. Although there were conflicts between the crown and colonists, these were largely mediated through a complex bureaucracy, whose constituent parts had overlapping jurisdictions. Such a system tended to produce stalemates to be resolved at higher administrative levels (Skidmore and Smith 1984, 19–21).

Although regional cleavages have been evident since independence, politics generally has not been polarized between Lima and the provinces, or between regions, since early political conflict over the formation of the Peru-Bolivia Confederation (1836–1839). Indeed, during most of the republic's history, national and local power have been linked by a vertical brokerage system through which provincial cliques lent virtually unconditional support to central factions on national issues in exchange for local dominance. During the early republic (1821–1844), competing local factions tended to make tenuous alliances with various military chieftains, or caudillos. As politics became more structured during the mid-nineteenth century, rival factions struggled for control of local electoral caucuses and prefectures, making more stable alliances with intermediate- and national-level political factions.<sup>2</sup> This basic pattern continued without major challenge until the 1920s, though the electoral system varied after the War of the Pacific (1879–1883).<sup>3</sup> In more backward areas, the pattern of vertical alliances persisted until the agrarian reform of the Velasco administration (1968–1975).

In addition to the general centralist disposition discussed above, two principal factors explain the emergence and endurance of the provincial brokerage system. First, the external orientation of economic development gave successive central political elites control over new resources that could be used for patronage. For example, rising guano revenues enabled the most notable of the nineteenth century caudillos, Ramón Castilla (president 1845–1851 and 1855–1862), to abolish the system of Indian tribute—thereby eliminating the principal source of departmental revenues, centralizing patronage in Lima, and undercutting the centrifugal tendencies of regionally based caudillos (Romero 1949, 371–374). Later, central elites derived resources from taxes on agricultural and mineral exports, foreign loans and supplier credits, and petroleum royalties, rather than having to extract them from the periphery.

Second, since the political and economic interests of various provincial strata tended to be ambiguous or conflicting, provincial factions usually gained more from making alliances with central factions on the basis of particularistic advantage than from joining interest groups or political parties organized around regional, sectorial, or class issues. More traditional landowners were favored by the system of congressional representation,<sup>4</sup> but they also were dispersed throughout the rugged sierra and often competed against one another for land, labor, and water. They had no motive to unite against central authority so long as the latter did not question their de facto local autonomy or quasi-feudal labor systems. Various segments of the provincial middle class, which developed along different regional export axes after the War of the Pacific, had little in common with one another. Conflicts among peasant communities, which were rooted in the pre-Columbian and colonial past, inhibited effective horizontal alliances among the peasantry; however, individual communities used alliances with central actors to free themselves from domination by towns and haciendas.<sup>5</sup>

During the first century of the republic (1821–1919), decentralization and federalism were advocated by very different political actors having diverse motives: liberal intellectuals, caudillos out of power, and the central government itself in times of fiscal crisis.

Liberal intellectuals—who dominated most of the early constitutional conventions—favored a federal system, but they were afraid that immediate adoption of federalism would exacerbate the centrifugal tendencies of the early republic, weakening the country vis-à-vis the external threats that it then faced. The 1823 and 1828 Constitutions contained provisions for departmental boards (*juntas departamentales*), which were to serve as nuclei for departmental legislatures.<sup>6</sup> The juntas functioned from 1828 to 1834, when they were abolished in anticipation of the Peru-Bolivia Confederation. Later attempts to resurrect them in the liberal 1856 and 1867 Constitutions were not successful.

Caudillos and politicians out of power used *decentralization* and *federalism* as political slogans to rally support in the provinces. Leaders who attained office on a decentralist or federalist platform, however, were unwilling to implement policies that would significantly undercut central authority (Mariátegui 1944, 144–151). Such about-faces were not necessarily betrayals of provincial supporters because no major class or sector had a consistent interest in decentralized institutions. Indeed, maintenance of central authority and resources upon attaining office increased the chances of rewarding one's clientele, who in a sense also became the new "ins."

Faced with a fiscal crisis as guano revenues declined, in 1873 the central government transferred additional responsibilities in education,

law enforcement, and public works to a system of elected district, provincial, and departmental councils, which were financed primarily by property taxes and other levies collected at the local and regional levels.<sup>7</sup> This system, however, was abolished in 1880 after the outbreak of the War of the Pacific.

The precarious financial condition of the central government after the war prompted the establishment in 1886 of a new version of the departmental boards.<sup>8</sup> Made up of notables elected from each province in the department and responsible for education, public works, and charity in their jurisdictions, the boards were assigned revenues from local property and excise taxes. As the central government recuperated during the first two decades of the twentieth century, the boards gradually were deprived of their taxing powers and relieved of their responsibilities.

The character of the decentralization debate began to change during the 1920s for two principal reasons. First, commercial and middle sectors in the south sought to revitalize the region's economy by developing the internal market: a strategy that led to conflict with both the externally oriented agro-exporters of the north and traditional landlords throughout the country. In an effort to rally support from other social classes in the region, these southern elites employed such slogans as *decentralization* and *autonomy* (Caravedo Molinari 1979). The Decentralist Party attacked the traditional values of the sierra landlords, extolled the Indian, and argued that development of an internal market was the key to improving the lot of the indigenous masses. The Autonomist League attempted to appeal to the incipient working class in Arequipa.

Second, the modernizing, authoritarian administration of Augusto Leguía (1919–1930) attempted to destroy preexisting political organizations, extend effective state authority outside of Lima and other major cities, and expand the government's role in development. Leguía abolished the departmental boards and suspended municipal elections, creating an alternative system of regional congresses dominated by his followers (Basadre 1968, XIII: 47–49). He threatened traditional landowners by establishing a national police force and by using the provincial brokerage system to promote a new middle-class political stratum in the provinces loyal to him.<sup>9</sup> Peasant communities received official protection as the central government established independent linkages with them, but they also became subject to labor conscription for road construction.

Leguía's efforts to establish a centralized, personalistic political apparatus and the concentration of public investment in Lima under his administration provoked a strong backlash among both progressive and conservative forces in the provinces. The southern decentralist movement played a key role in his overthrow. Moreover, during the fluid political period following Leguía's ouster, a rival Arequipa-based government

played an important role in replacing his caudillo successor with a provisional junta until elections could be held (Caravedo Molinari 1979).

During 1931–1933 representatives of the decentralist movement in the Constitutional Assembly advocated the establishment of a new type of governmental body at the departmental level that could be used to counter the local power of landowners and to stimulate development. The 1933 Constitution outlined a system of elected departmental councils (*consejos departamentales*) to be financed by a number of internal taxes. The councils were to assume responsibility for most governmental activities within their jurisdictions, the major exceptions being justice, defense, and international relations (Caravedo Molinari 1983, 24–25).

The departmental councils, however, were never established.<sup>10</sup> For both fiscal and political reasons, the semiauthoritarian administrations of Gen. Oscar Benavides (1933–1939) and Manuel Prado (1939–1945) did not implement the enabling legislation that had been passed by the Constitutional Assembly. The councils would have necessitated a major shift of resources away from the central government during a period of fiscal austerity. In addition, most councils in the north would have been controlled by the outlawed American Popular Revolutionary Alliance (APRA), the principal leftist party of the time.

Also afraid of APRA, many decentralists deferred to Benavides and Prado. Moreover, under both of these presidents, the central government took on some of the developmental functions foreseen by advocates of the departmental councils, further undercutting demands for their implementation.<sup>11</sup> Economic and investment policies generally promoted development of the internal market with less spatial inequality. With its economic demands partially fulfilled and its political demands being unrealistic in the polarized climate of the times, the southern decentralist movement unraveled.

During the democratic opening of 1945–1948, demands for decentralization came from another segment of the political spectrum, as the APRA-controlled Congress established provisional municipal boards (*juntas municipales transitorias*) that were to govern districts and provinces until municipal elections could take place. The party used these boards as an important power base in its attempt to control the central government. Not surprisingly, the municipal boards were relentlessly attacked by the right-wing opposition as foci of corruption;<sup>12</sup> they later were abolished under the vehemently anti-APRA administration of Gen. Manuel Odría (1948–1956).

#### 4. Spatial Patterns Since 1949

In contrast to the more regionally balanced pattern of economic growth during the 1930s and 1940s, patterns of development since 1949—

expansion of the mining sector, development of the fishing sector, and accelerated industrialization—contributed to increasing spatial concentration of economic activity, especially in Lima. By the mid-1970s metropolitan Lima accounted for 52 percent of GDP and 70 percent of value-added in the industrial sector; placed 73 percent of all bank deposits, while receiving 76 percent of all loans; and contributed 90 percent of all taxes, while being the beneficiary of 65 percent of public spending (Cabieses et al. 1982, 8).

The population also became more spatially concentrated: a high rate of demographic growth, the stagnation of food agriculture, and improving transportation and communications contributed to massive internal migration from the sierra to major cities on the coast, especially Lima. In 1940 rural and urban residents had accounted respectively for 65 and 35 percent of the population, but by 1981 these percentages of the population were reversed (INE 1984, xxi). Between the same two census years, the proportion of Peruvians living in the Department of Lima and the Constitutional Province of Callao increased from 13.3 to 30.7 percent (INE 1984, xvii). Over six million Peruvians, out of a total population of some twenty-one million, now live in the capital city and its port.

Although the increasingly capital-intensive export and manufacturing sectors of the economy created little additional employment, migrants were absorbed into expanding “informal” sectors of the urban economy. Seeking low-cost housing, migrants and other urban poor organized “invasions” to settle arid public lands around Lima and other major coastal cities. By the 1980s at least one-third of the population of Lima-Callao lived in squatter settlements (*pueblos jóvenes*).

Nevertheless, the coast, and especially Lima, continue to enjoy a standard of living that is significantly higher than that of the sierra. If the median family expenditure in the country as a whole is indexed at 100, the comparable figures are 56 for the sierra, 139 for the urban coast excluding Lima-Callao, and 211 for metropolitan Lima (Thomas 1978, 2). Social statistics depict a similar pattern. Life expectancy in Lima-Callao is fifty-eight years, as compared to forty-two years in the sierra Department of Huancavelica. The rate of infant mortality is 72 per thousand in the former department, in contrast to 227 per thousand in the latter (Amat y León Chávez 1986, 17). Beyond statistics, virtually every Peruvian recognizes that residents of the capital have access to the best educational facilities, services, and amenities.

## 5. Summary

Peru is a geographically diverse country with a heritage of economic and political centralization. Wealth and power have been concentrated

in Lima since the conquest, and the capital's relative economic and demographic importance has significantly increased since 1949. National and local power have traditionally been linked through a vertical brokerage system. With the exception of the southern decentralist movement of the 1920s and 1930s, no major social force before World War II had a consistent interest in decentralization.

Elected governments at the departmental level were abolished in 1919; they were not re-established in the 1930s and 1940s, despite decentralist provisions in the 1933 Constitution. Municipal governments at the provincial and district levels have been elected during recent periods of constitutional rule, but have played only a marginal role in economic development.

### Notes

1. This paragraph draws on Werlich (1978, 1-9).

2. For discussion of the nineteenth century electoral system, see Basadre (1968, II: 264-267, 275-278, 288-289, and 319; IV: 214-215 and 224-226) and (1980, 13-40); Belaunde (1940, 32-59); and Villarán (1918, 11-13). See also the constitutional and legal norms in Oviedo (1861, I: 332-333, 344-347, 366-373, and 386-391; II: 16-20, 28-36, and 52-53) and Pareja Paz Soldán (1954, 444-454, 509-523, 546-557, 619-621, 627, 688-689, and 697).

3. See Basadre (1980, 67-86), Belaunde (1940, 59-70), Miller (1982, 117), and Villarán (1918, 16-19).

4. On the one hand, seats in the Chamber of Deputies, the lower house, have been apportioned nominally by population during most of the republic's history, as have Senate seats since 1933. On the other hand, between 1896 and 1980 literacy requirements drastically reduced the size of the electorate. The ballots of voters in the backward provinces carried extra weight because disproportionately large numbers of illiterate Indians could not vote but were nevertheless counted for the purpose of apportionment. Moreover, prior to the 1933 Constitution, small rural provinces were overrepresented: each province was guaranteed at least one seat in the lower house, and Senate seats were divided in accordance with the number of provinces in each department. For discussion, see Astiz (1969, 49-52), Basadre (1980, 24-26), and Belaunde (1940, 70-72). The relevant constitutional norms are contained in Pareja Paz Soldán (1954).

5. This process began around the turn of the century in some areas of the central sierra (see Samaniego 1978, 52-56; Alberti and Sánchez 1974, 51-60) and was well under way throughout the country by the 1960s. For an excellent summary of the empirical literature and analysis of vertical alliances, see Whyte and Alberti (1976).

6. For discussion of the early *juntas departamentales*, see Basadre (1931, 207-211), (1947, 157-162), and (1968, II: 282-283); and Caravedo Molinari (n.d., 22-23). See also Pareja Paz Soldán (1954, 460-463, 518-521, 534, 675-676, and 731-732).

7. For discussion, see Basadre (1931, 212-214) and (1968, VII: 75-80 and 272-275); Mariátegui (1944, 161-162); and Romero (1949, 375).

8. For discussion, see Basadre (1931, 214-216), (1947, 164-168), and (1968, X: 228); Capuñay Mimbela (1942, 100-102); Hammergren (1974, 91-95); Mariátegui (1944, 162-163); and McQueen (1925).

9. See Basadre (1980, 135-137), Belaunde (1945, 209-216), Burga and Flores Galindo (1980, 139-140), and Corler (1978, 191).

10. The discussion in this paragraph and the subsequent paragraph is largely based on Belaunde (1957, 436-437) and Caravedo Molinari (1983, 36-74).

11. The major exception to this centralizing trend was the Santa Valley Corporation, a regional agency modeled on the Tennessee Valley Authority that was founded in 1943 with the assistance of U.S. advisors.

12. See various issues of the *Boletín de la Alianza Nacional* from 1948. For an *aprista* view, see Seoane (1957, 31-34).

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## Regional Development Organizations in Peru, 1949–1988

As discussed in the last chapter, patterns of economic growth and internal migration have increased the primacy of Lima since the 1940s. While these trends continued, the 1960s and 1970s were marked by increasing politicization of the peasantry and the public sector's growing role in the economy. All of these historical currents have helped to make governmental decentralization an enduring political and policy concern.

Since 1949 each successive presidential administration has sought to fill the organizational gap between the national and provincial/local levels by establishing multisectorial public entities with major developmental responsibilities at the departmental or regional levels. These multisectorial agencies have been significant channels for public investment and the most politically salient manifestation of each administration's approach to decentralization. In the latest of these initiatives, the current administration of President Alan García has begun to establish regional governments, as part of some of the most ambitious decentralization policies ever attempted in Latin America.

In approximate chronological order, the major types of developmentally oriented organizations operating at the departmental or regional levels have been:

- Departmental public works boards with varying names and organizational structures, which were established on an ad hoc basis beginning in 1949
- Departmental public works boards (JDOPs) affiliated with the National Fund for Economic Development (FNDE), which were founded in 1956
- Early departmental development corporations (CORDES), sometimes called rehabilitation and reconstruction boards, which were organized

on a department by department basis during the 1950s and 1960s and often absorbed the JDOPs

- The regional offices of the National Support System for Social Mobilization (SINAMOS), a social mobilization agency that functioned from 1971 to 1978, absorbing the remaining JDOPs, the CORDES, and other organizations
- Regional development committees, which were formed during the 1972–1975 period in some regions
- The Regional Organization for the Development of the Affected Zone (ORDEZA), an earthquake relief and reconstruction agency that was established in 1973
- Departmental development committees (CODES), which were formed after 1976 with the restructuring of the regional development committees
- Regional development organizations (ORDES), which were founded during 1977–1979
- Contemporary departmental development corporations (CORDES), which were re-established in 1981 as transitional organizations leading to regional governments
- Regional governments, which are mandated by the 1979 Constitution and the 1987 Basic Law of Regionalization

For the sake of simplicity, the term *regional development organization* will be used to refer to all of the multisectorial public entities listed above.

Although natural disasters have often served as catalysts for the establishment of regional development organizations, their scope and character have been influenced by such factors as the type of regime in office (civilian or military), the strength and orientation of governing political alliances, and the scale and organization of the public sector. Over time, these factors have interacted to influence the degree of administrative and financial dependence on the central government, relations between regional development organizations and the field offices of national ministries, patterns of political influence within regional development organizations, and the amount and distribution of public investment channeled through them.

Nevertheless, there has been considerable continuity in the functions and personnel of these various agencies. In the six CORDES visited by the author, many informants had worked for SINAMOS during the 1970s, and a few had begun their careers with the pre-1968 CORDES and JDOPs. Although the activities of regional development organizations have varied considerably over time and space, they have primarily constructed public works. The regional governments now being established are to have broader developmental responsibilities, but their initial or-

ganizational cores will be the CORDES, which maintain a public works orientation.

Following the pattern established by the provincial brokerage system, regional development organizations established since 1949 have played only a marginal role in revenue generation. Although the FNDE and the early CORDES achieved a high degree of budgetary autonomy, this was primarily accomplished through the "capture" of national-level earmarked taxes, rather than the extraction of resources from regional or departmental jurisdictions. ORDES and contemporary CORDES have been almost totally dependent on transfers from the central government. Regional governments, however, can potentially break this pattern.

The first section of this chapter describes patterns of fragmentation in the Peruvian public sector before 1968. The remaining sections trace the evolution of regional development organizations in a changing political, economic, and administrative context.

### **1. The Public Sector Before 1968**

Although it was smaller and less differentiated than those of other major Latin American nations during the 1950s and 1960s, the pre-1968 Peruvian public sector was characterized by severe fiscal and budgetary fragmentation. Various public and private entities collected taxes and paid out obligations with little or no central coordination. At the beginning of the 1960s, only about one-fifth of public investment was allocated through the regular budgetary process, as legally mandated special and administrative accounts channeled income from earmarked taxes to specific agencies, trust funds, jurisdictions, and projects (Schmidt 1987, 269–270).

The system of earmarked taxes served several distinct, but often overlapping, interests. Taxes earmarked for specific projects and purposes in particular cities, districts, and provinces were outgrowths of the provincial brokerage system described in Chapter 2. Taxes channeled to development banks, extension services, and other development-related agencies met the needs of more sectorially defined interest groups. Presidents found sponsorship of new earmarked taxes to be a convenient strategy for circumventing congressional scrutiny and institutionalizing programs initiated during their administrations. Foreign lenders and aid agencies often required creation of earmarked taxes to guarantee repayment of loans or to demonstrate the Peruvian government's commitment to specific projects or programs. As the result of pressures from domestic beneficiaries, these taxes usually outlived their original purposes and often served to guarantee additional loans.

Fiscal and budgetary fragmentation was exacerbated by the weak constitutional position of the president under democratic regimes and the absence of any significant mechanism for coordinating policy until the early 1960s. The 1933 Constitution had stripped the president of effective veto power and included other provisions strengthening Congress (Bernalles Ballesteros 1970). The president, the cabinet, and individual ministers lacked professional policy staffs. Moreover, ministers sometimes did not have clear legal authority to oversee autonomous agencies under their nominal jurisdiction. Most central government bureaus responsible for economic development were located in the unwieldy Ministry of Promotion and Public Works.

Efforts to reform the public administration under the 1962–1963 military junta and the first administration of Fernando Belaunde (1963–1968) were largely unsuccessful (see IPA 1970; ONRAP 1966). Although the main tax collection company was nationalized, the fiscal system remained fragmented. Two program budget laws were passed in 1962 and 1964; however, the fundamental structure of the budgeting system was not altered. A National Planning Institute (INP) was founded, but it had little influence over national policy or resource allocation. Opponents in Congress and autonomous agencies blocked efforts to establish an executive office of the president and to create more functionally specific sectors supervised by the respective ministers.

## **2. Limited Bureaucratic Delegation Under a Traditional Authoritarian Administration, 1949–1956**

Under the administration of Gen. Manuel Odría (1948–1956), Peru's political regime approximated the pattern of traditional authoritarianism: political power was concentrated in the hands of a single leader, rather than in the military institution.

Beginning in 1949, Odría established public works boards on an ad hoc basis in the departments of Cuzco, Huancavelica, Lambayeque, and Puno; in the Constitutional Province of Callao; and in the Province of La Convención.<sup>1</sup> The exact names and structures of these organizations varied, but all were authorized to plan and build public works in response to diverse local problems. The boards operated outside of the regular bureaucratic structure, were supported by earmarked taxes, and were dominated by centrally appointed members; thus, the pattern of decentralization during this period approximated bureaucratic delegation. Nevertheless, central ministries, especially the Ministry of Promotion and Public Works, usually retained certain supervisory functions.

These early public works boards were always headed by a member appointed by the executive branch: a minister, prefect, or appointed

mayor. In all cases a majority of the members were centrally appointed—typically by ministries and the judicial branch—or represented provincial councils, which themselves were centrally appointed bodies. Most boards also had some representation from such interest groups as the Catholic Church, the chamber of commerce, civic clubs, and associations of white and blue collar workers. These representatives, however, were a minority, and the founding legislation often gave the central government considerable discretion in designating the representatives of white and blue collar workers.

Odría's economic policies encouraged export-led growth and his political strategy was primarily based on selective co-optation of urban mass strata, so he had little reason to channel significant amounts of investment through decentralized agencies. The establishment of bureaucratically dominated departmental public works boards enabled him to better address the needs of specific regional clienteles while avoiding control by his political opponents: APRA in the north, and small industrialists and the urban middle class in the south. Almost half of all income to decentralized public works boards went to the port city of Callao.

The other major regional development organization established during this period, the Cuzco Reconstruction and Promotion Board (JRYF), was founded at the urging of a United Nations technical assistance mission to coordinate recovery efforts after the 1950 earthquake in that department. The JRYF, however, was centrally administered and had its headquarters in Lima. Although originally established as a regional development agency, almost all of the board's efforts were concentrated in the city of Cuzco, where it facilitated reconstruction and helped to capitalize the tourist industry without threatening rural landowners (Garzón 1986, 70–77; Lovón Zavala and Vega Ganoza 1980).

Odría rekindled southern grievances against centralism because owners of smaller industrial firms in the region suffered disproportionately from his more liberal import policies, and his public investment policies accelerated the growth of Lima. A 1955 general strike in Arequipa played a key role in forcing the dictator from office in 1956.

### **3. Political Delegation Under Democratic Administrations, 1956–1968**

During the 1956–1968 period, the balance and intensity of partisan competition under a predominantly democratic regime<sup>2</sup> increased the political importance of the provinces, where unmobilized, noncommitted, and floating groups held the balance of electoral power.<sup>3</sup> Decentralization became an issue in the 1956 presidential campaign second in importance

only to restoration of constitutional democracy. By the 1962–1963 presidential campaigns, Belaunde's Popular Action Party, the Christian Democrats, and APRA all had elaborate platforms promising agrarian reform, governmental decentralization, and increased public investment in the provinces. In addition to the establishment of important regional development organizations, the period saw the founding of seven public universities in the provinces, the resumption of municipal elections in 1963, and ambitious community development efforts throughout the republic by agencies of the central government.

At the beginning of Manuel Prado's second presidency (1956–1962), the administration's working congressional majority<sup>4</sup> and a broad provincial backlash against Odría's economic policies favored a comprehensive, uniform approach to decentralization. Law 12,676 of December 1956 created the National Fund for Economic Development (FNDE) and departmental public works boards (JDOPs).<sup>5</sup> Supported by a series of old and new earmarked taxes, the FNDE was created to finance "public works of reproductive character or social interest in the territory of each of the departments of the republic" (Law 12,676, Article 2). Forty-eight percent of its funds were divided equally among the twenty-three departments and Callao, 50 percent were allocated on the basis of population (with a special provision limiting Lima's share), and 2 percent covered administrative expenses. Although APRA and the Christian Democrats were most influential in drafting Law 12,676, the establishment of the FNDE and JDOPs reflected broad interparty consensus that greater governmental intervention was necessary to promote a more spatially balanced pattern of development.<sup>6</sup>

The JDOPs combined features of political and bureaucratic delegation, with increasing emphasis on the former, in a system of representation that favored elite and urban middle strata in the provinces. At the departmental level, project selection was controlled by the respective board, made up of representatives from interest groups and provincial councils. Six representatives were elected from interest groups: one from commerce and industry; one from agriculture, stock raising, and mining; one each from white collar and blue collar unions; and two from professional organizations. Each provincial council elected one representative, there being on average six provinces in a department. Provincial councils were appointed, usually from among local notables, until 1963. The re-establishment of municipal elections in that year greatly increased the influence of political parties in the JDOPs.

At the national level, a Superior Council of the FNDE was composed of four representatives from the JDOPs and five ministerial representatives and supported by a technical staff, the General Secretariat. The Superior Council rarely intervened in investment programming or other operations

of the boards, except when severe factionalism prevented them from operating. Its approval of JDOP investment programs was largely perfunctory. The Superior Council also contracted foreign loans and supplier credits, but the boards' participation in externally financed programs was voluntary.

Departmental development corporations (CORDES),<sup>7</sup> a second and increasingly important type of regional development organization established during the 1956–1968 period, accelerated the trend toward political delegation.<sup>8</sup> Independently funded by specific earmarked taxes at the national and regional levels, CORDES were more autonomous and controlled more resources than the JDOPs. Although presidential appointees served on the governing boards of the corporations, representatives from interest associations and provincial councils in the department formed a clear majority. Moreover, no central coordinating body oversaw their activities.

The first CORDE was established in Cuzco in 1957, after a campaign promise by Prado to democratize the centrally administered JRYF that had been formed under Odría. After a 1958 earthquake in Arequipa, a second corporation was established in that department. Recovery from natural disasters—drought in Puno and floods in Ica—also served to justify the founding of two important CORDES during the early 1960s. The earmarked taxes funding these corporations did not revert to the central government once recovery efforts had been completed. Indeed, the CORDES' founding legislation foresaw them undertaking development activities after rehabilitation and reconstruction.

Not surprisingly, departments that had not recently suffered natural disasters began to demand their "fair share" of regional development funds. Regional development per se served as sufficient justification for the establishment of subsequent CORDES—a process which accelerated under the first administration of Fernando Belaunde, who had championed this model of regional development organization during the 1962–1963 presidential campaigns. By 1968 corporations had been established in fifteen of Peru's then existing twenty-three departments. In most departments where they were established, CORDES absorbed the JDOPs, administering the department's FNDE quota in addition to revenue from taxes earmarked to them.

The weakness of national administrative structures and the limited presence of the central government in the provinces gave JDOPs and CORDES a considerable amount of "institutional space" in which to develop. Moreover, under the first Belaunde administration, these regional development organizations also enjoyed considerable leverage vis-à-vis the central government as a consequence of intense rivalry between the executive and the opposition-dominated Congress. A number of central

government controls existed in theory but were seldom exercised. During the mid-1960s JDOPs and CORDES successfully resisted early efforts by the newly formed INP to bring them under rein (see CRYF 1964; INP 1980a, 4–6). Indeed, they controlled the first regional planning office set up in 1966. In times of fiscal austerity, the FNDE and CORDES had to sacrifice a fixed percentage of revenue from earmarked taxes, but they suffered less than central government agencies.

JDOPs and CORDES were the most important public agencies in many areas during the late 1950s and early 1960s, when only the ministries of agriculture, education, and health had field offices throughout the republic. During the 1956–1968 period, these regional development organizations accounted for most investment in local roads, sewerage, potable water, electricity, and small-scale irrigation. By 1968 they accounted for 30 percent of public investment in construction,<sup>9</sup> even though increasing amounts of foreign aid were mostly channeled through central government agencies. Some southern corporations also played important roles in providing credit and operating public enterprises within their jurisdictions.

#### **4. Centralization and Sectorialization Under a Strong Authoritarian Administration, 1968–1975**

The status and character of regional development organizations changed precipitously under the authoritarian administration of Gen. Juan Velasco (1968–1975). During most of this period, a relatively cohesive alliance of “radicals” and “developmentalists” in the military governed from a position of strength vis-à-vis the opposition.<sup>10</sup> This alliance carried out most of the structural reforms that attracted international attention to the so-called Peruvian Revolution—redistributing land, expropriating foreign firms, initiating profit-sharing and co-management schemes in the private sector, overhauling the public administration, and establishing a system of corporatist interest associations. The public sector expanded rapidly during this period. Its share of GDP increased from 11.4 percent in 1970 to 21.4 percent in 1975 (Fitzgerald 1979, 184), as the number of public enterprises grew from 18 in 1968 to 174 in 1977 (Ortiz de Zevallos 1985, 166).

There was a broad consensus in the military on the need for administrative reform, and soon after seizing power the generals began to restructure the public sector.<sup>11</sup> Ministries and autonomous agencies were reorganized into more clearly defined sectors headed by more powerful ministers. Fiscal administration was centralized in the new Ministry of Economics and Finance (MEF), and all earmarked taxes except those for the military were eliminated. The planning system was greatly strength-

ened by general administrative reorganization, the INP's privileged access to the cabinet, and its new authority at various stages of the budgetary and implementation processes. Newly created administrative systems for personnel, statistics, supplies, and administrative rationalization were placed under the prime ministry.

JDOPs and CORDES were quickly brought under control through suspension of municipal elections, direct military supervision, elimination of taxes earmarked to them, absorption of their enterprises by central ministries and firms, and the expanded powers of the INP (see Decree Law 17,653; FNDE 1970). Their share of public investment in construction plummeted from 30 percent in 1968 to 11.1 percent in 1970. In 1971 the FNDE, JDOPs, and CORDES were incorporated into the National Support System for Social Mobilization (SINAMOS), the Velasco administration's corporatist social mobilization agency, which accounted for less than 5 percent of public construction investment. After SINAMOS was liquidated in the mid-1970s, its personnel and activities were absorbed by the central ministries.

The Velasco administration did not promote an alternative system of regional development organizations because it viewed sectorialization as critical to rapid completion of the structural reforms and a new strategy of public investment in selected growth poles. The ministries created by sectorialization—transport, industry and tourism, energy and mines, fishing, and housing—opened up field offices in the provinces, but deconcentration was basically functional with minimum horizontal coordination through intersectorial regional development committees and regional offices of the INP.<sup>12</sup>

The major exception to this sectorial orientation was prompted by the disastrous May 1970 earthquake centered in the north-central Department of Ancash. In 1970 the Commission for the Reconstruction and Rehabilitation of the Affected Zone (CRYRZA), an intersectorial coordinating agency, was established to oversee relief and reconstruction efforts (see Decree Law 18,966). In May 1973 the commission became the Regional Organization for the Development of the Affected Zone (ORDEZA), an autonomous agency for reconstruction that followed the principle of general deconcentration. Incorporating ministerial field offices in the earthquake area, ORDEZA was headed by a general with the rank of minister and given independent budgetary authority (see Decree Law 19,967).

CRYRZA and ORDEZA accounted for 16–17 percent of public investment in construction during the 1971–1974 period. Unlike the pre-1968 regional development organizations, however, CRYRZA and ORDEZA did not have earmarked funds, and the military resisted pressures to continue a high level of support once reconstruction was completed

or to expand the program to other departments. As reconstruction wound down, ORDEZA's share of public construction investment fell to 5.7 percent in the 1975–1976 biennial budget cycle and 3.9 percent in 1977, its last year of operation.

### **5. Abortive General Deconcentration Under a Weak Authoritarian Administration, 1975–1980**

As the structural reforms were completed during the mid-1970s, the military turned its attention to the spatial organization of the public sector.<sup>13</sup> During 1974–1975 under the direction of Prime Minister Gen. Francisco Morales Bermúdez, a comprehensive plan for general deconcentration to the regional level had been drawn up. Following the general outline of ORDEZA, planning, budgeting, and personnel were to be deconcentrated through a new system of multidepartmental regional development organizations (ORDES) that would horizontally integrate the bureaucracy.<sup>14</sup> The system would be eventually extended down to departmental and subdepartmental levels.

ORDES were designed to link resource allocation to regional planning and to overcome the compartmentalization of regional administration that was a by-product of sectorialization. Each ORDE would incorporate the INP's regional planning office and field offices of the ministries in the region under a regional director with ministerial rank. With their own budgetary authority, ORDES were to assume responsibility for planning and implementing projects not considered to be of national or interregional scale. Field offices were to be primarily responsible to the ORDE director, subject to the regional plans formulated by their respective ORDE, and dependent upon the ORDE for supplies and equipment. They would, however, continue to be responsible to their ministries on technical issues and matters of sectorial policy. Field offices were to implement both projects in the ORDE budgets and those remaining in the budgets of their respective ministries. Consultative councils, composed of representatives from various interest groups in the region, would have purely advisory roles.

Several months after assuming the presidency, Morales Bermúdez in November 1975 invited public comment on the proposed Law of Administrative Regionalization that outlined the ORDE system. Rather than focusing on the merits of the proposed ORDES, most of the public debate revolved around jurisdictional issues, especially the drawing of regional boundaries and the selection of regional capitals. A variety of bureaucratic interests resisted implementation of the ORDE system or attempted to shape regional reform to suit their own organizational goals. Ministers often argued that field offices had limited technical capabilities

and that deconcentration would distort sectorial policy, while the military commanders heading the regional development committees generally favored the ORDE system.

Regionalization was complicated by the growth and differentiation of the public sector during the 1968–1975 period. In the mid-1960s only three ministries had had full-fledged systems of field offices. By the mid-1970s each of the new ministries created by sectorialization had its own system of field offices, with often overlapping jurisdictions. Various ministries proposed conflicting schemes of regional delineation that were best suited to the boundaries of their respective field office systems.

Although the military under Velasco had previously overcome more intense and coherent opposition to implement the agrarian and other reforms, the Morales Bermúdez administration dealt from a position of declining strength and unity in the context of an increasingly severe economic crisis. Under these conditions, the president withdrew his proposal from public debate in early 1976 and pursued two less ambitious policies.

First, in 1976 regional development committees were restructured along departmental lines. Each resulting departmental development committee (CODE) was subordinated to a supervising ministry and advised by INP departmental offices. In 1977 the CODES assumed the community development functions formerly undertaken by SINAMOS, identifying *local interest projects* for implementation by the various sectors. Tensions developed between the INP field offices, which saw the CODES as a mechanism for regional planning, and the supervising ministries, which considered them as an additional budget allotment. In most cases the ministries held more sway than the INP in budgeting (Garzón 1986, 159–160).

Second, in 1977 the administration proceeded to establish ORDES on an ad hoc basis, beginning in areas where there was the least intramilitary and intrabureaucratic conflict over regional boundaries. Five of the first six ORDES were established in frontier regions, reflecting the military's concern for national security and the political muscle of frontier commanders. Later ORDES were generally established on a departmental, rather than a regional, basis.<sup>15</sup>

By the end of the Morales Bermúdez administration in 1980, the ORDE system covered fifteen departments. In all but one of the ORDES established, the regional director was the ranking military commander of the region. Consultative councils were never established or existed only on a nominal basis.

Only two of the ORDES were truly multidepartmental: ORDENORTE, which encompassed the Departments of Piura and Tumbes; and ORDETAM, whose jurisdiction was the Departments of Tacna and Moquegua.

Moreover, ORDETAM had separate budget lines for each of its two departments. ORDESO, a multidepartmental agency based in Cuzco, was split into three ORDES after protests from the smaller departments of Apurímac and Madre de Dios (Garzón 1986, 168–169). ORDES were never established for Lima or the departments of the central and northern sierra, which continued under the CODE system. Even where multidepartmental ORDES were established, CODES continued to operate independently.

Ministries learned to circumvent ORDES by using the broadest possible definition of sectorial policy, creating centrally administered special projects, and grouping small projects into “national” programs. Furthermore, the ORDE system was implemented in a context of fiscal austerity, and most of the available public investment budget had already been claimed by ongoing projects. As new ORDES were formed, the regional development organizations’ share of public investment in construction increased to 11.7 percent in 1979, but remained well below levels that had been attained by the JDOPs and CORDES in the 1960s and by ORDEZA in the early 1970s.<sup>16</sup>

## **6. Redemocratization and Decentralization Since 1981**

During the late 1970s Peru was convulsed by major strikes and demonstrations of regionally based popular movements protesting economic austerity, lack of public investment in their respective regions, and political centralization (see Garzón 1986, 151–159). Under pressure from such movements, the central government earmarked part of a petroleum tax to departments in the jungle and on the north coast that produced or refined this product. Decentralization became one of the major issues in the 1978–1979 Constitutional Assembly (Caravedo Molinari 1983, 195–200; Garzón 1986, 252–256). Chapter 12 of the 1979 Constitution provides for a system of autonomous regional and municipal governments with broad responsibilities in economic development (Perú 1979).

Since controversy over regional boundaries and capitals had frustrated previous regionalization efforts, a special provision in the Constitution specified a process for delineating regions.<sup>17</sup> Within three years of assuming office, the president was to submit a regionalization plan to Congress, which would then have a year to accept or reject the plan without amendment. The plan would automatically become law if Congress failed to act. If Congress rejected the plan, the executive would submit a new proposal under the same ground rules. Regional governments would be created no later than four years after passage of a regionalization plan.

In the meantime, the Constitution provided for the re-establishment of the CORDES as transitional organizations leading to regional governments.<sup>18</sup> In December 1981 the Law of Departmental Corporations (Law 23,339) re-established the CORDES, which began to function in 1982.

### *Delegation Through Contemporary CORDES*

Contemporary CORDES are governed by uniform national legislation, especially Law 23,339, which combines attributes of political and bureaucratic delegation. Each corporation has an assembly, a directorate, a president, and a general manager. The assembly is made up of equal numbers of (1) provincial mayors, who are elected to office; (2) representatives of private sector professional and economic organizations; and (3) heads of ministerial field offices, autonomous agencies, and public enterprises in the department. From its members the assembly elects three of the five directors: one each from among the provincial mayors, the professional and economic organizations, and the public agencies. The mayor of the departmental capital is an additional member of the directorate. The president of the CORDE, who is appointed by the president of Peru, is the fifth member. The directorate is responsible for the corporation's organization and selects its general manager, whereas the president of the CORDE selects key staff.<sup>19</sup>

Although loosely modeled on the pre-1968 corporations, contemporary CORDES are developing in a very different context from their predecessors. Whereas the earlier corporations faced a public sector marked by severe budgetary and financial fragmentation in a growing economy, the latter-day CORDES confront a more cohesive public sector in a context of prolonged economic crisis. During the 1950s and 1960s, the central government had a limited presence in the provinces. Beginning in the 1970s, however, numerous field offices and public firms were established outside of Lima. Under the first Belaunde administration, different party coalitions controlled the executive and legislative branches, giving the constituents of regional development organizations some leverage against the center. In contrast, the second Belaunde and García administrations have enjoyed congressional majorities. Moreover, the 1979 Constitution greatly strengthened the executive's role vis-à-vis Congress.

These contextual changes and recent government policies have severely limited the institutional space for CORDE development. The remaining discussion in this subsection examines problems in the organization and operation of the corporations, focusing mainly on patterns prevailing during the 1982–1985 period.<sup>20</sup> Chapters 6 and 7 below assess the degree to which AID activities have helped the CORDES to overcome these problems.

*Leadership Selection.* During the first two years of the second Belaunde administration (1980–1985), the Popular Action Party and its coalition partner controlled majorities in both houses of Congress, in marked contrast to Belaunde's first term in office. Although there was considerable factional struggle within Popular Action, the two major factions of the party sought to control CORDES from the center. As the corporations were re-established, selection of representatives to the assembly from private organizations and ministerial field offices was manipulated to favor the governing party, which also controlled most mayoral seats after its victory in the 1980 municipal elections.

With most of its membership owing their positions to central actors, it is not surprising that the assemblies played largely passive roles during this period. Most assemblies met only twice a year to approve (1) the report and balance sheet from the previous year and (2) the plan and budget. Real power rested with the centrally appointed president, the directorate, and the general manager.

Since 1985 the García administration has continued to appoint the CORDE presidents. It too has had little trouble gaining effective working majorities in the corporations through control over ministerial representatives, the APRA majority among provincial mayors after the 1983 municipal elections, and influence in the composition and selection of representatives from professional and economic organizations. Several of the CORDE presidents appointed by President García have been mayors of the departmental capitals and have simultaneously served in both positions.

*External Constraints.* Not only has the leadership of the corporations been largely determined from above, but once selected, it has lacked autonomy in decision making. CORDES were initially placed under the supervision of the Secretariat for Regional Affairs (SAR) in the Office of the Prime Minister, which was primarily staffed by political appointees. Organizational changes under the García administration left the corporations under the supervision of the Ministry of the Presidency (MIPRE), also largely staffed by political appointees. Moreover, the current president's charismatic personality, his desire to push his own priorities, and his impatience for results at times have worked against CORDE autonomy.

Under the Belaunde administration, CORDE subprojects and components often were capriciously reversed or delayed by the central government during the budgetary process. In some departments as much as 60 percent of the corporation's budget was changed by Congress, whose members under the 1979 Constitution no longer control specific budget lines for their jurisdictions (*iniciativas parlamentarias*). Since any decision reached was only tentative, there were few incentives for meaningful negotiation at the departmental level. The sense of responsible

bargaining—the spirit of “give and take” that is so crucial to developing democratic institutions—failed to take hold in most CORDES. Indeed, groups in the minority on a given decision sometimes undermined their corporation’s autonomy by appealing to central actors and organizations. During implementation the required approval of budgetary modifications by the MEF and Congress usually resulted in long delays.

This lack of autonomy is closely related to the lack of an independent and predictable resource base. Most corporations depend upon the central government for virtually all of their revenues.<sup>21</sup> Moreover, under the second Belaunde administration the MEF’s practice of limiting or delaying authorized expenditures through its disbursement procedures caused very unpredictable revenue flows to CORDES. The corporations often received the bulk of their funds at the end of the calendar and fiscal year, when efficient use is hindered by insufficient time and the rainy season in the sierra. This unpredictability also contributed to procurement problems because contractors and suppliers considered the CORDES to be unreliable.

The sectorial orientation of national legislation has limited the corporations’ range of activities. Ministerial field offices often jealously protect their turf, even though they usually lack the financial resources to administer effective programs. For example, upon completion, most infrastructure components must be delivered to the appropriate sector. Although the Ministry of Transportation and Communications transferred maintenance responsibilities for regional highways and local roads to the CORDES in November 1985, the corporations did not receive any additional resources to undertake these new tasks.

CORDE development also has been hindered by nationally imposed regulations, which are often constricting, inappropriate, and even contradictory. A case in point is the regulations governing the procurement system, which were designed for universities and research institutes providing services—rather than for investment-oriented agencies—and do not take into account the difficulties of doing business in the interior. The corporations are often overwhelmed by onerous and ever-changing programming, budgeting, and reporting requirements imposed by Congress, the MEF, the INP, the National Public Administration Institute (INAP), and the Comptroller General.

*Internal Weaknesses.* CORDES also have a number of internal weaknesses. Most corporations are top-heavy, as generally weak administrative offices tend to be the dumping grounds for patronage employees. Administrative staff account for over 60 percent of the personnel in two of the CORDES visited by the author. Salaries in the corporations are extremely low: for example, the basic salary of an engineer has never exceeded U.S. \$100 per month. Moreover, since 1987 hyperinflation and

devaluation of the *inti* have rapidly eroded purchasing power. Corruption is endemic in a context of low salaries and limited opportunities. Officials of several CORDES have been convicted on charges of corruption and sent to prison.

The corporations generally have weak planning capabilities. Under the second Belaunde administration, plans were usually little more than "laundry lists" of desired investments. Even if they were based on sound investment strategies, plans seldom shaped the actual budget. Many, if not most, investment decisions were made on the basis of political or pork barrel criteria by the directorate, the general manager, or the national Congress.

Several points should be made about these internal weaknesses. First, most "internal" problems are closely related to, if not determined by, national policies or processes. Second, despite all of their problems, CORDES appear to be at least as viable on average as national-level agencies (see Chapter 7.1). Third, there is little reason to believe that the corporations are more prone to corruption than central government agencies in the provinces, or even in Lima. Indeed, if the assembly becomes a more viable and representative body, CORDES may even be less susceptible to corruption than national ministries. Fourth, conversion of the corporations into regional governments could correct or ameliorate most of their internal weaknesses and provide a stronger legal basis for addressing external problems (see Chapter 6.2).

*Developmental Role.* Since their re-establishment, CORDES have primarily undertaken public works: a role that reflects both their organizational heritage and the biases of various external constraints discussed above. During 1982, their first year of operation, the corporations accounted for 22.6 percent of public investment in construction.<sup>22</sup> As CORDES led recovery efforts from the El Niño-related disasters of 1983, their share of public construction investment increased to 33.3 percent. It declined to 24.3 percent in 1984, after Popular Action's crushing defeat in the November 1983 municipal elections increased opposition representation in the corporations.

Support for regional development organizations is an important part of President García's economic and political strategy of reactivating long-neglected peasant agriculture. As discussed in Chapter 6, the president has attempted to strengthen CORDES and increase their operational autonomy while maintaining ultimate control. In 1986, the first full year of the García administration, the corporations and their microregional offices accounted for 34.7 percent of public investment in construction.

### *General Devolution Through Regional Governments?*

Jurisdictional disputes have delayed the establishment of regional governments, despite the special provision in the 1979 Constitution that

strengthened the hand of the executive on this matter. Shortly after returning to office in July 1980, President Belaunde formed an inter-ministerial National Regionalization Commission (CONAR), which reviewed various regionalization proposals during 1980–1982.<sup>23</sup> Using a weighted formula that took into account a wide range of factors, CONAR adopted a proposal for eleven regions that did not specify regional capitals. President Belaunde submitted the proposal to Congress in January 1983.

Although virtually all political forces in the country support some mode of decentralization in principle, specific provisions of the regionalization plan drew criticism from across the political spectrum. Smaller departments feared absorption by larger departments, whereas larger departments wanted to be distinct regions or the leading departments of larger regions. Left-wing political parties, which controlled key departmental capitals, sought to increase the powers of municipal governments. No political party defended the CONAR proposal or offered a viable alternative. Moreover, Belaunde's governing coalition was in disarray by this time, and the president expressed little personal interest in regionalization.

In April 1983 the Senate Committee on Decentralization rejected the executive's proposal. As discussed in Chapter 6, officials from the INP, the Office of the Prime Minister, and two national-level organizations associated with AID projects then began to draft an alternative law that outlined a system of regional governments without delineating the regions. Under this proposal regional governments could be created on an ad hoc basis, much like the ORDES had been implemented under Morales Bermúdez. The proposed law was approved by the Senate in early 1985, but the Chamber of Deputies delayed action at the request of President-elect García.

The García administration eventually followed the same strategy, revising the alternative proposal with the assistance of its original authors. Promulgated on 19 March 1987 as Law 24,650, the Basic Law of Regionalization (*Ley de Bases de la Regionalización*) outlines a system of regional governments that embodies the principle of general devolution but does not specify regional boundaries or capitals. Governments for each region are to be established through separate laws, which may be proposed by the executive acting on his own initiative or at the request of the CORDES. Regional boundaries can be adjusted by plebiscite in specific provinces and districts; thus, the chance of a coalition of dissatisfied departments or provinces blocking the entire package are reduced.

Although President García had publicly stated his personal preference for using departments as the basis for most regions, in his annual 1987 presidential address he announced reluctant support for an INP-drafted plan to create eleven regions and a special region for Lima-Callao. As of 15 December 1988, when the semiannual legislative session ended,

laws for four regions had been approved by Congress and signed by the president.<sup>24</sup> Regional governments for these four regions will be formed in 1989. President García has convoked an extraordinary session of Congress for February 1989 to consider legislation for the remaining regions.

In attempting to establish regional governments in a generally unfavorable context of economic crisis and guerrilla insurgencies, President García faces two specific challenges. First, as indicated by the ORDE experience under Morales Bermúdez, central ministries and agencies will tenaciously oppose efforts to decentralize authority and scarce resources to the regional, microregional, and local levels. Second, to the extent that regional governments have real autonomy, the president risks losing control of important governmental units to dissident factions in APRA and opposition parties.

## 7. Summary and Conclusion

Since 1949 different types of regional development organizations have been established in Peru, often in the aftermath of natural disasters. Although they have emphasized various submodes of governmental decentralization—bureaucratic delegation, political delegation, functional deconcentration, general deconcentration, and perhaps general devolution—there has been considerable continuity in their public works orientation and personnel.

Since 1968, however, changes in the scale and spatial organization of the public sector, the political incentives for decentralization, and economic conditions have provided a less-hospitable context for governmental decentralization. Although contemporary CORDES and other recent regional development organizations have been undemocratic and often inefficient, most of their major shortcomings are related to, if not caused by, centrally determined policies. Direct political interference from the center has distorted organizational dynamics in the corporations and undermined their autonomy. Centrally imposed regulations have stifled CORDE initiative, much like the economic regulations and policies of the Peruvian government have undercut private initiative in the “formal” economy and contributed to the development of a huge “informal” economy (see De Soto 1987).

In Chapter 6 it is argued that conversion of CORDES into regional governments should correct the corporations’ major organizational defects and provide a stronger legal basis for overcoming external constraints. But before this analysis of regional governments and other recent reforms, Chapter 4 attempts to extrapolate some theoretical insights from the preceding historical analysis of Peruvian decentralization policies. Chapter

5 then describes the AID projects that have collaborated with CORDES and contributed to recent reform efforts.

### Notes

1. The description of these organizations in this section is based on analysis of the founding legislation (see INP 1980b) and Caravedo Molinari (1983, 93–97).

2. Although the second Prado administration (1956–1962) and the first Belaunde administration (1963–1968) came to power by winning competitive elections, the military exercised a de facto veto over presidential succession. A caretaker military junta also governed the country for twelve months during 1962–1963.

3. See Schmidt (1987, 211–242) for discussion of the political dynamics during this period.

4. Prado's party held an absolute majority in the Senate and a sizeable plurality in the Chamber of Deputies. The president also enjoyed the tacit support of APRA, which controlled the second largest bloc in each chamber. As his term wore on, however, Prado tended to expand and modify his coalition at the expense of programmatic unity.

5. The following discussion of the FNDE and JDOPs is primarily based on (1) analysis of Laws 12,676 and 12,881; (2) review of the accounts of the FNDE and JDOPs in the *Cuenta General de la República*; (3) examination of plans and reports published by these organizations; and (4) interviews with a former general secretary of the FNDE and members and employees of several JDOPs. Also see Bromley (1985, 14–17), Caravedo Molinari (1983, 111–121 and 137–140), Hammergren (1974, 235–244), and INP (1980a, 7–20).

6. See Caravedo Molinari (1983, 113–117) for an account of the congressional debate on the establishment of the FNDE.

7. The names of these organizations varied from department to department, though most had *corporation* in their official title. In several departments they were called rehabilitation and development boards. For the sake of simplicity, this study refers to all of these organizations as *corporations* or *CORDES*, using the acronym coined in the 1980s.

8. The discussion of CORDES in the remainder of this section is based on (1) analysis of relevant legislation, most of which is contained in INP (1980b); (2) review of their accounts in the *Cuenta General de la República*; (3) examination of plans and annual reports published by the corporations; (4) review of national public investment budgets, plans, and supporting documentation elaborated by the INP during the 1960s; and (5) interviews with former officials of various corporations. See also Caravedo Molinari (1983, 121–133 and 145–147), Dew (1969), Garzón (1986, 70–99), Hammergren (1974, 244–257), and INP (1980a, 52–103).

9. Regional development organizations have primarily built economic and social infrastructure; thus, their relative importance can best be measured by comparing their share of public investment in construction with that of central

government ministries and agencies undertaking similar tasks. The figures in this chapter give regional development organizations' share of all investment in construction undertaken by central government ministries and autonomous agencies, excluding that undertaken by public enterprises. Unless otherwise noted, all figures have been calculated from the annual *Cuenta General de la República*, the official record of executed expenditures in Peru.

10. For discussion of military politics under the Velasco and subsequent Morales Bermúdez administrations, see Cleaves and Scurrah (1980, 41–50, 96–131, and 274–289); Pease García (1977) and (1979); and Philip (1978).

11. Most of the legislation enacting the military's administrative reforms can be found in INP (1972) and INAP (1976).

12. On regional planning during the 1968–1975 period, see Caravedo Molinari (1983, 173–185); Flores, Ríos Peralta, and Vignolo Hidalgo (1978); Hilhorst (1980); and INP (1976) and (1980a, 57–59).

13. The discussion in this section is based on (1) analysis of relevant legislation, most of which is contained in INP (1980b); (2) review of national public investment budgets, plans, and supporting documentation elaborated by the INP during the late 1970s; and (3) interviews with officials in the INP's regional and public administration bureaus.

14. For description of the ORDE model, see especially INP (1980a, 78–103).

15. These were called *departmental development organizations*, but they shared the same *ORDE* acronym.

16. In 1980 and 1981, the ORDES' nominal share of public investment in construction swelled to 42.5 and 31.6 percent respectively. This increase, however, is illusory: it reflects the temporary inclusion of large-scale irrigation and colonization projects in ORDE budgets, even though these were administered by the sectorial ministries (see INP-DGPI 1981 and 1982; Garzón 1986, 179–181).

17. See the ninth disposition of Title VIII in Peru (1979).

18. See the tenth disposition of Title VIII in Peru (1979).

19. In practice, several CORDES have operated without a general manager: an organizational variation that increases the power of the corporation president.

20. This discussion is primarily based on analysis of Law 23,339 and other legislation, CORDE documentation reviewed by the author (see Schmidt 1985, Appendix B), Franco Temple (1986), and interviews with officials in six corporations. See also Garzón (1986, 209–229).

21. The exceptions are four CORDES that receive earmarked taxes on petroleum produced in their department and the corporation in the port city of Callao, which enjoys some customs revenues.

22. The figures in this and the following paragraph were calculated from INP-DGPI (1983–1987).

23. The following discussion of regionalization efforts under the second Belaunde administration draws heavily on Garzón (1986, 256–288).

24. These four regions are Amazonía (the Department of Loreto), Grau (the Departments of Piura and Tumbes), Nororiental de Marañón (the Departments of Amazonas, Cajamarca, and Lambayeque), and Ucayali (the Department of Ucayali).

# 4

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## Insights from the Peruvian Experience: Mobilizing Support for Decentralization

The historical treatment of Peruvian decentralization initiatives in the preceding two chapters reveals a central paradox: most important political actors have professed commitment to some form of decentralization in principle but have not consistently supported decentralization in practice. This paradox does not seem to be peculiarly Peruvian. Indeed, one of the few areas of consensus in the comparative decentralization literature is on the wide gap between objectives and results in developing countries.<sup>1</sup> “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 failed decentralization policies to insufficient *political commitment* or *political support*,<sup>2</sup> the literature sheds little light on why these attributes are so often lacking. Such terms tend to be used in a shallow psychological sense, detached from consideration of political objectives and calculations. Indeed, some of the leading experts in the field complain 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.<sup>3</sup> Moreover, most analyses of potential benefits and costs of decentralization are cast at the level of the political system, rather than calculated from the perspectives of key political actors. Although systemic analysis is useful for evaluating decentralization policies (see Chapter 7), it is inappropriate for understanding patterns of support, opposition, and ambivalence to decentralization.

The utility of examining costs and benefits of decentralization policies from the perspectives of relevant actors is apparent in the preceding account of Peruvian decentralization efforts. In Peru short-term political calculations have usually taken precedence over professed commitments

to governmental decentralization. Not surprisingly, central elites have been reluctant to embrace measures that might undermine their authority in the short run, even if these might pay political or economic dividends in the long run. More ironically, political actors in the provinces have usually valued immediate policy concessions from the central government over institutional autonomy. When nominally decentralized organizations, such as the CORDES, are established in the public sector, they can be undercut by provincial actors appealing to the center to overturn decisions not in their short-term interest.

Thus, an important insight from the Peruvian case is that studies of decentralization should pay closer attention to the calculations of key political actors. Such an approach may lead to policy-relevant theories that identify factors influencing political behavior on decentralization issues and to strategies for more effectively mobilizing support for decentralization. Although theory building is well beyond the scope of the present 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.<sup>4</sup>

- Hypothesis 4.1: Collective action is usually much easier for opponents of decentralization than for its potential beneficiaries.
- Hypothesis 4.2: The costs and benefits of collective action for and against decentralization are influenced by the organization and scope of the public sector; the importance and alignment of ethnic, religious, and social cleavages; and linkages to other issues.
- Hypothesis 4.3: In competitive political systems, “political entrepreneurs” will seldom invest in governmental decentralization, which typically provides relatively low returns in the form of political support while entailing high political costs.
- Hypothesis 4.4: 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.

Also very evident in the preceding historical treatment is the changing political context in which Peruvian decentralization initiatives have taken place. Indeed, the Peruvian case provides an unusual opportunity to compare across time the impacts of such macropolitical variables as regime type and alliance formation on decentralization policies. The analysis in Chapter 3 suggests several hypotheses.

- Hypotheses 4.5: Under authoritarian regimes governments are most likely to support some sort of deconcentration or bureaucratic delegation.
- Hypothesis 4.6: Under authoritarian regimes governments are not likely to support devolution or political delegation.
- Hypothesis 4.7: Under democratic regimes various modes of governmental decentralization may be consistent with a pluralist model of politics, depending on the locus of party or pressure group influence.
- Hypothesis 4.8: Regardless of regime type, the ability of a government to implement a given mode of decentralization is strongly influenced by the strength and programmatic unity of its supporting alliance.

Using examples from Peru's experience with decentralization, this chapter discusses these hypotheses and, where possible, speculates on conditions that might influence their range of applicability.

### **1. The Costs of Collective Action**

It is well established in the literature that some modes of decentralization are opposed by those in the central bureaucracy who stand to lose authority. The patterns encountered in Peru are consistent with those found in other developing countries. Line ministries have usually opposed both general deconcentration and general devolution but are sometimes willing to support functional deconcentration within their respective sectors. For some ministries "decentralization" has meant the dumping of unwanted responsibilities on decentralized organizations without providing them with commensurate resources. The Finance Ministry (MEF) has attempted to tightly control the transfer of resources to regional development organizations and to prevent them from acquiring significant taxing powers. National agencies in charge of uniform administrative regulations have resisted reforms that exempt decentralized organizations or increase their discretion.

Less obvious is why central ministries and other actors opposed to governmental decentralization usually prevail, even when there is broad support for devolution, deconcentration, or delegation among potential beneficiaries and political parties, as is the case in Peru. Olson (1965) convincingly argues 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. This argument can be extended to shed much light on why opponents of decentralization are usually successful. The bureaucratic elite in central ministries is obviously much smaller than the many people who stand to be better served by gov-

ernmental decentralization. Moreover, this elite is strategically placed and linked through such mechanisms as the cabinet, whereas potential beneficiaries are dispersed throughout the country and can coordinate their actions only at high cost. Furthermore, the costs of losing current authority are quite apparent to central bureaucratic elites, whereas any benefits from governmental decentralization are much less tangible to the provincial population and will be obtained only in the future.

These considerations may explain why groups opposing governmental decentralization usually prevail over potential beneficiaries. Nevertheless, in Peru the costs and benefits of collective action have been significantly influenced by two factors: (1) the organization and scope of the public sector and (2) linkages to other issues. Comparison of the Peruvian case with the experiences of other developing countries also suggests that ethnic, religious, and social cleavages may be a third important factor affecting collective action.

With respect to the first factor, the fragmented character of the pre-1968 Peruvian public sector hindered collective action among bureaucratic elites, which in any event had little at stake given the limited administrative penetration of the provinces by the central government. Thus, delegation to the JDOPs and early CORDES was relatively easy. Since 1968, however, the more cohesive organization of the public sector has facilitated central bureaucratic resistance to decentralization. Moreover, given the expansion of central ministries into the provinces since 1968, general devolution and general deconcentration have become greater threats to central bureaucratic elites.

Once established, centralized structures and processes in Peru have also encouraged behavior by political actors on the periphery that reinforces the system. To the extent that national legislation and regulations have limited the efficacy of CORDES, the provincial population has had less incentive to invest scarce time and resources in dealing with these organizations. Similarly, the corporations' lack of autonomy has reduced incentives for meaningful negotiation at the departmental level because any decision reached can be overturned. Indeed, groups in the minority on an issue have sometimes appealed to central actors or organizations, thereby further undermining the CORDES' organizational integrity. Thus, centralism can easily become a vicious and self-perpetuating cycle.<sup>5</sup>

In addition, the importance and alignment of ethnic, religious, and social cleavages appear to affect the costs of collective action on the periphery. The preceding historical analysis suggests that collective action for governmental decentralization is likely to be especially difficult in countries like Peru, where political competition generally has not been organized along ethnic or regional lines. 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, though this factor also increases the risks of national disintegration.

In Peru provincial political actors have more actively supported governmental decentralization when this objective was closely linked to other goals, such as redemocratization, a more equitable distribution of public investment, or recovery from natural disasters. Indeed, the regional movements of the 1920s and early 1930s as well as the regional popular fronts of the late 1970s and early 1980s primarily advocated governmental decentralization as a means to other ends.

Although issue linkage has greatly enhanced support for governmental decentralization in Peru during specific historical periods, the Peruvian experience also highlights the potential risks of linking decentralization to other issues. When push has come to shove, decentralization has usually been the most expendable demand of provincial political actors. Thus, during the 1930s commercial and middle-class sectors in southern Peru gradually dropped their demands for governmental decentralization as policies of the central government tilted in their favor. Similarly, during the late 1970s and early 1980s, the demands of regional populist fronts were largely defused by strategic policy concessions from the center (see Garzón 1986, 170–188).

## **2. Political Entrepreneurship and Governmental Decentralization**

One potential solution to the high cost of collective action is provision of public goods by “political entrepreneurs” in exchange for support (Frohlich and Oppenheimer 1978, chap. 4). Organizations provide channels for collective action and can provide public goods. Moreover, the treatment of collective action in Uphoff (1986, 14–16) suggests that certain properties of organizations that have become institutionalized—legitimation and shared expectations—approximate characteristics of public goods. Given these similarities, political entrepreneurs might be expected to support the establishment of decentralized public organizations through devolution, deconcentration, or delegation in exchange for votes. Indeed, almost all political parties in Peru profess support for at least one of these modes of governmental decentralization.

But equally striking in Peru and elsewhere is the reluctance of political parties to actually invest political capital in support of governmental decentralization. Although this lack of sustained support in Peru may be partially attributable to the thorny issue of regional demarcation, it also appears that decentralized public 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. At least in contexts where major ethnic cleavages do not fall along geographic lines, any benefits from governmental decentralization are likely to be (1) less tangible than those of conventional public goods, (2) more difficult to attribute to the provider, and (3) realized only over a longer time frame.

Given these differences, a governing party in a centralized and sectorialized context is most likely to maintain support by providing conventional public goods through established channels, incrementally expanding field offices of central ministries as needed. From this perspective, the tendency of Peruvian political parties to call for sweeping schemes of governmental decentralization when out of power but to be centralist once in power is not simply a matter of duplicity. Provincial supporters may rally to calls for decentralization by political "outs," but they 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.

Some modes of governmental decentralization are also likely to have high political costs to those in power, especially in the short run. A majority party at the national level that promotes devolution or political delegation will lose some of its authority if the resulting decentralized units are controlled by opposition groups. Thus, it is not surprising that the second Belaunde administration (1980–1985) and the current García administration (at least until 1989) have been careful to maintain ultimate control of the CORDES. Moreover, central ministries, on which central political leaders depend 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, all three modes of governmental decentralization may reduce or eliminate the roles of congressmen, party brokers, and other politicians that mediate between the capital and the provinces.

Nor do political entrepreneurs on the periphery necessarily gain from governmental decentralization in a country like Peru, with its marked class differences in the provinces. Indeed, in such a context, it is much easier and less risky for provincial politicians 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, provincial political leaders reap the credit; if they are not, elites in the capital bear the blame (Garzón 1986, 290).

In summary, whatever the merits of governmental decentralization from the standpoint of the political system as a whole, certain attributes of decentralized organizations in the public sector apparently make them a risky investment for political entrepreneurs operating in a context of

competitive politics. Perhaps it is no coincidence that more ambitious decentralization programs have usually been initiated 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 rule, Libya under Qadafi, the Sudan under Nimeiry, Peru under Morales Bermúdez, and Tanzania under Nyerere.<sup>6</sup>

### 3. Windows of Opportunity

To the extent that Hypotheses 4.1 and 4.3, discussed above, are correct, it follows that governmental decentralization is unlikely to be initiated during periods of “politics as usual.” Instead, decentralization initiatives are most apt to be successful when extraordinary events or factors alter the normal calculations of political actors, prompting them to view the establishment or strengthening of decentralized organizations in a more favorable light. Such events or factors 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 available resources for investment in decentralized organizations.

In Peru two principal factors—natural disasters and transitions from authoritarian to democratic regimes—have opened “windows of opportunity” for governmental decentralization. The marginal cost of establishing or supporting decentralized organizations has been lower in the aftermath of natural disasters, when decentralization becomes a concomitant of urgent policies. Moreover, the availability of foreign assistance earmarked to the affected region has often provided an additional incentive for governmental decentralization.

The cost of establishing decentralized organizations in the public sector has also declined during transitions from authoritarian to democratic regimes, when governmental decentralization has been addressed as part of a larger process of redefining institutional relationships and policy goals. Moreover, because governing alliances in Peru and elsewhere tend to be strongest and most united during their “honeymoon” periods, political capital for decentralization is more likely to be available immediately following a regime transition. Furthermore, in Peru the potential benefits of governmental decentralization have been particularly salient to provincial actors when the policies of the previous regime were viewed as having been detrimental to the periphery. Provincial backlashes to the policies of Leguía, Odría, and the military administrations of the 1970s fueled demands for governmental decentralization.

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

The line of argument developed in this section differs from much of the recent comparative literature on decentralization, which concludes that governmental longevity and the absence of crisis enhance the effectiveness of decentralization (see Rondinelli, Nellis, and Cheema 1984, 71). Nevertheless, these two views are not necessarily incompatible. The conclusion in the literature is primarily based 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 (Rondinelli, Nellis, and Cheema 1984, 27). Moreover, crises that initially open windows of opportunity for decentralization may at a later point reach thresholds that make 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.

#### **4. Regime Type and Modes of Governmental Decentralization**

There is a curious asymmetry in the recent comparative literature between the way “decentralization” has been defined and analysis of decentralization policies. On the one hand, different types or modes of decentralization are carefully specified, and a conscientious effort is made to sort out their impacts. On the other hand, there are few efforts to explain why a particular mode of decentralization is adopted or to differentiate among various modes in analyzing factors affecting the success of decentralization policies.<sup>7</sup>

Careful analysis of the Peruvian case suggests that there are some predictable, if not simple, relationships between regime type and the various modes of governmental decentralization. The authoritarian administrations of Odría, Velasco, and Morales Bermúdez consistently rejected devolution and political delegation, while embracing deconcentration and bureaucratic delegation, which left them with greater control. In contrast, the democratic administrations of Prado, Belaunde, and García have emphasized political delegation at the departmental or regional levels, although some elements of bureaucratic delegation have also been present. The García administration is now attempting to implement a sweeping program of general devolution to regional, microregional, and local levels.

The Peruvian experience suggests that under authoritarian administrations decentralization initiatives will have a predominantly bureaucratic logic, though the particular type of deconcentration or bureaucratic delegation may vary with the phase of bureaucratic development and specific circumstances. Most generally, each ministry or agency can be expected to develop patterns of functional deconcentration to cope with its particular organizational needs, as occurred in Peru during the 1968–1975 period. In addition, bureaucratic delegation to territorially defined agencies may take place, as in the case of ORDEZA. Over time, the proliferation of field offices and territorially defined authorities leads to problems of overlapping jurisdictions and coordination. At some point, an authoritarian administration, such as that of General Morales Bermúdez (1975–1980), may try to achieve greater administrative coherence through schemes of general deconcentration.

In contrast, under democratic regimes various modes of governmental decentralization may be consistent with a pluralist model of politics, depending on the locus of party or pressure group influence. Most unequivocally consistent with a pluralist pattern would be devolution to elected local or regional governments, or political delegation to autonomous agencies subject to direct party or interest group influence. General or functional deconcentration is not precluded if parties or interest groups dominate the policy process at the national level through the legislature or lobbying activities. Similarly, bureaucratic delegation is not ruled out if the resulting autonomous agencies are accountable to representatives of political parties at the national level.

It should be emphasized that the relationships hypothesized here deal with the three modes of governmental decentralization, rather than with privatization efforts involving community organizations or businesses. 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 on this topic.

### **5. Alliance Strength and Implementation**

Although the Peruvian experience indicates that different types of regimes will tend to support different modes of governmental decentralization, it also suggests that the ability of any administration—whether it be democratic or authoritarian—to implement a given mode is strongly influenced by the strength and programmatic unity of the governing alliance. Establishment of the FNDE/JDOP system at the very beginning of the Prado administration and the restructuring of the public

sector under the Velasco administration occurred when these governments were relatively strong and united by consensus on these issues. In the absence of these conditions, pressure groups or bureaucratic agencies are likely to reshape or undermine any reform, as exemplified by the ad hoc formation of CORDES during most of the 1956–1968 period and the Morales Bermúdez administration's inability to implement ORDES in accordance with a comprehensive plan.

Governing alliances are typically strongest and most united at the beginning of presidential administrations; thus, ambitious schemes of decentralization, like other major reforms, are highly susceptible to political cycles. It is not a coincidence that most significant decentralization initiatives in Peru have been attempted during the first year or two of a presidential administration, after which the window of opportunity rapidly closes. This historical pattern does not bode well for President García's current attempts to form regional governments from a political position that is much weaker than during the first two years of his presidency.

In summary, the strength and cohesion of governing alliances need to be considered in conjunction with political commitment, a variable that is accorded great importance in the current literature. A president may be committed to a mode of decentralization, but he cannot implement the corresponding policies from a position of political weakness.

## 6. Conclusion

Decentralization policies cannot succeed without adequate political support, but there is little understanding of why sufficient support is so frequently lacking or how it might be attained. Indeed, political support is often treated as a wholly fortuitous or exogenous variable, which cannot be predicted or influenced by practitioners. This chapter has argued that concepts from the public choice school of policy analysis can be used to better understand both the general difficulties of mobilizing support for decentralization and the most promising contexts for successful action. It has drawn upon the Peruvian experience to formulate hypotheses dealing with the mobilization of political support, as well as relationships between macropolitical variables and decentralization policies.

This study returns to the issue of political support for decentralization policies in Chapter 6, which examines the role of AID/Peru projects in promoting institutional reform. Chapter 8 includes analysis of how to better address the need for political support in decentralized projects.

### Notes

1. For example, see Mathur (1983, 69), Nellis (1983, 171), and Rondinelli (1981, 134).
2. See Rondinelli and Nellis (1986, 15) and Rondinelli, Nellis, and Cheema (1984, 47–51).
3. See Cheema and Rondinelli (1983, 297) or Rondinelli and Nellis (1986, 15–16).
4. It 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 deal with the latter issue from a public choice perspective, see Thomson, Connerley, and Wunsch (1986).
5. Although 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).
6. For discussion, see Harris (1983), Nellis (1983), Rondinelli (1983a), and Chapter 3.5.
7. For example, compare pages 9–46 and 46–69 in Rondinelli, Nellis, and Cheema (1984).

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## Decentralized AID Projects in Peru

Beginning in 1979, AID collaborated with CORDES and their predecessor agencies on two quite different sorts of projects. The Integrated Regional Development (IRD) Project began as a pilot project designed to test an urban-rural investment strategy and to improve the regional planning capabilities of decentralized agencies in two departments of the sierra. In contrast, the objective of the Disaster Relief, Rehabilitation, and Reconstruction (DRR) Project—the largest ever undertaken in Peru by AID—was to support recovery from natural disasters, rather than to build institutions or to test a development strategy.

This chapter primarily provides a descriptive overview of these projects. Chapter 6 examines the projects' contribution to the empowerment of CORDES and institutional reform at the national level. Their more direct institutional and developmental impacts are the focus of Chapter 7.

### 1. The Integrated Regional Development Project

Initiated in 1979 and largely completed at the end of 1986, the \$16.6 million<sup>1</sup> IRD project sought to improve the capabilities of decentralized agencies in two departments of the sierra, Cajamarca and Junín, to plan and implement infrastructure. The project paper foresaw investment in (1) productive rural infrastructure, such as irrigation and terracing, in areas with high agricultural potential; (2) urban infrastructure (e.g., electricity, water, and sewerage systems; facilities for storing and processing agricultural products; markets, slaughterhouses, transport terminals, street paving, and municipal equipment) in key market towns and rural service centers; and (3) roads linking the priority rural areas to the key market towns and rural service centers (AID 1979, 31–39). Despite the project's name, this strategy of selectively promoting urban-rural linkages should not be confused with the more comprehensive approach followed by most so-called integrated rural development projects.<sup>2</sup>

The project paper and agreement also called for the use of mechanisms that would facilitate beneficiary participation in the identification, planning, construction, and maintenance of public works. With the goal of sustainability in mind, the project introduced the concepts of user charges and cost recovery. Other components were designed to improve the revenue generation and planning capabilities of municipalities in Cajamarca and Junín.

Since the original start-up period for the project coincided with a transition from military to civilian rule, AID/Peru and the outgoing Morales Bermúdez administration tacitly agreed to postpone the project's commencement until after the change in government in mid-1980. By early 1981 almost no loan money had been disbursed a year and a half after the signing of the project agreement, and AID/Peru came under intense pressure from Washington to show results or risk cancellation of the project. In this context of external pressure, uncertainty, and institutional instability, the mission adopted two unfortunate policies that reduced the long-term institutional impact of the project.

First, instead of waiting for the re-establishment of the constitutionally mandated CORDES, AID/Peru initially collaborated with weak and obsolete decentralized agencies and then worked through parallel organizations once the CORDES were re-established. At the beginning of implementation in 1980, new organizations called PRODERINs were loosely attached to departmental development committees (CODES) in Cajamarca and Junín. CODES, however, were weak agencies that had been formed under a discredited military regime and which under the 1979 Constitution would be replaced by CORDES. Rather than being incorporated into corresponding CORDES in 1982, the PRODERINs were given special project status and placed under the supervision of the Office of the Prime Minister. The autonomy and effectiveness of the PRODERINs increased, but their separate status made a positive institutional impact more problematic in the long run.

Second, although the technical assistance contract for the project had been signed more than a year late, AID/Peru insisted that the first departmental development plans for Cajamarca and Junín be completed by the original deadline of June 1981. This rigid enforcement of the project's timetable temporarily undercut the goals of improving regional planning capabilities and encouraging popular participation. This decision also exacerbated already tense relations with the regional offices of the INP, complicating the long-term institutional impact of the project.

To make matters worse, technical assistance advisors soon found that central constraints severely limited the effectiveness of their efforts to improve regional planning by working solely at the periphery.<sup>3</sup> The unpredictability of counterpart funds and ubiquitous red tape made

planning efforts very tentative exercises and forced project staff to devote excessive attention to developing contingency plans, complying with evermore onerous reporting requirements, and reprogramming investments. IRD and counterpart management spent an inordinate amount of time in Lima dealing with administrative and disbursement problems. Despite these efforts, research programs, training courses, and publications were often cancelled or postponed for lack of timely funding.

Other problems also became evident during the 1980–1982 period. There was serious disagreement over the linkage approach within the university technical assistance team in charge of implementing the project (Rondinelli and Salinas 1985, 21–24). Moreover, no urban public works components were initiated, primarily because administration of the corresponding Key Market Town Development (KMTD) Fund was entrusted to the Housing Bank—a rigid, lethargic agency that had little interest in the objectives of the project. Furthermore, given the restrictive lending policies of the Housing Bank, one of the key assumptions in the project paper—that municipalities could borrow money for public works—turned out to be erroneous.

The major problems encountered during the 1980–1982 period—rivalries between PRODERINs and CORDES, frustrating central constraints, lack of consensus in the technical assistance team, and nonimplementation of urban public works—prompted major modifications in the IRD project's design and organization during 1983, when its midterm evaluation was completed and AID/Peru underwent major staff changes. Concern among both Peruvian and AID officials led to inclusion of the two PRODERINs' budgets in those of their respective corporations in January 1983 and to organizational mergers in September 1983. At the end of that year, the technical assistance contract was allowed to expire and advisors on personal services contracts were hired. There was, however, some continuity in technical assistance, as one of the principal advisors from the original team was retained on a personal services contract. The nonimplementation of urban public works and the need for central support were addressed by Amendment VI to the IRD Project Agreement, which transferred \$2.35 million from the \$8 million KMTD fund to new technical assistance components for CORDES and municipalities throughout the country.

Although the difficulties discussed above prevented testing of the urban-rural linkage approach in a comprehensive or synchronized fashion, sufficient experimentation did take place to establish it as a viable development strategy for the Peruvian sierra (Chetwynd et al. 1985, 3–4 and 8–11). Largely because of the IRD project, the Cajamarca and Junín corporations are in the vanguard of nontraditional CORDE activities: investment recuperation, private sector development, municipal devel-

opment, and microregional planning. Moreover, after the major project revisions in 1983, IRD management (1) stimulated the development, diffusion, and incipient adoption of ground-breaking investment prioritization and regional planning methodologies; and (2) led AID's efforts to achieve broader institutional reform.

The project's original anticipated completion date was 30 June 1984; however, upon recommendations by the midterm and final evaluation teams, it received two extensions to 31 December 1986. At the request of the García administration, the national municipal technical assistance component was extended an additional two years until the end of 1988.

## 2. The Disaster Relief, Rehabilitation, and Reconstruction Project

In contrast to the IRD project's institution-building objectives, the purpose of the \$65 million<sup>4</sup> DRR project was to support recovery from two severe natural disasters that Peru had experienced in 1983: torrential rains and flooding in the north and drought in the south.<sup>5</sup>

As a result of the prolonged presence of *El Niño*, a warm current in the Pacific, during the first half of 1983 the heaviest rains in recorded history—some 160 inches—fell on the normally arid northern coast, where much of the country's most productive agriculture is located. This deluge destroyed or severely damaged irrigation works, highways and streets, water and sewerage systems, and electrical transmission and distribution lines. Crops in some of Peru's most important valleys were lost, and future production was jeopardized by the destruction of irrigation systems.

Also during 1983, the weather pattern accompanying *El Niño* brought drought to the sierra. In 1984 late and unusually heavy rains produced further damage in this region. The resulting losses of crops and livestock deprived some 150,000 subsistence farm families of their food and working capital for the future.

These dual disasters cost well over U.S. \$1 billion in lost property and production. They exacerbated an already severe economic crisis, accounting for approximately half of the 11 percent decline of Peru's GNP in 1983.

Since both disasters developed gradually, it was some time before the Peruvian government and international donors appreciated the magnitude of their cumulative impacts. During the early months of the disasters, the Office of U.S. Foreign Disaster Assistance (OFDA) in AID/Washington provided approximately \$1 million for immediate relief, helped to assess the disasters' impacts, and gave advice on reconstruction and rehabilitation. On 18 July 1983, AID and the Peruvian government signed a Public

Law 480 Title I add-on agreement for \$10.6 million, with the local currency proceeds being earmarked for relief and reconstruction. The DRR Project Agreement was signed on 20 July for \$4 million, an amount that had been reprogrammed from mission funds. As AID funds were deobligated from other parts of the world and then reobligated to Peru, the DRR project took its substantive shape over the next three months through two amendments to the original project agreement. Overall AID disaster assistance to Peru eventually totaled \$180.9 million: \$6.7 million from OFDA and reprogrammed mission funds, \$65 million for the DRR project, \$36.7 million from PL 480, \$12.5 million in housing loan guarantees, and a disaster assistance program loan of \$60 million (Checchi 1987, 57).

At the onset of the DRR project, CORDES—despite their recent creation and shortcomings discussed in Chapter 3—were perceived to have comparative advantages for implementing disaster-related works. Central ministries and agencies generally had poor track records in implementing previous AID projects (see Chapter 7.1), and the corporations did not suffer from the sectorialization and centralization that characterize the ministerial hierarchies. As newer and smaller agencies, CORDES were less set in their ways and could be expected to have less bureaucratic inertia (Checchi 1987, 20). At the other end of the organizational spectrum, the corporations had greater technical capabilities than *Cooperación Popular*, the community development agency prominent under the Belaunde administration. Independent project management units (PMUs) were not practical, given the sheer number of subprojects in the DRR project and their great geographic dispersion. While AID/Peru believed that CORDES were the best organizational alternative, the mission's previous experience with two corporations under the IRD project had also made it aware of their weaknesses, which were addressed by extensive technical assistance.

Almost all DRR subprojects were implemented in collaboration with CORDES,<sup>6</sup> which also received the major part of two PL 480 local currency funds valued at \$18.4 million and approximately \$100 million in disaster relief funds from the Peruvian government.<sup>7</sup> As initially conceived, the DRR project was to work with six corporations (AID 1983b, 18); however, as the Peruvian government came under pressure to expand its disaster efforts during the latter half of 1983, the scope of the project was increased to include fifteen CORDES. The project supported 113 subprojects, 572 components, and 3,000 activities.<sup>8</sup> Although DRR management was sensitive to institutional concerns, institution building was not one of the project's formal objectives.

Approximately 70 percent of DRR assistance was directed to the flood-ravaged departments of the north, where the project restored or replaced

infrastructure that had been damaged or destroyed. Priority was given to infrastructure crucial to the region's economy, such as major roads, irrigation works, and power systems. Repair of water and sewerage systems critical to public health also received prompt attention. Restoration of noncritical social infrastructure, such as streets, residential electricity, and housing, was carried out during the latter stages of the project.

In the drought-stricken south, immediate priority was given to employment-generating public works and replenishment of seed stocks. The project then emphasized measures that would help farmers to better cope with drought in the future while enhancing their productivity in the meantime: small irrigation systems, wells, and reservoirs among the public works components; agricultural development activities, such as animal vaccination, pest control, and other extension services; and improvement of the natural resource base through pasture recuperation, reforestation, soil conservation, and water management.

Although it was formally initiated in July 1983, the DRR project's organizational phase and the rainy season delayed major implementation progress until March 1984. Cumulative expenditures on CORDE sub-projects—a good indicator of actual implementation progress—totaled \$23.5 million at the end of 1984, \$37.6 million at the end of 1985, and \$47.3 million at the end of 1986 (Checchi 1987, 58). The project's original anticipated completion date of 20 July 1986 was extended twice to a final date of 31 May 1987. Nevertheless, most of the reconstruction and rehabilitation efforts supported by the DRR project were completed by the end of 1985.

### 3. Common Design Features

Although the IRD and DRR projects had quite different objectives, there were some important similarities in their designs: (1) assistance for project-related units serving CORDES, which were established within permanent national-level agencies; (2) central funds for subprojects and components meeting project criteria; (3) supportive technical assistance; and (4) project management units (PMUs) within the corporations.

#### *Supportive National Organizations*

Both projects collaborated with national-level organizations whose primary purpose has been to assist CORDES. In each case supportive project-related units were established *within* permanent national agencies: an approach designed to gain both adequate political support and managerial flexibility. In 1984 under Amendment VI to the IRD Project Agreement, the Technical Assistance and Training Program for Depart-

mental Development Corporations (PATC-CORDES) was established in the Office of the Prime Minister to provide technical assistance and training to corporations throughout the country.<sup>9</sup> The DRR project provided operational support to the Rehabilitation and Reconstruction Division (GRR) and the Sierra Microregional Project (PMS) within the National Development Institute (INADE).

Exempt from the very low salary scales prevailing in Peruvian public administration, these national-level units attracted personnel who were usually above average and sometimes exceptional. Each of these organizations also received ongoing technical assistance from an AID advisor detailed to it. Their supportive orientation was a major departure from the norm in Peru. Thanks to these national organizations, decentralized agencies received technical assistance and political support from the center on a sustained basis for the first time since the 1960s or, indeed, during their entire histories.<sup>10</sup>

*The Technical Assistance and Training Program for Departmental Development Corporations (PATC-CORDES).*<sup>11</sup> This organization was created in March 1984 as a consequence of Amendment VI and became operational the following August. It undertook four major sets of activities: (1) training of CORDE personnel; (2) provision of technical assistance for improving organizational structures and processes; (3) development of microcomputer systems designed to meet the specific needs of the corporations; and (4) basic research on CORDE organization and development strategy, which primarily addressed external constraints. PATC-CORDES' internal structure paralleled this scheme of task differentiation, with Offices of Training, Technical Assistance, Computation, and Basic Analysis.

The focus, character, and time frames of these offices and their corresponding tasks were different but largely complementary, reflecting a conscious strategy of institutional change that had evolved in AID/Peru. The Offices of Training, Technical Assistance, and Computation primarily dealt with internal deficiencies of CORDES, largely taking the existing legal framework for granted and attempting to produce results in the short and medium runs. Their objective was to improve the corporations' performance as much as possible within existing constraints, so as to undercut pretexts for more central intervention and to strengthen the case for reform measures that would increase the CORDES' autonomy and resource base.

The Office of Training organized activities for corporation personnel at the national, regional, and departmental levels in the fields of financial, legal, and general administration, as well as on more specialized engineering and planning topics. During the August 1984–May 1985 period, 2,425 participants received training at sixty-one events, of which only

five were held in Lima. The Office of Training emphasized practical applications and group interaction among participants from different CORDE offices and related agencies. Both permanent staff and outside specialists under contract taught courses.

The Office of Technical Assistance sent multidisciplinary traveling teams to provide assistance to the corporations in organization and methods, personnel, budgeting, payments, accounting, procurement, and project management. Drawing on this direct technical assistance and feedback from CORDES, this office also developed and disseminated standard operating procedures that provide guidance to the corporations in these fields. In addition, individual experts worked with specific CORDES on problems of special concern or urgency.

The Office of Computation designed microcomputer systems and developed programs to meet the needs of the corporations in programming, budgeting, costs, inputs, advances, liquidation, and inventory. This office also provided general and specialized training in computing to CORDE personnel.

Whereas the other offices emphasized well-defined, capacity-building activities with fairly predictable short and medium term payoffs, the Office of Basic Analysis undertook more open-ended research on CORDE organization and development strategy. This office produced numerous studies and policy proposals on diverse topics, which usually addressed external constraints and advocated needed legal changes. Through the influence of this policy research and the activities of its officials, the Office of Basic Analysis played a major role in obtaining important reforms favoring governmental decentralization, as discussed in Chapter 6.

*The Rehabilitation and Reconstruction Division (GRR).* During the first half of 1983, a political realignment in the Belaunde administration and the need to deal with the flood and drought disasters led to the creation of the National Development Institute (INADE), a semiautonomous agency in the Office of the Prime Minister (Garzón 1986, 234–236; INADE 1985). This new organization gained responsibility for major coastal irrigation projects, jungle settlement efforts, and much-smaller special programs in the sierra, as well as for disaster-related rehabilitation and reconstruction.

Accounting for about half of the agency's overall expenditures, INADE's Rehabilitation and Reconstruction Division (GRR) coordinated disaster efforts implemented through CORDES.<sup>12</sup> The GRR reviewed subprojects and components for technical viability, provided technical assistance to the corporations, contracted and supervised consulting firms, and served as the CORDES' representative vis-à-vis central ministries and other central institutions in Lima.<sup>13</sup> It also coordinated implementation of

components financed by counterpart funding and managed the monetized PL 480 Title II fund.

Given its task of coordinating highly visible reconstruction and rehabilitation efforts, the GRR enjoyed greater political support than PATC-CORDES, which addressed less salient and often arcane issues. On the other hand, there appears to have been a higher incidence of favoritism in the staffing of INADE and the GRR—which was wholly undertaken by Peruvian officials—than in the recruitment of PATC-CORDES personnel, in which AID played a key role. Although clearly above average for the public sector as a whole, GRR personnel were less experienced and perhaps not as competent as those in PATC-CORDES before January 1986.

*The Sierra Microregional Project (PMS).*<sup>14</sup> Also a part of INADE, the PMS ran a modest microregional program during the Belaunde administration with Peruvian government funding. In addition, the PMS provided direct consulting services to CORDES in Cajamarca, Cuzco, and Puno for disaster components funded by AID and the Peruvian government. For the latter task the PMS designated a resident technical assistance coordinator in each department and established a team of agricultural specialists and civil engineers based in Lima and the departmental capitals. PMS technical assistance teams were composed of dedicated public servants with extensive experience in the departments where they served. The PMS also contracted short-term, specialized assistance as needed.

The quality of PMS consulting was generally higher than technical assistance provided by the GRR. PMS technical assistance coordinators and team members viewed themselves as on-site facilitators: an orientation that had both positive and negative ramifications. On the one hand, unlike private consulting firms, PMS technical assistance teams identified with their clients in CORDES and devoted considerable time and effort to solving a broad range of implementation problems. On the other hand, for legal and professional reasons, PMS advisors did not fulfill the most needed roles of actually designing and supervising works, which were generally performed better by private consulting firms.

*The Future of Supportive National Organizations.* PATC-CORDES, which until January 1986 had been a paradigm of a supportive organization, lost much of its supportive orientation and technical capacity as a result of the institutional realignment that followed the 1985 change in government. AID's ability to insulate PATC-CORDES from short-run political pressures declined as the IRD project wound down and the organization was subsumed with reduced status in the newly formed MIPRE. In the jockeying for position that is a part of presidential transitions in Peru and elsewhere, the top posts in the MIPRE and PATC-CORDES were

awarded to old-line APRA loyalists. This new leadership has emphasized control, rather than supportive technical assistance, in its dealings with CORDES. Whereas the corporations previously could accept or reject advice from PATC-CORDES' technical assistance teams (Hammergren 1985, 16), the organization now sends its reports to the minister of the presidency, who has sometimes ordered CORDES to make changes. Although some top-notch professionals remain in PATC-CORDES, the quality of technical assistance has also declined as many staffers were replaced by *aprista* partisans.

Nevertheless, PATC-CORDES has had a much-greater institutional impact than the rather debilitated organization that now bears this name. Ironically, most of the previous PATC-CORDES leadership was sympathetic to the policy objectives of the incoming García administration. Before being replaced or resigning, key individuals in this group played major roles in shaping the García administration's legislation on decentralization (see Chapter 6.2). After leaving PATC-CORDES, the core of the former leadership assumed top positions in the INP's Public Management Project, which is working on the cutting edge of the current government's decentralization policies. This cadre is now leading the García administration's efforts to establish regional governments.

Similarly, the INP's Special Project for the Development of Microregions in Economic and Social Emergency (PEDMEES), which was established by the García administration, drew its top management from the PMS. PEDMEES has consciously emulated the supportive orientation that characterized the national organizations associated with the IRD and DRR projects. Given the very high priority of microregions under the García administration, PEDMEES' supportive technical assistance is likely to have considerable impact.

The field research carried out for this study was undertaken before the completion of the DRR project, so it is not possible to assess the extent to which a supportive technical assistance orientation has been internalized by INADE.

### *Central Funds for Subprojects Meeting Project Criteria*

Instead of designating specific components from the beginning, both projects established central funding mechanisms to finance certain types of components that were later selected in accordance with project criteria. In each case funds were committed to CORDES on an annual basis—giving the corporations a dependable resource base—but disbursements were contingent upon completion of adequate technical studies and compliance with other project criteria.

IRD subprojects and components were financed by (1) a \$10.5 million *Rural Public Works (RPW) Fund* and corresponding Peruvian counterpart

funding; and (2) an AID-financed *Key Market Town Development (KMTD) Fund*, initially capitalized at \$8 million. Administered by the Cajamarca and Junín corporations under AID supervision, the RPW fund was established to finance components meeting project criteria—primarily feeder roads and small irrigation canals—that would be identified and implemented with community participation. The purpose of the KMTD fund, which was administered by the Housing Bank, was to make loans to public agencies, municipalities, local organizations, and firms for revenue-generating components in urban infrastructure (electricity, markets, slaughterhouses, and agro-processing facilities). But in practice the very rigid lending policies of the Housing Bank limited KMTD loans to electrification components.<sup>15</sup>

The DRR project channeled grants and loans for disaster-related works directly from AID to CORDES, whereas a special unit in the MEF processed and supervised disbursements of Peruvian counterpart funds. Most rehabilitation and reconstruction components had been identified by the corporations in the aftermath of the disasters and then consolidated into a multidepartmental list prepared by the INP (INP 1983). This list was subsequently updated by the GRR and CORDES. From the approved list, each corporation selected components to be completed in its department, subject to verification by the GRR and DRR that those financed by grants or loans from AID were indeed disaster related, had basic technical studies, and met the project's technical specifications. Components wholly financed with Peruvian funds were subject only to GRR approval.

### *Supportive Technical Assistance*

Both projects provided CORDES and supportive national organizations with general and specialized technical assistance.

Under the IRD project there were two stages of technical assistance. During 1981–1983 a U.S. university provided teams of resident departmental advisors and short-term consultants in regional planning, key market town development, participatory planning techniques, and public works. Advisors trained corporation personnel, diffused planning concepts and methodologies, and became involved in subproject implementation. From January 1984 until the end of the project, technical assistance was provided through direct hires under personal services contracts, who were assigned to PATC-CORDES, the National Institute for Municipal Development (INFOM), CORDE-Cajamarca, and CORDE-Junín.

The DRR project primarily provided technical assistance to the corporations through nine departmental advisors, who were development generalists residing in or frequently visiting all departments receiving

project assistance. The project also provided CORDES with strategically directed technical assistance in engineering, finance, agriculture, environmental impact, irrigation, and housing through eleven specialists who visited corporations more intermittently. These specialists reinforced the DRR departmental advisors, helped to remove bottlenecks, diffused specialized knowledge, and sometimes took on basic training activities related to project goals. The technical assistance team's chief of party served as advisor to the GRR in INADE. The contracting of consulting services from private firms and the PMS under the DRR project further bolstered the technical capabilities of CORDES.

### *Project Management Units*

Both projects employed PMUs within CORDES, which were generically called PRODERINs under the IRD project and PIRR units under the DRR project.<sup>16</sup> As discussed in the first section of this chapter, use of the autonomous and semiautonomous PRODERINs in the IRD project was less a strategic choice than a result of institutional instability and inadequate institutional analysis. In contrast, PIRR units were deliberately established in most corporations receiving DRR funds to administer and implement disaster programs. In some departments, such as Piura and Puno, CORDES took the initiative in creating PIRR units, whereas slow implementation prompted internal and external pressures for the establishment of special units in other corporations. Most PIRR units eventually became semiautonomous, taking on administrative responsibilities related to emergency work in supply, personnel, budgeting and programming, accounting, and financial management.<sup>17</sup>

PIRR units varied greatly in absolute and relative size. At the peak of the DRR project in 1984, investment by PIRR units in the six corporations visited by the author ranged from approximately U.S. \$1 million to \$37 million, and the PIRR units' share of total CORDE investment in these departments varied from 22 to 70 percent. In the same year these PIRR units employed 25 to 215 persons, accounting for one-twentieth to one-third of personnel in their respective corporations. Approximately half of PIRR unit personnel were professionals, with the other half being composed of secretaries, clerks, and blue-collar workers.

A handful of top-level personnel in the PIRR units—generally engineers and accountants and never more than 10 percent of the total—were hired through the GRR at salaries well above those prevailing in the CORDES, though modest in comparison to the private sector. Other PIRR unit employees were generally paid the same as their counterparts elsewhere in the corporation for similar work, but because most were contracted, they did not have the job security of tenured personnel (*nombrados*).<sup>18</sup>

Junior-level engineers and accountants were typically hired at the top of CORDE salary ceilings on renewable one-year contracts for the duration of the project, as were most medium-level employees, such as draftsmen, secretaries, and clerks. Other employees, such as resident engineers, foremen, and construction workers, were usually contracted for shorter periods to perform tasks linked to specific components. There was, however, considerable continuity in this last category, as the PIRR units were often able to sign individuals who performed well to new contracts.

Junior-level professionals and other employees working in PIRR units were on average younger and initially less experienced than their counterparts holding similar positions in other line units. Many junior professionals were recent university graduates or even university students, who were willing to put in long hours for low pay in remote areas of the country. Even the much-better compensated top-level management of PIRR units was on average younger than their counterparts elsewhere in the CORDES: a pattern stemming from the GRR's hiring strategy at the beginning of the project.<sup>19</sup> In contrast, PRODERINs tended to attract professionals with proven track records in their respective departments by paying salaries that were considerably higher than those in other departmental agencies.

#### 4. Summary and Conclusion

The IRD project began in two departments of the sierra as an experiment in institution-building; its technical assistance components later reached CORDES and municipalities throughout Peru. The massive DRR project supported rehabilitation and reconstruction in fifteen departments after severe floods and acute drought had simultaneously struck different areas of the country. Despite differences in their objectives and scale, the two projects worked with CORDES and shared some key organizational features. Given their programmatic differences and organizational similarities, the IRD and DRR projects are intriguing cases for exploring design issues, as is done in Chapter 8. The next two chapters, however, analyze the institutional and developmental impacts of the projects.

#### Notes

1. The \$16.6 million was comprised of a \$15 million loan and a \$1.6 million grant for technical assistance. Peruvian counterpart funding was \$6.5 million.

2. The investment strategy articulated in the project paper was influenced by the work of Rondinelli and Ruddle (1978) on the role of market towns in development, though the *urban-functions-in-rural-development* (UFRD) meth-

odology later developed by Rondinelli and others was peripheral to the project. For explication of UFRD theory and techniques, see Rondinelli (1985) or Rondinelli and Salinas (1985, 3-12).

3. See LRAP (1984, 60-74) on which this paragraph is largely based. This report also discusses other serious, but less fundamental, difficulties in project implementation attributed to insufficient support from AID/Peru.

4. The \$65 million was comprised of a \$40.181 million loan and \$20.019 million grant to the Peruvian government and \$4.8 million in grants to private voluntary organizations (PVOs).

5. Description of these disasters in the following paragraphs is largely based on Checchi (1987, 5-7) and Roush et al. (1984, 54-55).

6. \$50.3 million of the project's \$65 million budget was spent on subprojects implemented by CORDES, while minor subprojects implemented by other agencies accounted for \$1.5 million. The remainder of the project budget was spent on technical assistance (\$5.3 million), operational support (\$3.1 million), and grants to PVOs (\$4.8 million).

7. Through the obligatory purchase of reconstruction bonds by public employees, the Peruvian government raised \$139.2 million plus accrued interest for disaster relief, far exceeding the \$22 million required as counterpart funding under the DRR project. Approximately \$100 million was assigned to the CORDES, with the remainder being directed to central ministries, especially the Ministry of Transportation. Working primarily through agencies of the central government, the World Bank and Inter-American Development Bank supported reconstruction of major highways, water systems, and irrigation projects.

8. *Subprojects* grouped all similar *components*, such as roads or irrigation works, in a given department. In turn, some components, especially in community development, were broken down into numerous *activities*.

9. Also under Amendment VI, the IRD project's components for municipal planning and revenue generation in Cajamarca and Junín were supplemented by technical assistance for municipalities throughout the country via the Comprehensive Technical Assistance and Training Program for Municipalities (ATI) in the National Institute for Municipal Development (INFOM).

10. The FNDE had provided technical assistance in engineering to the JDOPs before 1968 (see Bromley 1985, 14-17), and municipalities had received support from agencies affiliated with AID-backed municipal assistance programs during the 1960s.

11. For background on the founding, organization, and operation of PATC-CORDES, see Franco Temple (1986, especially 104-113) and Hammergren (1985, especially 10-12).

12. Although the law creating INADE had given it responsibility for coordinating all disaster efforts (see Legislative Decree 261), in practice those carried out by the ministries were largely beyond the supervision or even the knowledge of the GRR (Hirsh 1987, 73).

13. Approximately half of the CORDES also have liaison offices (*oficinas de enlace*) in Lima, which vary tremendously in size and capabilities. Given the overall effectiveness of the GRR in representing the corporations in disaster-

related matters, some CORDE liaison offices concentrated on other activities and had little to do with the DRR project. Others worked closely with the GRR.

14. The description and analysis under this heading draw on Hirsh (1987, 47-49), which also includes a more thorough comparison of technical assistance provided by the PMS and private consulting firms.

15. The only exceptions were a refrigerated slaughter house and trout processing plant constructed by a large rural cooperative in Junín Department.

16. *PRODERIN* is the Spanish acronym for *Project for Integrated Regional Development*. *PIRR* is the Spanish acronym for *Comprehensive Rehabilitation and Reconstruction Program*.

17. Of the six corporations visited by the author, only the PIRR unit in Piura remained a line unit whose administrative needs were serviced by the CORDE. This was possible given the Piura corporation's greater administrative capacity and the fact that most of its work was implemented via contracting, which is less administratively intensive than forced account.

18. In some cases tenured personnel were detailed to the PIRR unit from other units of the CORDE, usually with formal or informal guarantees of job security.

19. Even the higher salaries paid through the GRR were insufficient to attract top-notch persons from the private sector, whereas senior professionals in the corporations often lacked management skills and initiative. In consultation with CORDE presidents, the head of the GRR, himself young, tried to identify and hire young, up-and-coming men and women from the public sector who were competent, dynamic, and enthusiastic.

# 6

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## AID as Catalyst: Empowerment and Institutional Reform

As discussed in Chapter 3, the complexity, arbitrariness, and unpredictability of national legal, budgetary, and administrative norms severely limit the “institutional space” available for CORDE development. After AID decided to collaborate with the corporations through the IRD and DRR projects, these constraints posed serious obstacles to both efficient project implementation and the institution-building goals of the IRD project. A member of the IRD technical assistance team observed:

While some useful field research can be conducted in Cajamarca and Junín, and some interesting initiatives can be taken while working in those departments, the dynamics of the Peruvian governmental system clearly emanate from the centre. Thus, many of the most interesting . . . TA [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)

In order to address the external constraints hindering CORDE development, AID/Peru managers and Peruvian officials working in supportive national-level organizations—the GRR, PATC-CORDES, and the PMS—devised short-term, ameliorative tactics and longer-term, reform strategies. This chapter examines these efforts, which generally complemented and were sometimes essential to the more direct, capacity-building activities treated in Chapter 7.

### 1. Ameliorative Efforts

In the short-run, IRD and DRR managers and their Peruvian counterparts attempted to circumvent or ameliorate external constraints by

developing special channels for resource transfers to CORDES, increasing the corporations' political power within existing parameters, and persuading central organizations to change counterproductive regulations and policies.

### *Predictable Resource Flows*

The DRR project and the IRD project's RPW fund dramatically increased the predictability of CORDE resources by channeling grant and loan money from AID/Peru directly to the corporations, instead of through the MEF. Although proceeds from AID loans remained subject to low MEF budget ceilings—which did not anticipate accelerated devaluation—and to restrictive MEF regulations governing transfers among subprojects, AID project managers learned how to work around most centrally imposed restrictions. Moreover, the DRR project had some additional, short-term flexibility because grants constituted approximately one-third of its funding. In most cases reprogramming was done with grant money, which did not need the MEF's approval.

In addition, disbursements of Peruvian counterpart funding to IRD and DRR subprojects and components were much more timely and predictable than disbursements received by CORDES through the regular transfer process. Three major factors account for this difference. First, at the most-general level, AID has considerable influence over Peruvian counterpart funding, much of which is raised through the sale of U.S. agricultural commodities on concessional terms under Title I of U.S. Public Law 480.<sup>1</sup> The IRD and DRR projects both received counterpart funding financed by Title I, and the DRR project benefited from additional monetized Title II funding managed by the GRR. Second, during the 1983–1986 period, prompt disbursement of counterpart funding was a special priority of the mission director, who repeatedly exhorted project managers to “stay on top of your counterpart.” Third, the DRR project successfully promoted the establishment of a special unit in the MEF to process and supervise disbursements of counterpart funding from the Peruvian government. This unit, the Disaster Relief and Rehabilitation Project Office, was staffed by several of the most-competent professionals in the ministry and enjoyed high status, reporting directly to a vice-minister.

### *Empowerment of a Decentralist Lobby*

Linkages to supportive national organizations and the AID mission increased the political power of CORDES and served as catalysts for the emergence of a *decentralist lobby*.

The GRR became an effective lobby for the corporations vis-à-vis central institutions and agencies. It was particularly effective in securing MEF approval for budget transfers among subprojects. CORDE officials valued their connections to the GRR, considering it to be their “consulate” in Lima.

Courses sponsored by PATC-CORDES’ Office of Training not only diffused knowledge but often served as consciousness-raising experiences when managers and staff from different corporations found that they shared similar problems. The formation of an outstanding cadre of talented, young professionals committed to decentralization might prove to be the most-important legacy of the IRD project. As discussed later in this chapter, PATC-CORDES’ Office of Basic Analysis was at the center of efforts to deal with external constraints through institutional reform.

AID itself enhanced the political power of the corporations in three basic ways. First, the mission helped to insulate the supportive national organizations that served CORDES from short-term political pressures. This protection was especially important during the waning days of the Belaunde administration, when some officials in the Office of the Prime Minister wanted to use PATC-CORDES for short-term political objectives. Second, AID brought pressure to bear on lethargic central agencies that hindered implementation. This pressure was most important in prodding the Housing Bank and Electro-Perú to implement components financed by the IRD project’s KMTD fund. IRD management held monthly meetings with representatives of these agencies and CORDES, typed up and distributed agreements reached at these meetings, and monitored their implementation. Third, in addition to their technical assistance and quality control functions, departmental advisors working under both projects often represented their corporation vis-à-vis AID, the GRR, PATC-CORDES, and other organizations in Lima.

### *Persuasion and Coordination*

Although most of PATC-CORDES’ efforts to achieve institutional reform necessarily involved lobbying Congress for legal changes, it also attempted to persuade central government agencies to make changes in their administrative regulations, policies, or operating practices that would help CORDES or be mutually beneficial. Negotiations of this sort took place with two types of organizations: (1) central ministries or agencies in charge of administrative systems, such as the MEF, the INP, and the National Public Administration Institute (INAP); and (2) field offices of central ministries or agencies in charge of implementing substantive programs.

PATC-CORDES’ Office of Training attempted to use the rich experience and information generated through “hands-on” training and technical

assistance as a basis for proposed modifications to existing regulations and laws in such areas as personnel, procurement, and cost indexing (*fórmulas polinómicas*). One especially innovative strategy employed by the Office of Training was recruitment of instructors from the central agencies responsible for administrative systems. The aim was to "sensitize" central officials to the difficulties of complying with many uniform national regulations in the provinces and to win their support for needed changes. In at least one case, a central bureaucrat issued a directive simplifying administrative procedures upon returning to Lima from teaching a course in the provinces.

Such success, however, was the exception, rather than the rule, for two major reasons. First, although the various administrative systems are under the jurisdictions of different head offices in Lima, most are interdependent: changes in one system presume modification of one or more of the others (Franco Temple 1986, 140). Attempts to achieve significant change through "sensitization" must convert a number of key officials in various offices at the same time and then rely on their good will to produce coherent reform. Second, the agencies in charge of administrative systems derive much of their political power and, indeed, their *raison d'être* from supervising these regulations. It is highly unlikely that such organizational interest can be overcome through individual conversions alone. Significant reform of the budget process occurred only when negotiations with the MEF were accompanied by an intense lobbying effort in Congress (see Section 2 below).

CORDES had greater success in strengthening their working relationships with field offices of central ministries and agencies. As discussed in the next chapter, the flexible management style of the DRR project facilitated horizontal coordination between the corporations and field offices. The overlap in responsibilities for different kinds of public investments was also reduced after PATC-CORDES sponsored research on this issue in conjunction with its efforts to promote investment recuperation (Palomino 1985). At a February 1987 meeting, agreements delineating responsibilities for electricity and potable water were reached between CORDES and field offices in a number of departments.

The García administration has stressed greater coordination between the corporations and central agency field offices. In June 1986 a directive issued by President García gave CORDE presidents authority to convene coordinating meetings of the public sector in their respective departments. At the request of PATC-CORDES and the MIPRE, in 1987 President García held nationally televised meetings to review past and current development programs in each department. Attended by representatives of the public and private sectors, these meetings generally reinforced the corporations' role as the "guiding entities" of their respective departments

vis-à-vis the field offices. Nevertheless, even when there is good will and strong political support from the top, subservience to vertical ministerial hierarchies has placed severe limits on the ability of field offices to coordinate their activities with CORDES. Problems of horizontal coordination continue to impede program success at the microregional level, where presidential support has been the strongest.

## 2. Reform Efforts

AID and supportive national organizations also attempted to promote more permanent institutional reform by sponsoring applied research on decentralization topics. Drawing on this applied research, the decentralist lobby that emerged from the IRD and DRR projects had some significant success in (1) winning budgetary reforms that give CORDES more predictable funding and greater autonomy, (2) influencing implementation of the García administration's microregional approach, (3) strengthening the corporations through other specific reform efforts, and (4) shaping legislation on regional governments.

### *Applied Research and the Policy Dialogue*

Anticipating a "window of opportunity" for institutional change after national elections in April 1985 and the inauguration of a new president the following July, AID/Peru management during June–July 1984 developed a strategy for linking research on decentralization to its policy dialogue with the Peruvian government.<sup>2</sup> The mission sought to (1) use the best available minds to generate a broad base of knowledge from which policy positions could be developed; and (2) ensure that potential linkages between decentralization and such AID concerns as good management, private sector development, and democracy were considered in the dialogue. This strategy was implemented by using Program Development and Support (PD&S) funds to sponsor research, publications, seminars, and workshops through grants and direct contracts;<sup>3</sup> and by providing operational support to PATC-CORDES' Office of Basic Analysis through the IRD project.

Research began in July 1984 when Peruvian and foreign advisors working for the IRD project drafted "Decentralization Policy Dialogue Issue Papers." Among the topics treated by these papers were the historical context of decentralization, regional planning, private and public financial mechanisms, administrative decentralization, local community participation in development, and municipal government. The issue papers were edited and synthesized into a coherent package, "Decentralization: The

Next Five Years," completed in March 1985. This initial work provided a foundation on which subsequent research could build.

In order to stimulate creative discussion on decentralization issues in a context not dominated by any political party, interest group, or government agency, in 1985 AID provided a grant to a private research institute, the Peruvian Center for Regional Development Studies (CER). In March of that year, CER sponsored a workshop that was attended by experts from universities and research institutes, practitioners from the public sector, and representatives of the major political parties. CER then edited the working papers prepared for the workshop in light of the discussion that they generated. The edited papers were grouped in four preliminary volumes dealing with (1) the overall structure and management of decentralized government, (2) decentralized planning, (3) decentralized financial and budgeting systems, and (4) appropriate levels and jurisdictions for decentralization. The major conclusions of these volumes were presented at a seminar in June 1985; revised editions were published the following August and September for general sale.<sup>4</sup> In April 1986 CER held a seminar on decentralization of the development finance system that was attended by key figures from the public and private sectors.

While CER provided an important alternative channel for discussion and dissemination, PATC-CORDES' Office of Basic Analysis undertook and published applied research on a number of issues related to the policy dialogue: legal reforms needed to strengthen CORDES and establish regional governments; decentralized finance; planning and budgeting organization; modes of contracting; personnel systems; sources of international financial and technical assistance; resource generation and cost recovery; investment prioritization; enterprise promotion; microregional development; interagency and intergovernmental relations; and popular participation. These studies were broadly disseminated to public and private organizations. Much of this work was also synthesized in a book published for sale to the general public by CER (Lizárraga Bobbio, 1985).

In addition, AID contracted other studies related to decentralization. This research included an interim analysis assessing institutional impacts of the DRR project; final evaluations of the IRD and DRR projects; an examination of the incoming APRA administration's approach to decentralization; an analysis of some of the pre-1980 decentralization experiments in Peru; a major study of municipal development elaborated with survey data from the National Institute for Municipal Development (INFOM); and a retrospective look at the strategy employed by PATC-CORDES during the second Belaunde administration.

The mission has also collaborated with two policy institutes located in the provinces—providing financial support to the Institute of Applied Research for Decentralization (IIADER) in Huancayo and stimulating the creation of the Center for Social Studies and Promotion (CEPS) in Puno. IIADER, which was founded in late 1984, has held several important seminars on microregional development, APRA's approach to decentralization, municipal finance and administration, and irrigation projects in the sierra. In addition, it has published significant works on cooperation between local organizations and CORDES and on the use of urban cadastres. Through collaboration with these research institutes and the training of young professionals in Cajamarca and Junín under the IRD project, the mission has addressed one of the chief ironies of Peruvian centralism: that most significant policy research on decentralization issues emanates from organizations in Lima, where intellectual resources are concentrated.

Although municipalities benefited from two successive municipal laws under the Belaunde administration, the leadership of INFOM was largely aloof from the process of legal reform. Toward the end of the IRD project, however, INFOM became more active in efforts to increase municipal revenues and to define the roles of municipalities in microregional government and intersectorial coordination.

### *Budgetary Reforms*

PATC-CORDES served as a catalyst for changes in the budgeting system that have increased the predictability of funding for the corporations and their microregional offices, as well as their autonomy and programming flexibility.<sup>5</sup>

On the basis of preliminary discussions with some key CORDE officials and its own experiences, PATC-CORDES presented a platform of proposed budgetary reforms at the 1984 annual meeting of corporation managers, which approved it with slight changes. PATC-CORDES and CORDE representatives then lobbied the Bicameral Budget Committee of Congress during the debate over the 1985 budget law, but achieved little during this round of the budget. With input from the corporations, the INP, and the PMS, PATC-CORDES then revised and updated the platform. In light of the new García administration's priorities, the revised package included a set of proposals dealing with microregions. In 1985 the PATC-CORDES-led decentralist lobby presented the revised platform to the MEF and the Bicameral Committee, obtaining some significant changes in the 1986 budget law that favor the corporations and microregions. Additional progress in this direction was made in 1987.

The unpredictability of CORDE funding was one major problem addressed by the budgetary reforms. Before 1986, commitment schedules

(*calendarios de compromisos*) had been drawn up by the MEF on a monthly basis at the level of projects.<sup>6</sup> Amounts committed were almost always less than those requested by the corporations in order to complete expenditures approved in the annual budget law. Moreover, additional cuts were often made during authorization (*autorización de giros*). Furthermore, there were usually delays in both the commitment and authorization processes. These policies made a mockery of the budget process and severely limited the ability of CORDES to achieve coherent programming.

The 1986 budget law established a trimonthly commitment schedule by source of finance at the level of the corporations. A subsequent MEF regulation allows CORDES to draw up and modify commitment schedules for specific investments within global ceilings. Moreover, in order to prevent arbitrary reductions or curtailments of disbursements, as in the past, the MEF must propose any revisions to Congress. Article 20 of the law further states that disbursements to the corporations must be in line with the overall amounts established in the commitment schedule. Although CORDES are still subject to monthly subceilings established in the authorization process, the trimonthly commitment system and related modifications have increased the predictability of their funding and the flexibility of their programming.

Another significant change, announced in the 1986 presidential address, gave the corporations greater autonomy in selecting their investments. CORDES still depend on transfers from the central government, but Congress no longer attempts to determine specific investments. The corporations now have the prerogative to select specific components, though they must still abide by certain centrally determined programming procedures and follow general priorities established by the INP.

In addition, CORDES have gained greater flexibility in reprogramming their investments. Before 1986 all reprogramming had to be approved by a law or presidential decree, depending on provisions stipulated in the annual budget law. In the 1986 budget law, the corporations gained authority to reprogram funds within projects and any amounts left over from completed projects. Reallocation from uncompleted projects became only slightly more flexible, requiring the approval of the Budget Bureau in the MEF, the INP, and the Bicameral Budget Committee. In the 1987 budget law, however, CORDES were given authority to transfer amounts among budgetary lines, after only informing central institutions.

### *Microregions*

Drawing on IRD and DRR project experiences and the applied policy research sponsored by AID, PATC-CORDES and the PMS have helped

to operationalize the microregional approach to decentralization emphasized by the García administration.<sup>7</sup>

On the basis of experience gained through the IRD and DRR projects, PATC-CORDES and the PMS undertook applied research on microregionalization before the July 1985 change of government. This research and similar work by the INP served as the basis for a September 1985 presidential decree that outlined the microregional planning structure and identified priority microregions. In accordance with this decree, CORDES established microregional programs under officials designated by the corporation, while central ministries and agencies deconcentrated personnel, resources, and programing authority to the microregional level. Intersectorial microregional committees were formed to coordinate the actions of the public sector. The population has been represented through Microregional Development Councils, composed of municipal officials, representatives of peasant and native communities, and delegates from cooperatives.

The decree also established a fund for priority microregions that is administered by the Special Project for the Development of Microregions in Economic and Social Emergency (PEDMEES). Led by former PMS personnel, PEDMEES has emulated the IRD and DRR projects by establishing a system that combines financial transfers and supportive technical assistance.

The new administration's enthusiasm inclined it to promote rapid microregionalization throughout the country on a crash basis: a recipe for administrative chaos and failure that would have discredited decentralization. The influence of PATC-CORDES and the PMS was especially crucial in the framing of a more cautious approach. During 1986, 39 of the 136 microregions received support from PEDMEES; in 1987 this number increased to 53. PEDMEES officials interviewed in 1987 planned to continue this pattern of gradual expansion.

PATC-CORDES, the INP, and the PMS also obtained a series of measures in the 1986 budget law that favored the priority microregions. In order to avoid potential bottlenecks created by the CORDES' weak administrative offices, microregional offices in priority areas gained significant budgetary autonomy as *budgetary execution units*. Transfers within projects at the microregional level became subject only to approval of the microregional office, whereas those between projects required the approval of the corporation president. In order to make work at the microregional level more attractive, the law allowed exemptions to normal salary scales and personnel practices: regulations to this effect were issued in May 1986. The priority microregions were also exempted from standard Peruvian government procurement regulations, which are unrealistic for rural areas. Subsequent regulations made it easier to procure supplies

locally. In addition, the law facilitated implementation agreements between CORDES or their microregional offices and peasant or native communities by allowing expenditures to be documented on the basis of sworn affidavits by community officials.

The 1987 budget law further increased the status of priority microregions from budgetary execution units to autonomous *budgetary programs*. Moreover, in order to increase possibilities for collaboration between the microregional offices and the ministerial field offices, each sector established budgetary accounts in its field offices serving the priority microregions.

### *Legal Reforms in Other Areas*

PATC-CORDES attempted to achieve specific legal reforms in other areas: planning, natural resource royalties, public enterprise promotion, and administrative regulations affecting investments in public works. On the basis of a proposal from PATC-CORDES, the Belaunde administration issued a decree that strengthened CORDE planning offices. PATC-CORDES' positions on the proposed natural resource royalty law (*Ley de Bases de Canon*) influenced provisions on this issue in the Basic Law of Regionalization, which is discussed below.

According to the Law of Departmental Corporations (Law 23,339), CORDES can form and manage public enterprises, but the legal status of such firms is not clear under current legislation and administrative regulations. To address this ambiguity, PATC-CORDES drafted a presidential decree to regulate enterprise promotion by the corporations. In making its case, PATC-CORDES argued that CORDES would support firms that are small scale, labor-intensive, and linked to regional economies, and thus would be qualitatively and quantitatively different from those in Peru's inefficient parastatal sector. The decree was never promulgated, due to the Belaunde administration's efforts to reduce the public sector's role in the economy, uncharacteristic indecisiveness on the part of the García administration, and subsequent legislation on regional governments that rendered the issue moot.

PATC-CORDES also drafted a proposed General Law of Public Works that outlined sweeping changes in procurement, contracting, disbursement, and other administrative systems (Franco Temple 1986, 132-135). This proposal was forwarded to the higher levels of the MIPRE, where it has languished due to lack of political support. Although the proposed law probably is too ambitious to be approved in the foreseeable future, its dissemination has helped to change the terms of the debate on central regulations. Before the establishment of PATC-CORDES, the burden of

proof was always on CORDES to demonstrate that relaxation of central controls would not lead to waste and corruption. After research undertaken and disseminated by PATC-CORDES, central agencies are increasingly on the defensive: they must now show that their regulations are a means to some end, rather than mere ends in themselves.

### *Comprehensive Reform Efforts*

In addition to seeking specific changes through persuasion, coordination, and more focussed legal reforms, PATC-CORDES played a key role in drafting comprehensive decentralization legislation designed to overcome many of the obstacles faced by CORDES.

In their roles as advisors to congressional committees on decentralization, PATC-CORDES and PMS officials drafted the first version of the Basic Law of Regionalization, which provides a framework for regional governments. This law was passed by the Senate at the end of the Belaunde administration, but further action was delayed at the request of President-elect García, who wanted time to study the proposal. Acting in personal capacities, officials from PATC-CORDES and the PMS also served as advisors on this topic to the presidential transition team and the president-elect himself.

Meanwhile, well aware of the failure of previous regionalization efforts, PATC-CORDES officials during the first three months of 1985 had drafted a backup option: the Organic Law of Departmental Development Corporations, which would have corrected a number of weaknesses in Law 23,339. Among other things, this proposed law included provisions for the incorporation of ministerial field offices, along the lines of the ORDE model; a more democratic assembly; a larger share of the national budget; more predictable transfers from the central government; greater authority to generate resources; autonomy in selecting investments; flexibility in administrative procedures; and a well-defined role in enterprise promotion. The proposal was debated during the first meetings of the *aprista* cabinet in August–September 1985, but it was rejected by virtually all of the ministers, who did not want to lose their new authority.

During the first year of the García administration, officials from PATC-CORDES and the PMS, as well as former officials from these organizations who had moved to the INP, continued to advise the government at the highest levels. The proposed Basic Law of Regionalization was revised to give greater weight to microregional planning and to permit the formation of regions on the basis of existing departments. It was passed by Congress as Law 24,650 in early 1987 and promulgated by President García on 19 March 1987.

The role of regional governments cannot be accurately predicted on the basis of the 1979 Constitution or Law 24,650. Many details were left to future laws establishing specific regional governments and other legislation. Moreover, certain provisions in Law 24,650 could be used by central agencies to subvert regional governments as they begin to be established in 1989 (see Chapter 3.6). It is, however, accurate to say that the law provides for entities that are more democratic and representative than CORDES, and gives them a stronger legal and political basis for resisting central incursions.

The system of regional governments outlined in Law 24,650 generally embodies the principle of general devolution, with some elements of political delegation. Regional assemblies will be composed of representatives elected by (1) direct suffrage; (2) municipal governments, which themselves are elected; and (3) interest associations. In a major departure from previous regional development organizations, whose membership was biased in favor of urban areas, the weight of rural interest associations in the assembly is to reflect the percentage of rural population in the region. The assembly will elect the executive body, the Regional Council. The system of microregions initiated by the García administration is codified in the law. Local governments are to play a strong role through the regional assemblies and the microregions.

Incorporating the field offices of most central ministries and agencies, the regional governments will have primary responsibility for economic development and social services in their jurisdictions. Each regional government may pass laws on matters outlined in its founding legislation or specifically delegated to it by Congress. These laws, however, may be vetoed by the president of the republic. Regional governments are supposed to adhere to sectorial policies set by the ministries, but compliance is compulsory only when specified in a national law or presidential decree.

The Constitution and Law 24,650 provide for a number of possible sources of finance: these include progressively increasing transfers from the national government, taxes on natural resources in the region, regional taxes, proceeds from investment recuperation and services, internal credit, and profits of affiliated public firms. Transfers from the central government and 20 percent of the natural resource tax will be channeled through a Regional Compensation Fund modeled on the FNDE and designed to ameliorate interregional disparities.

The law specifies that regional governments will have budgetary autonomy, except for transfers earmarked for a specific purpose and projects of national importance delegated to them. The national Congress may change amounts transferred, but not line items. The budgeting process must follow national guidelines.

### 3. Summary and Conclusion

Policies and regulations emanating from the central government not only have limited the institutional development of CORDES but also hindered efficient implementation of the IRD and DRR projects. AID and the supportive national organizations associated with the two projects addressed external constraints by improvising ameliorative measures and devising a strategy of institutional reform. These efforts enjoyed some success, especially in increasing resource flows to the corporations, achieving important changes in the budgetary process, and influencing legislation on regional governments.

Although history shows that decentralist legislation in Peru should not be taken at face value, conversion of the CORDES into regional governments should provide a stronger legal basis for overcoming external constraints, help the corporations to correct internal weaknesses, and facilitate decentralized revenue generation. It will be more difficult for the central government to gain control of regional assemblies, which will have a large bloc of representatives elected by direct suffrage—instead of the bureaucratically designated members of CORDE assemblies. Similarly, the enhanced legal status of regional governments and safeguards in Law 24,650 should facilitate resistance to counterproductive regulations issued by central agencies. Regional governments will have some taxing authority, receive other income from nationally determined taxes and transfers, and retain proceeds from investment recuperation and services. The greater representativeness of regional governments, their increased insulation from central interference, and their enhanced authority over resources all improve prospects for the development of responsible democratic bargaining.

### Notes

1. AID/Peru has been among the leaders in integrating PL 480 Title I funds into country programs. For example, in 1982 Title I funds accounted for an average 53 percent of counterpart funding for twenty-one AID-supported projects in Peru. See Johnson et al. (1983, especially 33–35 and Appendix H.).

2. This subsection draws heavily on Hess (1986, especially 10–17). See also Franco Temple (1986, 111–113).

3. See Hess (1986) for a list of PD&S-sponsored publications.

4. See González Roberto and Durand López-Hurtado (1985); Johnson Rebaza del Pino, García de Romaña, and Monge Pimentel (1985); Lizárraga Bobbio and Izquierdo Larrea (1985); and Stecher Shauer, González Vigil Alarcón, and Bernex de Falen (1985).

5. This subsection is based on Franco Temple (1986, 117–127), Law 24,422, and conversations with current Peruvian officials.

6. A *project* in the Peruvian budget usually groups similar components in a province: for example, *Irrigation Works in the Province of Cajabamba*. Thus, it is roughly equivalent to what AID/Peru usually calls a *subproject*.

7. This subsection is based on Franco Temple (1986, 121–127 and 136–139) and interviews with Peruvian officials.

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## AID Projects and CORDES: Decentralization Impacts

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

- Increased governmental responsiveness
- Greater popular participation in the development process, especially among disadvantaged ethnic and social groups
- More flexible and innovative planning and implementation based on better knowledge of regional and local conditions
- Alleviation of managerial overload at the central level
- Mobilization of untapped resources at the regional or local levels
- More efficient and less expensive provision of goods and services
- Better maintenance of investments in economic infrastructure
- More cost-effective achievement of development goals
- Reinforcement of nongovernmental organizations and private enterprise
- Better horizontal coordination among governmental units and between the public and private sectors
- Enhancement of such broader political goals as national unity and stability<sup>1</sup>

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 both a means and an end in the development process; the strengthening of private voluntary organizations (PVOs), local organizations, and private enterprise; debureaucratization; and utilization of the “learning process” approach to development planning and implementation.<sup>2</sup>

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 carried out and the difficulty of generalizing about different modes of decentralization undertaken in varying contexts. Nevertheless, evidence is slowly accumulating that in at least some instances decentralization has indeed facilitated these objectives (see Rondinelli and Nellis 1986, 18–19).

This chapter reviews the performances of CORDES and their predecessors under the IRD and DRR projects and, where possible, assesses the enduring impacts of these projects on the corporations.<sup>3</sup> Successive sections examine (1) governmental responsiveness; (2) planning, managerial, and technical capabilities; (3) resource mobilization and management; (4) economic development; and (5) interorganizational networks at the regional and local levels.

## 1. Governmental Responsiveness

### *The Rural Public Works Fund Under the IRD Project*

Surveys of IRD beneficiaries in 1983 and 1985 show that PRODERINs and CORDES were generally responsive to community needs in implementing RPW components.<sup>4</sup> At times, however, there were trade-offs among the different objectives and values of the IRD project—responding to community initiatives, following the urban-rural linkage strategy, and pursuing broader institutional reform.

The ideas for most roads examined in the 1983 survey originated in the beneficiary communities, though location and routing were largely determined by the PRODERINs. Beginning in 1983, however, the level of community initiative fell in Cajamarca, as linkage criteria replaced petitioning and proximity to the departmental capital as the primary basis for selecting road components (see Section 2 below). In the 1985 survey, 64 percent of respondents in Cajamarca attributed initiative to outsiders. In Junín, where linkage criteria were not emphasized before most roads had been selected, only 16 percent of beneficiaries interviewed in 1985 credited outsiders with the initiative.

In contrast, beneficiary participation in the identification of irrigation components increased between the two survey years. The ideas for both Junín irrigation systems examined in the 1983 survey came from the community, but in Cajamarca 58 percent of respondents reported that outsiders had taken the lead in identifying seven irrigation works. In the 1985 survey, ten of twelve irrigation components in the two departments began as community initiatives.

PRODERINs and CORDES received high evaluations from beneficiaries in the 1983 and 1985 surveys. There was, however, some decline in the ratings of implementing agencies between these two years, which may be related to the CORDE-PRODERIN merger. In the 1983 survey, 86 percent of irrigation and road beneficiaries in Cajamarca rated the performance of their agency as good, whereas in 1985 this evaluation was given by 75 percent of irrigation beneficiaries and 78 percent of road beneficiaries. In Junín 65 percent of road beneficiaries and 80 percent of irrigation beneficiaries surveyed in 1983 gave a good ranking. In 1985 the rating from beneficiaries of road components improved to 71 percent, but the ranking from irrigation beneficiaries declined to 70 percent.

The chief rationale for a good rating was completion of the component and fulfillment of promises made during implementation. *Cumplimiento*, meeting one's promise, is the main thing that counts with rural people, who neither demand nor expect a lot (Hatch et al. 1985, 50). PRODERINs and CORDES completed many works that had been abandoned by other agencies and generally kept their promises. After 1984, however, IRD management faced a trade-off between pushing implementation and addressing the reform issues discussed in Chapter 6. Not all RPW components were completed by the formal end of the IRD project in December 1986, though the mission took steps to finish them after this date.<sup>5</sup>

### *The DRR Project*

CORDES on the north coast performed heroically during and immediately after the flood disaster, rapidly restoring crucial economic infrastructure on a provisional basis.<sup>6</sup> In Piura, for example, the 1983 floods had virtually wiped out crops and irrigation systems. In less than nine months between the end of the rains and the beginning of the 1984 planting season, the project cleared 148.2 kilometers of badly clogged canals, rehabilitated 123 irrigation structures, reopened 95.7 kilometers of canal access roads, and moved 233,446 cubic meters of material to protect intake points. By the 1984 planting season, 88,273 hectares—over four-fifths of the preflood total—were back in production in this department. During the phase of reconstruction, northern corporations were generally responsive to the needs of their respective departments, though their emphasis of productive rural infrastructure over urban social works prompted some criticism in the national press.

In southern drought areas most irrigation components, agricultural development activities, and resource management efforts were carried out by various agencies of the Ministry of Agriculture under agreements

with CORDES (see Section 5 below). The corporations implemented roads, some irrigation works, potable water systems, wells, small reservoirs, community facilities, and other public works by forced account or through contracting. PVOs administered food assistance and played an important role in seed distribution. Although hard data on impacts in the south are scarce, the DRR final evaluation team concluded that the project was generally successful in providing emergency relief, increasing temporary employment and food-for-work opportunities, and restoring agricultural production.

Given the significance of *cumplimiento*, it is important to note that most DRR-financed subprojects and components were completed within three years of the signing of the project agreement. This record is extraordinary considering the scale of the project, the number of components and activities, and the relative inexperience of PIRR unit personnel.

#### *Comparisons with Central Government Agencies*

Some perspective on the CORDES' responsiveness can be gained by comparing their performances with those of central government agencies that have implemented components under the IRD and DRR projects, other comparable AID projects, and similar projects supported by other donors.

Under the IRD project, the Housing Bank's glacial processing of loan applications delayed major progress in implementing electricity components financed by the KMTD fund until 1984, when construction of road and irrigation works was winding down. Only after AID reallocated \$2.35 million to other components did the bank's performance improve. Although twenty-one electricity systems were eventually constructed, this long delay undercut the very rationale of the urban-rural linkage strategy and was a major factor in low evaluations of implementing agencies by KMTD beneficiaries (see Hatch et al. 1985, 45-46). Similarly, a minor DRR subproject undertaken by the Health Ministry floundered, primarily as a result of shortcomings in that central organization.

In collaboration with agencies of the central government, AID has supported other projects in Peru that have primarily built infrastructure similar to that constructed by CORDES under the IRD and DRR projects.<sup>7</sup> These projects include *Improved Water and Land Use in the Sierra (Plan MERIS)*, initiated in September 1976 and completed at the end of 1985; the *Rural Water Systems and Environmental Sanitation (RWSES) Project*, initiated in September 1980 with an anticipated completion date in June 1989; and *Small Hydroelectric Plants*, also started in 1980 and completed in November 1988.

Although each of these projects has considerable merit, all have suffered significant, if not severe, delays. Indeed, during the late 1970s and early 1980s, slow implementation of these and other centrally administered projects gave AID/Peru a reputation in Washington as having one of the slowest "pipelines" of any mission. As initially conceived, Plan MERIS was to have constructed twenty-seven components over a five-year period, but it was scaled down to seventeen components and took over nine years to complete. These changes in the project's objectives and timetable occurred even though it was carried out by a project management unit (PMU) within a national ministry. AID support for the RWSES project was almost cut in half after a scathing report by the United States General Accounting Office in February 1983 highlighted lack of implementation progress (GAO 1983). Since that date, however, deconcentration within the Ministry of Health has contributed to remarkable improvement and the project is expected to meet its initial construction objectives. Similarly, significant progress on the small hydro project did not occur until line units received greater autonomy and special administrative support.

At the broadest level of analysis, this poor record was largely a consequence of Peru's prolonged fiscal crisis and the MEF's policy of reducing or delaying authorized expenditures. In each case, however, subordination to highly bureaucratic and centralized agencies created additional obstacles to implementation. The most common problem was the holding of project funds by central government agencies to meet other obligations. Disbursements had to trickle through several layers of a byzantine bureaucracy before reaching the field; once there, payment of personnel usually took priority over construction. Although some CORDES also tried to hold or divert project funds for other purposes, they were largely deterred by the clearer lines of accountability to AID. Moreover, whereas implementation delays in the field are not readily apparent or even important to bureaucrats in Lima, the corporations are closer to project beneficiaries and more responsive to local needs and priorities.

In addition to disbursement problems, implementation of AID projects through central ministries has usually been slowed by red tape and overcentralization of authority. These factors were a significant cause of delays in the RWSES and minihydro projects, as well as in the *Soil Conservation Project*, which involved less construction.

Similar shortcomings have also been evident in the dealings of central agencies with other donors. During the disaster recovery experience, central ministries were in charge of reconstruction efforts financed by the Inter-American Development Bank and the World Bank. Peru lost some \$30 million in funding from these institutions as a consequence

of inadequate coordination among central agencies in allocating counterpart funds and the failures of some central ministries to fulfill donor requirements. The DRR final evaluation team concluded that the performances of CORDES under the project were noticeably better than those of central ministries implementing disaster-related components financed by multilateral institutions (see Checchi 1987, 20–24 and 47).

Two conclusions emerge from these comparisons. First, *some* mode of decentralization is an operational necessity in Peru. Second, despite numerous problems, the implementation records of CORDES (and PRODERINs) under the IRD and DRR projects were stronger than those of central agencies under comparable donor-supported projects.

## 2. Planning, Managerial, and Technical Capabilities

The IRD project demonstrated the viability of decentralized planning in Peru and also had some lasting impacts on the regional planning capabilities and orientations of CORDES in Junín and Cajamarca. The DRR project stimulated a more problem-oriented style of management, while improving technical and process capacities in corporations that implemented its disaster-related components. Both projects increased the CORDES' general administrative capacities.

### *The IRD Project: Innovations in Regional Planning*

Central ministries and agencies in Peru typically formulate and carry out policies from the top down, with little reference to local variability.<sup>8</sup> If undertaken at all before the IRD project, regional planning was a formalistic and bureaucratic exercise unrelated to resource allocation.

During the early stages of the project, PRODERINs in Cajamarca and Junín developed capabilities to plan and implement priority investments in rural public works, though different planning approaches were adopted in the two departments. In Cajamarca planning followed an urban-rural linkage approach: the initial departmental advisor and the PRODERIN planning staff completed an extensive market town survey and recommended components that would strengthen linkages between key market towns and rural areas of production. This linkage strategy guided selection of the ten roads initiated in 1982. In contrast, the initial departmental advisor in Junín favored a microregional approach. In this department the thirty-five rural components constructed during 1981–1983 were located in priority microregions.

In the process of merging the PRODERINs and CORDES during 1983, efforts to retain these planning capabilities were on balance unsuccessful, at least in the short run. Some staff trained in regional

planning under the PRODERINs eventually received tenured positions in the Cajamarca and Junín corporations, but they were mostly placed in offices that are peripheral to planning. The planning offices are dominated by former INP personnel, who had developed antagonistic relations with the PRODERINs (see Chapter 5.1). Since most rural components had been selected or implemented before PRODERIN-CORDE integration, AID retained little leverage to influence regional planning. In both departments CORDES continued to make most investment decisions on the basis of traditional "laundry list" and "pork barrel" criteria. Some of the data base generated by the PRODERINs was lost during the transition.

Nevertheless, the IRD project influenced investment orientations in the two departments. Prior to the project, regional plans for Cajamarca had revolved around the initiation of a large mining venture that has never been begun; the IRD experience shifted the terms of reference to small-scale public works in agriculture and transport. In Junín the project prompted an approximately 20 percent increase in the share of CORDE investment devoted to agriculture, even before the tilt of national priorities toward this sector under the García administration. Moreover, CORDE-Junín's system of microregional planning remains the most advanced in the country. Late-starting electricity components financed by the KMTD fund were generally selected in accordance with the urban-rural linkage approach, especially in Cajamarca.

In addition to early experimentation with linkage and microregional planning approaches, after 1984 IRD advisors and PATC-CORDES used project experience to make state-of-the-art contributions to investment prioritization and regional planning methodologies.<sup>9</sup> Most important was the development of a decision-tree methodology that can help regional and local governments to transcend the artificial dichotomy between "technical" and "political" decision making. This methodology allows policy makers to (1) disaggregate and prioritize their objectives, (2) graphically and numerically rank the relative payoffs of various investments in accordance with these objectives, and (3) select the most appropriate investments in a process that is open to public scrutiny. Thus, the methodology provides a mechanism for linking popular participation through elected assemblies to regional planning. Along the same lines, a reprogramming methodology was developed to help the corporations prioritize their investments when faced with budget cuts.

PATC-CORDES facilitated diffusion of the prioritization methodologies. In 1985 twelve CORDES participated in introductory seminars on investment prioritization sponsored by this supportive national organization. In August 1986 the MIPRE officially approved the methodology for use. Representatives from all corporations attended more

intensive workshops on the subject the following September and October. As of March 1987, the prioritization methodology had been adopted by CORDE-Junín and CORDE-Huancavelica.

*The DRR Project: More Flexible Management and Improved Implementation Capabilities*

*The Accountability Approach.* Instead of intervening in the operations of the corporations, the DRR project generally followed an accountability style of management: it provided CORDES with financial transfers, supportive technical assistance, and a predictable program context, while holding them responsible for successful completion of subprojects and components.

On the basis of project experience, DRR management developed a series of brief, but sufficiently detailed, control cards that greatly expedited the approval and monitoring processes, contributed to stable expectations among CORDES, and allowed technical studies to be undertaken on a rolling basis. Annual budgets were largely based on Forms *A* and *B*, which the corporations respectively used to request approval of subprojects and components in principle. Disbursements were contingent upon approval of Form *C*, which included certification of technical studies and detailed implementation plans. The project later added a Form *D* for submission of any substantial changes (Hirsh 1987, 50). DRR management also devised a practical system of financial liquidation, which required monthly submission of summary data to Lima but allowed extensive supporting documentation to be periodically reviewed by a traveling team of financial analysts.

From the very beginning of the DRR project, AID conducted extensive training programs on its requirements and procedures for INADE and CORDE personnel. This initial training was reinforced throughout the life of the project by technical assistance from the departmental advisors. Although some advisors made unpopular decisions, all high corporation officials interviewed by the author spoke favorably of the advisor in their department. They were particularly appreciative of the advisors' problem-solving approach, in contrast to what some termed the "inspectionist" attitude of officials from central government agencies.

Although the DRR project did not have formal institution-building objectives, it nevertheless served as a catalyst for more effective management by insulating the corporations from outside pressures and providing a predictable and supportive program context. Whereas excessive controls and petty regulations prevailing in Peruvian public administration contribute to a very cautious and defensive bureaucratic culture, characteristics of the project—predictable financial support, high technical

standards, and supportive technical assistance—created a context that rewarded self-starting and problem solving. Without exception, CORDE presidents and general managers reported that the younger and less-experienced engineers working in PIRR units outperformed more experienced staff in other units. The general manager of one corporation remarked, “The higher standards and superior assistance of the project provide a great context for team building.” “Under this program, we’ve done things that we didn’t know we could do,” commented one engineer, who summed up the feelings of many.<sup>10</sup>

*Technical and Process Capacities.*<sup>11</sup> During the emergencies some CORDES distributed food and supplies and took on temporary functions in the fields of health, insect control, and agricultural extension. Most corporations in flood areas gained expertise in emergency maintenance that will facilitate repair of annual damage from rains in the sierra. During the course of reconstruction and rehabilitation, most CORDES developed new or improved capabilities in public works. For example, in drought-stricken Puno, the corporation greatly expanded its role in irrigation works and for the first time made investments in deep wells, terraces, minireservoirs, and multicompany facilities.

The DRR project also increased process capacities<sup>12</sup> in CORDES by promoting the effective use of contracting. Prior to the project, many corporations had little or no experience in working with private construction contractors. DRR management encouraged CORDES to contract out most types of components; indeed, almost all major and many minor construction works were implemented by contract. The corporation in Piura, which had the largest and most successful reconstruction program, primarily used the contract mode. CORDES gained valuable experience in negotiating with contractors and supervising the contracts. Many corporations can now effectively manage this input, though it should be noted that contracting is not feasible or appropriate under all circumstances.<sup>13</sup>

Even fewer CORDES had worked with consulting firms before the DRR project. The project contracted consultants to provide corporations with assistance in the design and supervision of disaster-related components wholly or partially financed by AID. Although their performances varied, consulting firms were generally useful and often essential in those technical areas where CORDES have limited experience or expertise, such as the design of irrigation canals and bridges. Unfortunately, the corporations had little voice in the initial selection of consultants, which was arranged by the GRR, and little legal recourse when their performances were unsatisfactory. Some CORDES became captive consumers of ineffective consulting firms. The corporations would have been better served if they had been given greater input in defining the scopes of work,

selecting the consultants, and managing the contracts (see Hirsh 1987, 48–49).

Nevertheless, most CORDES now have a much-better understanding of the potential contributions of consulting firms, as well as potential problems with this input. Many corporations can take the initiative in defining their consulting needs. Several CORDES may even be capable of effectively negotiating and supervising contracts with consultants.

### *General Administrative Capacity*

Neither the IRD or DRR projects had a follow-up methodology to evaluate impacts on general administrative capacity. It is nevertheless possible to discern some improvements in (1) basic organization, (2) technical studies, (3) computerized information systems and programming, and (4) cost indexing and contracting.<sup>14</sup>

*Basic Organization.* PATC-CORDES' Office of Technical Assistance had significant success in helping CORDES to achieve basic organizational coherence. This office (1) systematized complex legal norms to facilitate understanding and compliance and (2) assisted the corporations in elaborating and integrating internal regulations and procedures. Emphasizing these very basic concerns, the office had the greatest impacts on the weakest CORDES. Data limitations make it impossible to evaluate PATC-CORDES' training activities in basic administration, though several informants stated that there were significant improvements in accounting and financial management.

*Technical Studies.* The corporations and other Peruvian agencies have often initiated public works without completing basic technical studies, which were prerequisites for disbursements under both projects. Satisfaction of this requirement generally was within the capabilities of CORDES, which received needed assistance from (1) IRD, DRR, and GRR advisors, and (2) consulting firms contracted under the DRR project. Although AID technical requirements appear to have been high in some cases, they did not contribute to flagrant overdesign. With very few exceptions, components constructed under the two projects were of at least satisfactory quality (Checchi 1987, 11; French et al. 1983, 98–99).

The requirement of technical studies applied only to works funded by AID loan or grant money and usually was carried out by the corporation's PRODERIN or PIRR unit. Nevertheless, the requirement served as a positive example for each CORDE as a whole. Many corporations now routinely require completion of basic technical studies before the budget year in which the respective components are to be implemented. These studies not only contribute to technical soundness

but also provide a foundation for improved programming: better estimates of physical progress can lead to more accurate projections of procurement needs, disbursement requests, and payments to contractors.

In addition, the DRR project was one of only a handful of donor-assisted projects—and the first involving CORDES—to require compliance with existing Peruvian government norms for technical-financial liquidation. Under these regulations, modifications of original technical designs and budgets must be justified, documented, and archived. Such a system is a prerequisite for effective maintenance. AID insisted on compliance and provided supportive technical assistance to help the corporations meet the previously unenforced requirements.

*Information Systems and Programming.* The IRD project provided microcomputers to CORDES in Cajamarca and Junín, while fifteen corporations participating in the disaster program obtained identical systems with funds from PL 480 or the DRR project itself. This hardware was accompanied by appropriate software and training from PATC-CORDES' Office of Computation. Under the IRD project, CORDE-Junín also developed its own computer programs for financial management, personnel, and budgeting.

As of March 1987, when hardware had been installed in most corporations for little over a year, all but one CORDE had an operational system. In most cases, these systems have performed tasks for the corporation as a whole, rather than only for the PRODERIN or PIRR unit.<sup>15</sup> Most CORDES have used their computers to more efficiently carry out myriad reporting and data collection tasks. Such a basic application is by no means trivial, considering the number of central agencies to which the corporations must supply information.

Although CORDES have had difficulty in retaining computer programmers and operators—who frequently leave for more lucrative jobs in the private sector—approximately half of the corporations also have used their systems for programming in such fields as personnel, construction, and cost indexation. A few CORDES have carried out cost/benefit analysis. It seems likely that the corporations will continue to increase and improve their programming applications, especially if they continue to receive effective technical assistance from PATC-CORDES.

*Cost Indexing and Contracting.* Training by PATC-CORDES and direct technical assistance from the DRR project improved the ability of the CORDES to compute their costs and procurement needs under the official system of cost indexation (*fórmulas polinómicas*). Before receiving training from PATC-CORDES, many corporations could not accurately project future costs for labor and materials in the context of Peru's high inflation. Some CORDES left the calculations to contractors, who often charged materials and labor used during the initial stages of implemen-

tation to the end of the contract at a much-higher price. After receiving training, most corporations could routinely perform the calculations.

Available evidence indicates that PATC-CORDES-sponsored training also significantly enhanced the ability of many CORDES to follow the Peruvian government's complex regulations for contracting.

### 3. Mobilization and Management of Resources

Within the bounds of existing legal parameters, AID projects helped CORDES to more effectively mobilize and manage resources by (1) stimulating local resource contributions during construction, (2) keeping construction costs in line with those of other agencies, (3) demonstrating and disseminating techniques of investment recuperation, (4) increasing the probability of community-based maintenance, and (5) supporting the first extensive use of rotating credit funds for poor farmers in the country. The IRD project has also demonstrated that provincial municipalities can significantly increase their tax bases. Although these efforts have had only modest cumulative impacts at best, they are important precedents for more concerted resource mobilization efforts by regional governments.

#### *Local Resource Mobilization During Construction*

A high level of local resource contributions, especially of labor, to RPW components is evident in (1) cost-effectiveness studies undertaken in 1983 and 1985 on samples of IRD and non-IRD components<sup>16</sup> and (2) the companion surveys of beneficiaries undertaken in the same years. The value and rates of local resource contributions were particularly high under the PRODERINs before 1983; they declined to still-high levels after PRODERIN-CORDE integration.

In Cajamarca community resource contributions accounted for 29 percent of the total cost of RPW components in 1983; this share declined to 16 percent in 1985 after food assistance was reduced. Local contributions were more important for single community Rural Development Support (PADRU) works than for multicommunity components, which were the norm under the IRD project. In the 1983 sample, 85 percent of PADRU costs were covered by local contributions; in 1985 the proportion was 76 percent. In the 1983 survey, 93 percent of irrigation beneficiaries and 92 percent of road beneficiaries in Cajamarca reported labor contributions during construction. In the 1985 survey, the corresponding proportions were 57 percent for irrigation beneficiaries and 89 percent for road beneficiaries.

There are no reliable estimates of the value of community contributions in Junín,<sup>17</sup> but beneficiaries generally reported higher rates of resource

contributions than in Cajamarca. In 1983 all irrigation beneficiaries and 95 percent of road beneficiaries reported labor donations in Junín; in 1985 the corresponding figures were 83 percent for irrigation beneficiaries and 69 percent for road beneficiaries. Beneficiaries in the more developed Department of Junín were more likely to contribute cash or materials than those in the less-developed Department of Cajamarca.<sup>18</sup>

KMTD electrification works involved more specialized technical knowledge than RPW components and were implemented by contractors, rather than directly by PRODERINs or CORDES. Resource contributions from KMTD beneficiaries were largely limited to service fees.

Similarly, the scale and technical sophistication of major DRR reconstruction works in northern flood areas severely limited the potential for local resource contributions, though approximately 70 percent of housing beneficiaries were involved in self-help efforts (Checchi 1987, 13). In southern drought areas, however, the smaller scale and different character of DRR rehabilitation components generally afforded greater opportunities for collaboration with communities. Indeed, employment generation was a major objective during the project's early phase. Community labor undoubtedly lowered the cost of construction in the south, even if food assistance and nominal wages are discounted, but the DRR reporting system did not keep records that would allow its value to be quantified.

### *Cost-Effectiveness During Construction*

RPW components constructed by PRODERINs in Cajamarca and Junín generally had cost/benefit ratios that compare favorably with similar works built by other agencies in these departments.<sup>19</sup> In both departments new roads constructed by PRODERINs had lower net costs per kilometer than those built by the corporations.<sup>20</sup> Irrigation components constructed by PRODERIN-Junín cost about the same per hectare and benefited three to eight times as many families per unit of cost as those built by Plan MERIS, the AID-supported project carried out by a central government agency specializing in irrigation works. In the 1983 survey, PRODERIN-Cajamarca's irrigation components were considerably more expensive on a per-beneficiary basis than those constructed by Plan MERIS; but in 1985 they were slightly less expensive than the centrally implemented Plan MERIS systems.

During the DRR project's initial emergency phase, the urgency of restoring critical economic infrastructure and eliminating threats to public health took precedence over controlling costs. CORDES often took provisional measures, which were frequently wiped out by subsequent

surges of flooding; these were later replaced with more definitive structures. Consequently, early DRR works tended to cost more than comparable nondisaster components. But efficiency increased over the life of the project—as the disasters subsided, less urgent works were undertaken, and DRR management developed procedures to control costs and quality. Overall comparisons with nondisaster components indicate that DRR costs were at the very least reasonable for reconstruction work (see Checchi 1987, 10–11).

### *Investment Recuperation After Construction*

The IRD project introduced the concept of investment recuperation through loan repayment, improvement assessments, and user charges. These different modes of investment recuperation can potentially increase the financial independence of decentralized organizations and contribute to more self-sustaining development.

CORDE-Junín took the lead in researching the feasibility of various mechanisms of investment recuperation in the Peruvian legal and institutional context. Later supported by PATC-CORDES and presented at a national seminar in Huancayo in May 1985, this research developed concrete proposals regarding the delineation of investment responsibilities among public agencies, specific mechanisms of cost recovery to be used for each type of investment, and modes of administration (see Palomino 1985). In 1986 PATC-CORDES followed up this policy research by initiating a pilot program of cost recovery in La Libertad.<sup>21</sup>

Though initially unpopular, investment recuperation has gained increasing acceptance as corporations and municipalities search for ways to improve their resource bases in the current context of economic austerity. Some CORDES have begun to collect improvement assessments and user charges, but national laws and regulations continue to undermine their ability to recover investments. Most major infrastructure constructed by the corporations must be turned over to a national agency upon completion. The ministries have resisted losing control over infrastructure with significant possibilities for investment recuperation. Although CORDES have the legal authority to recover their investments in such works as street paving, markets, slaughterhouses, and industrial parks, any sums collected but not spent during the same fiscal year revert to the national treasury.

### *Maintenance*

As in most Third World countries, maintenance of public works in Peru is inadequate or completely lacking. Only three of twelve RPW irrigation systems and five of thirteen RPW roads examined in the 1985 survey received any maintenance support whatsoever from the imple-

menting agency, though it must be remembered that central government agencies (rather than PRODERINs or CORDES) had legal responsibility for maintaining both types of infrastructure when this survey was taken. Nevertheless, the IRD project contributed to relatively successful community-based maintenance by consulting with local people, encouraging local resource contributions, and reinforcing local organizational capabilities (see Section 5 below).

The rates and effectiveness of local maintenance activities reported in the 1985 survey of IRD beneficiaries are high for rural Peru, especially considering the multicommunity character of most RPW components. Of the irrigation beneficiaries interviewed in that survey, 48 percent in Cajamarca and 78 percent in Junín said that they had contributed labor for canal maintenance. Of road beneficiaries, 56 percent in Cajamarca and 41 percent in Junín reported labor contributions for maintenance. In both departments nonlabor contributions from communities also facilitated maintenance.<sup>22</sup>

In Cajamarca 81 percent of respondents reported that their irrigation system was well maintained, while 73 percent said that maintenance of their road was at least acceptable. In Junín 81 percent of irrigation beneficiaries and 58 percent of road beneficiaries gave their component a good or adequate maintenance ranking; the low rating for roads is partially attributable to incomplete construction. These figures are in line with the opinion of the AID engineer who supervised rural public works under the IRD project. He estimated that locally managed maintenance is adequate for about 70 percent of RPW components: a rate much higher than the norm in rural Peru.

### *Rotating Credit Funds*

The DRR project sponsored the first major effort to establish systems of rotating credit and technical assistance in the largely impoverished southern region of Peru.<sup>23</sup> CORDES in six departments—Aurimac, Cuzco, Huancavelica, Moquegua, Puno, and Tacna—established rotating credit funds for various agricultural and stock-raising activities. In most cases, the funds and accompanying technical assistance were managed by agencies affiliated with the Ministry of Agriculture under the supervision of the respective corporation.

The rotating credit funds loaned seed, fertilizer, pesticides, and other inputs to peasant farmers, who could repay in cash or in kind. Four-fifths of the loans were made to farmers who had never received credit. In the majority of cases, inputs were timely and of good quality, though clients complained of inadequate amounts.<sup>24</sup> A majority of clients also received training or technical assistance that they valued.<sup>25</sup> Furthermore,

61 percent reported that they had improved their economic situation over the previous year.

The pilot rotating credit funds are far from being institutionalized and sustainable. Administration and supervision have been weak, due to a lack of experience and training. On average, only 21 percent of loans have been amortized, accounting for only 25 percent of the amount lent.

Nevertheless, this experiment was a far better use of AID money than mere charity. It must be remembered that the funds were initiated as part of an emergency program in the poorest region of the country, parts of which have suffered from terrorist activity in addition to the recent natural disasters. The program gave CORDES invaluable experience in this field and revived a moribund extension program. Moreover, strong performances by funds in Huancavelica and Tacna demonstrated the plausibility of the approach.

Given both the problems and potential of rotating credit funds, PATC-CORDES held a major seminar on the topic in September 1986 (see PATC-CORDES 1986). Since then it has worked on legal and administrative changes that are prerequisites for improvements in the funds' operations and performances.

### *Municipal Finance*

The IRD project's municipal components had some success in improving the resource bases of local governments. Cadastral work increased the property tax bases of pilot provincial councils in Cajamarca and Junín between 500 and 800 percent (Hess 1986, 18). In 1983 the project extended these efforts to selected municipalities of varying sizes throughout the country via the Comprehensive Technical Assistance and Training Program for Municipalities (ATI) in the National Institute for Municipal Development (INFOM). Available evidence indicates that this program has helped to increase actual revenues generated at the local level. In addition, the municipal wing of the decentralist lobby—which the IRD project helped to stimulate—played an important role in the passage of laws providing new and expanded sources of revenue, including the earmarking to municipalities of a 1 percent value-added tax on goods and services.

## **4. Impacts on Economic Development**

Both AID projects undertaken in collaboration with CORDES made positive contributions to Peru's economic development and reached economically and socially disadvantaged groups in provincial areas. In the case of the IRD project, positive economic impacts were a primary

objective. In contrast, the goal of the DRR project was reconstruction and rehabilitation. It could only support components that were disaster related, though some of these also contributed to economic development.

### *The IRD Project*

RPW irrigation systems contributed to three main benefits: increased agricultural production, higher livestock production, and availability of water for domestic use. RPW roads made transportation of farm products and other goods faster and less expensive, stimulated commercial activity, and provided rural communities with access to improved or additional services. The limited available evidence indicates that street lighting and residential use were the primary benefits of KMTD electricity works.<sup>26</sup>

*Irrigation Components.* Data from the 1983 survey of beneficiaries in Cajamarca show that RPW irrigation systems resulted in a 77 percent increase in the number of families with access to irrigation water and an average 25 percent expansion of the area cultivated by families who had previously irrigated. Gains in yields of irrigated crops ranged from 50 to 100 percent, while 43 percent of respondents said that irrigation allowed them to plant more than one crop per year. Eighty-two percent reported greater crop production from more land under cultivation, increased yields, or multiple cropping. Twenty-eight percent said that they had benefited from improved supplies of drinking water.

In the same year 65 percent of beneficiaries in Junín said that a RPW component had enabled them to irrigate for the first time, as the area under cultivation expanded by 43 percent. Greater agricultural production was reported by 45 percent, multiple cropping by 22 percent, and improvements in cattle production by 43 percent. Yield increases for potatoes averaged 91 percent.

Lower production gains reported in both departments in 1985 were probably related to the severe 1983–1984 drought and may also reflect lower marginal increases among and within irrigation systems over time (Hatch et al. 1985, 50). Of Cajamarca farmer respondents, 22 percent said that irrigation had allowed them to expand cultivation, but yield increments were minimal. Nevertheless, 60 percent of those surveyed in this department reported some increase in crop production and 28 percent reported livestock improvements. In Junín 45 percent of respondents reported no benefit because their component had not yet been completed; but the remaining interviewees listed some positive economic impacts, including multiple cropping by 47 percent. Majorities of respondents in both departments anticipated continuing or future increases in crop production, livestock production, or dairying.

*Road Components.* Among other benefits detailed in the 1983 survey, 69 percent of RPW road beneficiaries in Cajamarca reported improved

community or market access, and 70 percent of those interviewed in Junín said that a RPW road had permitted motorized transport of farm products to begin.

According to the more extensive 1985 survey, average transport costs fell by over 50 percent in Cajamarca and almost 80 percent in Junín. In Cajamarca 76 percent of beneficiaries said that they spent less time traveling to market than before the completion of the road in their area, with an average saving of one hour forty minutes per trip. In Junín 63 percent of respondents reported saving up to four hours in traveling to market, and another 10 percent now save four to ten hours. In both departments increased marketing of agricultural products was evident in areas served by the new roads, despite drought-related declines in crops.<sup>27</sup> In each department significant percentages of beneficiaries reported that RPW roads had stimulated new or better services from clergy, teachers, doctors, and public employees.

### *The DRR Project*

In the flood-ravaged departments of the north, the DRR project was successful in restoring damaged economic infrastructure—roads, irrigation works, and electrical systems—upon which agricultural production and distribution depend.<sup>28</sup> Although restoration of the region's productive base is not economic development in a strict sense, it was a prerequisite for sustained development in the future. Similarly, restoration of water and sewer systems removed health hazards detrimental to future development. The project also completed more socially oriented components, such as street repaving and housing reconstruction, but these were accorded lowest priority.

During the early phase of the emergency in the south, DRR-sponsored public works provided food, jobs, and seed on a timely basis (see Section 1 above). In addition, irrigation components emphasizing maintenance, repair, or modest improvements of existing systems appear to have been relatively successful. For example, rapid attention to the rehabilitation of motorized pumps and other deteriorated irrigation infrastructure put 2,307 hectares into production in Puno at the height of the drought in 1983. As in the case of northern reconstruction, these relief and rehabilitation efforts will facilitate future development.

On the other hand, new irrigation works having greater developmental potential appear to have been less successful.<sup>29</sup> The DRR final evaluation team found incidents of irrigation canals constructed in inappropriate places, some sections of major components that may be too expensive to complete, and cases where well-constructed works probably will not be used by communities. These shortcomings were primarily due to the

project's fast-track approach, which reduced available time for technical studies and greatly narrowed the scope for community participation in design and construction. The final evaluation team concluded that new, more developmentally oriented components should have been implemented under a separate system of subproject management, if not a different project.

The shortcomings of new irrigation works in the south should be put in perspective. The DRR project had a remarkable record of going beyond its primary objective of reconstruction and rehabilitation to make positive contributions to economic and institutional development; this was the only major instance in which it overreached. AID/Peru was quite conscious of the additional risks in supporting these more developmentally oriented components, however, it considered them to be worth taking. With the benefit of hindsight, this judgment appears incorrect, but it was well within reason and the goals of the project.

### 5. Interorganizational Networks

Both projects strengthened interorganizational networks at the regional or local levels. The DRR project facilitated mutually beneficial cooperation between corporations and resource-starved field offices of central government agencies, thus ameliorating problems of horizontal coordination at the regional level. The IRD project reinforced the roles of local organizations during construction and maintenance.<sup>30</sup> Available evidence also indicates that the DRR project strengthened PVOs and their working relationships with CORDES. In addition, the two projects benefited private farmers and enhanced private sector development.

#### *Horizontal Coordination in the Public Sector*

In the current context of severe economic austerity, most ministerial field offices have very limited resources for investment, as normal operating expenses typically account for over 90 percent of their budgets. Nevertheless, competent professionals are sometimes found in these offices. Moreover, as the local representatives of their ministries, they are responsible for interpreting and implementing sectorial policies.

Most DRR subprojects could be carried out through CORDES or field offices of central ministries. Contrary to the conventional wisdom that additional agencies can only complicate and slow down implementation, DRR management encouraged interagency collaboration. The corporations often signed agreements for DRR subprojects to be implemented by field offices. Indeed, through CORDES the DRR project financed most investment by the Ministry of Agriculture and its affiliated

agencies in the southern sierra. In turn, collaborating field offices often provided the corporations with some influence over sectorial policy. In a few instances, employees from field offices were detailed to CORDES.

### *Collaboration with Local Organizations*

The IRD project reinforced the roles of local organizations in decision making and served as a catalyst for cooperation among different communities benefiting from a common component.<sup>31</sup>

The signing of implementation agreements and the ratification of these agreements by a community assembly or an open meeting were prerequisites for initiation of RPW components. This requirement was more rigorously enforced after the mid-term evaluation. Eleven of twelve irrigation systems examined in the 1985 survey were approved by a meeting of local residents. Serious implementation problems tended to occur in the exceptional cases where the community did not participate in component selection or approve works identified on the basis of planning priorities.

During construction, beneficiary communities organized "proirrigation" and "proroad" committees to facilitate participation in management and to mobilize local resources. In addition, *promotores* from the PRODERIN or CORDE helped to organize intercommunity committees or work crews when components benefited more than one community. These various committees also facilitated organization of maintenance tasks within and among communities after construction.<sup>32</sup> For example, beneficiaries of all twelve irrigation components examined in the 1985 survey had elected local committees to help manage construction; in all but one case a water user group continued to coordinate maintenance once the system was in operation. The same survey found intercommunity work crews to be in charge of maintaining four of seven RPW roads in Cajamarca.<sup>33</sup> These crews have shouldered the brunt of road maintenance, though some have received loans of machinery and other assistance from the corporations.

Most KMTD works were initiated at the request of local "proelectrification" committees, which also helped to organize community financing. The regional electricity companies have assumed responsibility for maintenance: a logical choice considering the different character of electricity components. The only nonelectricity works financed by the KMTD fund were built for a rural cooperative.

### *Cooperation with Private Voluntary Organizations*

PVOs played important roles in the DRR project, especially in distributing food assistance and seed in the south.<sup>34</sup> Their role in housing

construction was also important in the north. The experience of collaborating for common objectives generally strengthened working relationships between CORDES and PVOs, though there was sometimes friction over food distribution. Moreover, available evidence indicates that the discipline of meeting DRR requirements stimulated improvements in the administrative and technical capabilities of PVOs.

### *Support for Private Enterprise*

Both projects encouraged development of private enterprise serving the provinces. Independent farmers were the primary beneficiaries of RPW components in Cajamarca and Junín and rehabilitation efforts in the south. The DRR project contracted consulting firms to provide services to CORDES and encouraged the corporations to contract out most types of works to private construction firms (see Section 2 above). Most electricity systems financed by the IRD project's KMTD fund were also contracted out, as is standard practice in Peru for this type of work.

In implementing RPW components, however, IRD managers and their Peruvian counterparts faced a trade-off between the objectives of private enterprise promotion and community participation. RPW roads and irrigation works were generally carried out by forced account; contracting would have precluded or severely limited local input and resource contributions. In any event, construction firms were less interested in these relatively small and often remote components.

Through its support for PATC-CORDES and its role in the policy dialogue, IRD management stimulated analysis and discussion of different modes of collaboration between CORDES and the private sector (see Hess 1986, 22-25). In two departments representatives of the private and public sectors participated in forums on this topic. Virtually all participants in this discussion agree that (1) the private sector in provincial Peru is weak in both entrepreneurial and organizational terms, especially in nonagricultural activities; and (2) the corporations or regional governments can support private sector development by giving private sector representatives roles in investment planning, providing supportive infrastructure, and identifying investment opportunities for private capital.

Officials in PATC-CORDES' Office of Basic Analysis and many CORDES further argue that corporations or regional governments should (1) promote public or mixed enterprises in critical bottleneck activities, whose development would open up opportunities for private investment; and (2) become involved in securing or providing finance for private firms. AID/Peru is understandably hesitant about supporting these positions, given its commitment to promoting private enterprise, the poor record of public enterprise in Peru, and the limited experience and expertise

of CORDES in this field. Nevertheless, to its credit, the mission has assumed a pragmatic attitude vis-à-vis such proposals, rather than dismissing them out of hand. AID/Peru recognizes the obstacles to promoting private enterprise in the provinces; indeed, to date its private sector development efforts have focussed almost exclusively on Lima. More applied research is needed to work out viable policies for strengthening the private sector outside of Lima.

## 6. Summary and Conclusion

Although constrained by central structures and processes, the IRD and DRR projects worked with CORDES and other decentralized organizations to achieve a variety of positive results. Corporations collaborating with the two projects were more responsive to needs of the provincial population and more efficient in implementing components serving these needs than central government agencies working with other donor-supported projects. The projects improved planning, administrative, and technical capabilities of CORDES, while stimulating a more flexible, problem-oriented style of management. Within parameters imposed by national legal and regulatory constraints, both projects also enhanced the corporations' capabilities for resource mobilization and management. The projects made positive contributions to Peru's economic development, reached economically and socially disadvantaged groups, strengthened interorganizational networks at the regional and local levels, and reinforced the private sector. These generally positive impacts can be added to the small, but growing, body of empirical evidence in favor of decentralization in developing countries.

## Notes

1. For 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 is drawn.
2. See Korten (1980) for discussion of the “learning process” approach.
3. The IRD project also strengthened municipalities, focusing first on selected provincial councils in the initial target departments of Cajamarca and Junín, and later on local governments throughout the country via the Comprehensive Technical Assistance and Training Program for Municipalities (ATI) in the National Institute for Municipal Development (INFOM). A review of this effort is largely beyond the scope of the present analysis, though its impact on municipal finance is discussed in the third section of this chapter.
4. French et al. (1983, 100–127) and Hatch et al. (1985, 4–7 and 24–55) present and analyze data from these surveys, which were carried out by Rural

Development Services, Inc. The survey data on IRD beneficiaries cited in this chapter are drawn or calculated from these sources.

5. Sixty-eight out of eighty-one components had been completed by 20 September 1986, the date of the last semiannual report on the IRD project.

6. The discussion in this subsection is based on Checchi (1987, 10–11 and 14–17) and additional data supplied by AID/Peru.

7. The discussion of other AID projects in this subsection draws on GAO (1983), Moncada et al. (1985), Painter et al. (1985), Wilkinson et al. (1984), and other project documentation supplied by AID/Peru.

8. This subsection draws on Chetwynd et al. (1985), French et al. (1983, 31–42), LRAP (1984), and interviews with AID/Peru and CORDE personnel in Cajamarca and Junín.

9. See especially Dillon (1986). For discussion, see Rondinelli and Salinas (1985, 14–15).

10. Although the IRD project was primarily concerned with increasing regional planning capabilities, it also stimulated development of managerial orientations in line units by providing a more predictable program context and supportive technical assistance. Some engineers in Cajamarca and Junín nostalgically recall the *esprit de corps* and “*mystique*” of their days with the PRODERIN.

11. The analysis under this heading is primarily based on interviews in six CORDES during May–July 1985.

12. *Process capacity* is the ability to obtain critical services from other organizations, instead of developing an internal capability for providing them (see Bremer, 1984).

13. Contractors are not particularly interested in small rural works located in remote areas of the country. Moreover, there can be trade-offs between contracting and encouragement of community participation, as discussed in the last section of this chapter.

14. Hammergren (1985) and Schmidt (1985) offer analyses of project impacts on administrative capacity, which are based on field visits to CORDES when PATC-CORDES had been in operation for less than a year and DRR impacts were still hard to assess. The analysis in this subsection draws on these studies and follow-up questions to AID, PATC-CORDES, and former PATC-CORDES personnel in March 1987.

15. Indeed, the corporation in Piura, which had received hardware much earlier than most CORDES, achieved a number of CORDE-wide applications by May 1985, thanks in large part to its DRR departmental advisor.

16. These cost-effectiveness studies were also carried out by Rural Development Services, Inc.; they are summarized in French et al. (1983, 87–100) and Hatch et al. (1985, 1–3 and 8–23). Cost-effectiveness data cited in this chapter are drawn from these sources.

17. In contrast to Cajamarca, food assistance was not used in Junín, so the PRODERIN and other implementing agencies did not keep reliable records on local resource contributions. According to official records, only 4–6 percent of total costs were met through local contributions. This proportion is significantly below levels recorded for Cajamarca, where fewer beneficiaries reported making

contributions for the same types of components. It should also be noted that the communities of Junín have a well-deserved reputation as the most progressive and self-reliant in the Peruvian sierra (see Long and Roberts 1978).

18. Data on nonlabor contributions for construction were not included in the 1983 survey. In 1985, 47 percent of irrigation and road beneficiaries in Junín reported donations of materials, while 45 percent of irrigation beneficiaries and 58 percent of road beneficiaries in this department reported cash or other types of contributions. In the same year in Cajamarca, 20 percent of irrigation beneficiaries and 17 percent of road beneficiaries reported donations of materials; 6 percent of irrigation beneficiaries reported cash contributions; and 31 percent of irrigation beneficiaries and 33 percent of road beneficiaries reported other types of contributions.

19. The 1983 and 1985 cost-effectiveness studies examine components constructed by *Cooperación Popular*, CORDES, Plan MERIS, and PRODERINs. Public works built by *Cooperación Popular* are generally not comparable in scale or quality to those of the other agencies; thus, they are excluded from the present analysis.

20. The net cost of a component is the cost to the implementing agency. The net cost excludes expenses borne by the community or private organizations.

21. By September 1986 eight KMTD components had entered the cost recovery stage, but the Housing Bank had not disclosed data on loan repayment a half-year later.

22. Of the road beneficiaries surveyed, 19 percent in Cajamarca and 14 percent in Junín donated materials for maintenance, and 3 percent in Cajamarca and 21 percent in Junín gave cash or other contributions. In Cajamarca 7 percent of irrigation beneficiaries reported making cash contributions for maintenance, and 41 percent reported making other types of donations. Figures on nonlabor contributions for irrigation maintenance in Junín are not available.

23. This subsection draws on the data and analysis presented in Lanao Flores et al. (1986, 1-43).

24. In a survey of clients, 62 percent reported that inputs arrived on time. Fifty-two percent classified input quality as good, 33 percent as adequate, and 12 percent as poor. Forty-one percent reported that the quantity received was adequate, while 58 percent said that it was insufficient.

25. Of clients surveyed, 48 percent classified the technical assistance as good, 34 percent as adequate, and 18 percent as poor. Eighty-eight percent said that they would continue to use the techniques learned.

26. Only one of three electrification components examined in 1983 and 1985 had been completed when the respective beneficiaries were surveyed. In addition to urban illumination and domestic use, many beneficiaries anticipated future growth of small industry; indeed, beneficiaries of one uncompleted component had purchased electric machinery for home workshops.

27. In Cajamarca 51 percent of potato farmers, 47 percent of wheat growers, and 37 percent of barley producers reported sales increases that were significant on average. In Junín greater sales—which also were of significant magnitude on average—were reported by 65 percent of potato farmers on various roads, all

pea and barley growers on the Colca road, all corn farmers and 88 percent of coffee producers on the Tingo route, and 45 percent of *olluco* cultivators on the Comas road.

28. The discussion in this subsection is based on Checchi (1987, 10–11, 18–19, and 51–52); review of project documentation; and interviews with DRR personnel, officials in corporations and other implementing agencies, and the DRR final evaluation team. For a review of CORDE performance in each department, see Hirsh (1987).

29. Given the character of the drought in the south, analytical distinctions among relief, rehabilitation, and economic development were often blurred in practice. Indeed, over time a component could be the means to all three objectives.

30. Also under the IRD project, CORDE-Cajamarca and CORDE-Junín provided significant technical assistance and training to municipalities in their respective departments, but a review of these efforts is beyond the scope of this study.

31. The discussion in this subsection is based on Hatch et al. (1985) and on conversations with AID staff involved in the IRD project. It is not possible to assess impacts of the DRR project on local organizations in the absence of a data base or any independent evaluations on this topic.

32. This connection between local participation in construction and community-based maintenance of RPW components is consistent with experiences from other developing countries (see Uphoff 1986, 67).

33. Comparable data on the organization of road maintenance in Junín is not available.

34. The discussion in this subsection is based on Checchi (1987, 21–22), conversations with two PVO managers, and interviews with CORDE officials.

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## Insights from AID/Peru Experience: Designing More Effective Decentralization Programs

Although most decentralization studies are monographic or legalistic, recent comparative research on decentralization in the Third World has significantly advanced the state of the literature by developing policy-oriented hypotheses that deal with the design of decentralization programs. Three major propositions may be identified in this literature:

1. Decentralization should be viewed and designed as an incremental process of capacity building.<sup>1</sup>
2. Decentralization policies should establish or strengthen capabilities in national-level agencies to assist decentralized organizations and should promote appropriate interorganizational linkages among complementary capabilities at different levels.<sup>2</sup>
3. Decentralization policies, especially in their initial stages, should transfer financial resources, as well as powers and responsibilities, to decentralized organizations.<sup>3</sup>

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

AID's experience in supporting Peruvian decentralization provides important support for each of these propositions. Nevertheless, analysis of this experience also suggests that current thinking about design does not adequately address the political and institutional context in which decentralization programs are undertaken. Not only is AID's experience in Peru useful for testing the limits of conventional wisdom concerning the design of decentralization programs, but on the basis of this experience, some additional hypotheses can be ventured.

- Hypothesis 8.1: 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 8.2: In highly centralized political systems, incremental capacity building and efforts to achieve institutional reform are both necessary and potentially reinforcing, though simultaneous pursuit of both objectives requires considerable managerial skill.
- Hypothesis 8.3: 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 8.4: The long-term 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.
- Hypothesis 8.5: In highly centralized political systems, the most-effective way of establishing or reinforcing central organizational capabilities to assist decentralized organizations is by working through project-related units located in key national-level agencies.
- Hypothesis 8.6: Assistance 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 mobilize support for institutional reforms that favor decentralization, and (3) to spread innovations generated through project experience at the periphery.
- Hypothesis 8.7: 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 8.8: 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 8.9: A prerequisite for successful use of categorical transfers is consensus on clear, easily understood criteria that can be made operational.

This chapter discusses the major propositions from the recent comparative literature in light of AID/Peru experience and the additional hypotheses that emerge from analysis of that experience.

### **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 efforts; the reality of generally lower administrative and technical capabilities at subnational levels; and an appreciation of slow, but perceptible, results achieved by some decentralization initiatives during the 1970s and 1980s. Rondinelli and Nellis (1986, 20) identify some key hypotheses that follow from the incremental capacity-building approach to decentralization:

- *Scope.* "Small-scale decentralized programmes designed for limited impact are likely to generate more positive and durable results than large-scale, sweeping organizational reforms. Programmes should, therefore, be planned on a small scale and expanded incrementally."
- *Simplicity.* "Abstract and complex planning and administrative procedures are unlikely to be implemented effectively in most developing countries and therefore decentralized programmes should be kept simple, flexible and appropriate to the capacities of the organizations to which responsibilities are being transferred."
- *Time Horizons.* "Decentralization requires a lengthy period of gestation before its benefits will be realized, and programmes must therefore be planned for the long term."
- *Tutorial Planning.* "Decentralization programmes 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. Programmes should therefore be planned tutorially."<sup>4</sup>

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

*Evidence Supporting the Incremental Capacity-Building Approach*

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

Despite the problems encountered during its early years, the IRD project achieved tangible improvements in planning, administrative, and implementation capabilities by (1) focusing on a manageable range of activities in two pilot departments, (2) using relatively simple planning techniques, and (3) employing a tutorial mode of technical assistance. The lessons learned during the early years of this project were later invaluable in expanding its technical assistance components 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; however, several characteristics consistent with the incremental capacity-building approach account for much of its success in increasing the administrative, technical, and process capacities of CORDES. Although DRR advisors tended to be expeditors more than teachers, the corporations received strong technical assistance under the project; by no means were the extensive responsibilities for reconstruction and rehabilitation simply dumped on them. The procedures developed for component selection, monitoring, and liquidation were simple but effective and allowed technical studies to be performed on a rolling basis. Given considerable latitude by the high proportion of grant money, multiple modes of subproject implementation, and some influence in component selection, DRR management conscientiously made adjustments during implementation to accommodate the varying capabilities of CORDES.

Furthermore, the Peruvian case suggests that low levels of education or technical skills in peripheral areas seldom, if ever, justify perpetuation of centralization. Even in Peru there were marked differences in human resources between relatively developed and underdeveloped regions. Under both AID projects, technical assistance helped to significantly upgrade human resources and increase the administrative and technical capacities of decentralized organizations, while assistance linkages or process capacities were used to fill critical gaps. Thus, decentralization policies can initially emphasize those tasks that are easiest to handle at subnational levels and then transfer additional responsibilities as capabilities at lower levels are improved.

Negative experiences in each project also demonstrate that short or inflexible project time frames can constrain or undermine the development

of decentralized institutions. Decisions taken to expedite implementation during the early days of the IRD project reduced its long-term institutional impact. PATC-CORDES' training and technical assistance efforts probably would have had greater impacts if they had taken place over a longer period. The DRR project's fast-track approach limited the scope for community participation in design and implementation of more developmentally oriented irrigation components in the south.

### *The Limits of the Incremental Capacity-Building Approach*

Although AID/Peru experience provides much evidence that supports 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; however, capacity-building efforts in highly centralized systems, such as Peru's, soon run into limits related to central constraints. At some point, political and administrative reforms at the center will be needed to allow continuation and expansion of such efforts. The incremental capacity-building approach acknowledges that decentralization cannot be implemented without conflict, but it tends to attribute conflict to attitude more than to interest and to assume that conflict can be overcome through education and persuasion (see Rondinelli, Nellis, and Cheema 1984, 72).

Moreover, whereas most of the decentralization literature primarily treats capacity building as the diffusion of standardized technical and organizational skills—with perhaps a dose of citizenship training as well—AID's experience in Peru indicates that effective 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. 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 methodology. The adaptability and flexible management style of the DRR project resulted in such innovations as the control card and financial liquidation systems, which greatly improved subproject approval and monitoring processes and allowed technical studies to be undertaken on a rolling basis.

In addition, AID/Peru experience suggests that incremental capacity building and efforts to achieve institutional reform are both necessary

and potentially reinforcing in highly centralized political systems. On the one hand, some attention must be devoted to substantive and compliance capacity building in order to strengthen the case for additional decentralization and to ameliorate short-term political pressures. Furthermore, 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 PATC-CORDES' experience. 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: capacity building enhances the possibilities for institutional reform, which in turn increases the effectiveness of capacity building, and so on.

While the Peruvian case indicates that incremental capacity building and institutional reform are both necessary in highly centralized political systems, it also demonstrates that simultaneous pursuit of these objectives requires considerable managerial 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 otherwise distorted to meet the goals of central actors. The experience with PATC-CORDES shows 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.

Second, capacity building and institutional reform usually follow different rhythms: the former is more incremental and the latter tends 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 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. AID/Peru's ability to influence institutional reform was greatly enhanced by its imaginative response during the natural disasters of 1983 and its anticipation of a sweeping victory by the opposition in the 1985 election.

## **2. Supportive National-Level Agencies and Assistance Linkages**

Centralized and decentralized organizations are not part of a zero-sum continuum: the strengthening of the latter does not necessarily imply the weakening of the former. Indeed, processes of decentralization

typically require the reorientation and strengthening of some organizations at the center and the development of appropriate linkages among organizations at various levels. Through interorganizational linkages, functions can be allocated so as to counterbalance weaknesses and utilize comparative advantages (Leonard 1983, 271). Some of the best recent literature on decentralization focuses on the design of appropriate *assistance linkages* between supportive national-level agencies and decentralized organizations.<sup>5</sup>

AID's experience in Peru confirms the importance of assistance linkages for conventional capacity-building objectives. Moreover, it suggests a strategy for establishing or reinforcing supportive national-level agencies and illustrates several additional uses of assistance linkages that are not appreciated in the literature.

### *Assistance Linkages for Capacity Building*

Although assistance linkages to international donors may benefit decentralized organizations in the short run, sustainability requires the establishment and institutionalization of national capabilities for providing decentralized organizations with training, technical assistance, and other services. Decentralized organizations must develop lasting assistance linkages with supportive national-level agencies—rather than with organizations that overemphasize controls, as is the case with most Peruvian agencies. Since assistance linkages emphasize service over controls, they usually imply a new set of roles and new costs at the center. Thus, most decentralization programs should include training components, if not additional resources, for selected national-level agencies in order to facilitate development of more supportive central roles.<sup>6</sup>

IRD and DRR project experiences confirm the importance of supportive national-level agencies and assistance linkages for increasing the administrative and technical capabilities of decentralized organizations. Linkages to AID-supported organizations at the national level—the GRR, PATC-CORDES, and the PMS—and to AID itself enhanced the performances of CORDES by (1) providing a predictable flow of resources and a predictable program context, (2) strengthening intraorganizational capabilities, (3) developing extraorganizational process capacities, and (4) temporarily compensating for low capacity. Through assistance linkages CORDES gained a predictable flow of resources and a predictable program context, which were prerequisites for effective technical assistance. PATC-CORDES and AID departmental advisors contributed to perceptible improvements in basic organization, cost indexing, technical studies, computerized information systems and programming, regional planning, and public works. Under the DRR project, the corporations developed

process capacities through their dealings with construction and consulting firms. 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 AID compensated for low capacity in specific technical areas. In addition, AID departmental advisors to the corporations performed monitoring, capacity-compensating, and general troubleshooting functions.

### *Project-Related Units in Key National Agencies*

AID/Peru experience 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 agency is unlikely to be effective in serving decentralized organizations. On the other hand, established central agencies are likely to overemphasize control linkages and unlikely to have decentralization as a high organizational goal.

The experiences of the IRD and DRR projects indicate that an appropriate strategy in such a context is to establish or reinforce project-related units within key national-level agencies to administer project funds and to provide technical assistance. This approach increases the chances of gaining adequate political support and managerial flexibility, which are both necessary. Project units also help the donor to insulate supportive central organizations from political and administrative pressures that might undermine their service orientation. The GRR, PATC-CORDES, and the PMS enhanced both the performance and political power of the corporations, improving their chances of long-term viability. In addition, the formation of a unit in the MEF to regularize disbursements greatly increased the predictability of DRR counterpart funding to CORDES.

Sustainability is a potential problem for any strategy based on project units, 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. 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.

AID's experience in Peru cautions against adoption of any simplistic or short-term measure of the institutional impact of national-level project units. The perpetuation of a national-level project unit is not tantamount to sustainability: PATC-CORDES has survived, but it has lost much of

its supportive orientation and technical capability as a result of political changes. Moreover, even if it is phased out or becomes ineffective after the end of donor support, a national-level project unit may have enduring institutional impacts through legal reform or emulation by other agencies. Reform efforts led by PATC-CORDES have secured key legal changes that are necessary for the future development of decentralized organizations, and former PATC-CORDES officials are now leading the García administration's efforts to establish regional governments. The top leaders of PEDMEES, the current administration's high-priority microregional development program, were drawn from the DRR-supported PMS and have continued to maintain a supportive orientation in their new organization.

#### *Additional Uses of Assistance Linkages*

AID/Peru experience demonstrates that assistance linkages can serve decentralized organizations in at least three ways that are seldom, if ever, discussed in the literature.

First, such linkages may increase the access of decentralized organizations to political authority within existing legal parameters. 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 under the DRR project than was its role in providing technical assistance (see Hirsh 1987, 38). In contrast, before the establishment of PATC-CORDES and the beginning of stronger support from the AID mission, IRD and counterpart management spent much of their time in Lima trying to solve administrative and disbursement problems.

Second, AID/Peru experience shows that assistance linkages formed initially and primarily for the purpose of addressing administrative weaknesses can serve the additional function of mobilizing support for institutional reforms that favor decentralization. Thus, not only did PATC-CORDES training courses diffuse substantive knowledge and help CORDES to comply with central regulations, but they also increased awareness of the common political obstacles faced by the corporations. With the benefit of insights gained through training and technical assistance activities, PATC-CORDES' Office of Basic Analysis undertook research on CORDE organization and development strategy. The decentralist lobby that emerged around PATC-CORDES played an important role in obtaining legislation and administrative regulations more favorable to the corporations.

Third, the Peruvian case demonstrates that assistance linkages not only facilitate the diffusion of expertise from the center but also can be used

to spread innovations generated through project experience at the periphery. Many of the most important advances in such fields as investment prioritization methodology, cost recovery, and computer programming emanated from research or applications in the field by CORDES or their AID advisors. Workshops and seminars sponsored by PATC-CORDES allowed the corporations to adopt innovations from other regions and to share ideas.

### **3. Transferring Financial Resources**

The recent comparative literature on decentralization emphasizes the importance of transferring financial resources, as well as powers and responsibilities, to decentralized organizations. Grants can serve as an important catalyst for decentralization, especially during the early stages. "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 the 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 even 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 had little incentive to invest time and energy in dealing with CORDES because under the normal budget process the corporations exercised only tenuous authority over a very unpredictable resource base. Indeed, as long as authority over resources remained concentrated at the center, political actors primarily directed their demands to central agencies, instead of interacting with one another through decentralized organizations. This pattern not only led to demand overload at the center, but it also undermined the development of responsible bargaining in the provinces.

The recent comparative literature offers little direction regarding the design of appropriate grant mechanisms, but AID's experience in Peru suggests that categorical transfers 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. In addition, AID/Peru experience offers insights regarding the sustainability and design of this grant mechanism.

#### *Potential Advantages of Categorical Transfers*

The IRD and DRR projects both established central project funds that were used to finance certain types of components later selected by CORDES or PRODERINs in accordance with project criteria. This

approach is by no means uncommon in donor-supported decentralization efforts, but its implications for the development of decentralized institutions have not been analyzed. Among the potential advantages of categorical transfers from central project funds 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,<sup>7</sup> 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, AID/Peru experience shows 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. The key issue is the character and predictability of any central controls, rather than the existence of such controls per se. Officials from a variety of central government agencies in Peru seek to enforce regulations that are complex, changing, and sometimes contradictory without providing support to help CORDES comply. Like national-level agencies of the Peruvian government, the IRD and DRR projects subjected the corporations to controls, but departmental advisors also promoted a predictable program context by helping CORDES to understand and comply with project regulations.

Furthermore, AID's experience in Peru demonstrates that central project funds can be used to avoid or ameliorate the disbursement delays that so frequently occur when project funds are channeled through central agencies. The DRR project and the IRD project's RPW fund dramatically increased the predictability of CORDE funding by channeling AID grant and loan money directly to the corporations, instead of through the MEF. Moreover, under the DRR project special arrangements to handle counterpart funding were part of the central project fund mechanism.

Categorical transfers can also be used to pursue a wide range of objectives and are compatible with various modes of technical assistance. The flexibility of the RPW fund under the IRD project facilitated (1) the testing of an urban-rural linkage strategy; (2) some experimentation with the *urban-functions-in-rural-development* (UFRD) methodology, which is premised on adaptability to local conditions and on the generation of a local data base; and (3) a high degree of popular participation in component identification, design, and construction. In contrast, DRR officials generally followed an accountability style of management—providing CORDES with resources and a predictable program context,

while holding them responsible for results. DRR project experience suggests that project funds are best employed in this manner where objectives are relatively well-defined and existing capabilities relatively strong, as in the northern flood areas. Under the DRR project, the flexibility of central project funds also facilitated experimentation with revolving credit in drought areas of the sierra.

In addition, categorical transfers from project funds can facilitate the incremental capacity-building approach to decentralization. While potentially giving decentralized organizations significant roles in resource allocation, transfers for specific types of components provide a concrete 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 effectively used this mechanism. Similarly, qualitative requirements for receiving transfers and accompanying modes of technical assistance might be altered as the capabilities of decentralized organizations improve. DRR project experience also shows 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, AID/Peru experience demonstrates that transfers from project funds can be used creatively to provide positive incentives for such coordination. The flexibility of the central project fund and DRR 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 and between the corporations and PVOs under the DRR project.

### *Central Project Funds and Sustainability*

Donors that establish central project funds during the initial stages of decentralization should address the issue of sustainability. One approach is to institutionalize the categorical transfer system. A second approach is to increase the access of decentralized organizations to financial resources through the regular budgetary process of the central government. A third, more ambitious approach is to improve the ability of decentralized organizations to generate resources independently of the central government.

These three approaches are not mutually exclusive; indeed, AID/Peru directly or indirectly employed all three, with varying degrees of success

in the short and medium runs. Although the mission did not explicitly attempt the first 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. The budgetary reforms discussed in Chapter 6 were a fairly successful example of the second approach. AID/Peru had little immediate success with the third approach because national laws and regulations continue to undermine the ability of CORDES to recover investments. Nevertheless, the reform efforts supported by the mission are now leading to the establishment of regional governments with significant investment recuperation and taxing authority.

### *Designing Central Project Funds*

Analysis of AID's experience in Peru 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. The purpose of the KMTD 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 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. Its rigid adherence to established policies and procedures precluded borrowing by municipalities and, with a single exception, limited KMTD works to electrification. 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. The quite different criteria for selecting rural works in Cajamarca and Junín reflected disagreement over the urban-rural linkage approach within the original IRD technical assistance team. In neither department did proponents of the linkage approach articulate their strategy and plans in terms that could be easily understood by CORDE officials or 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 KMTD investments (French et al. 1983, 55). This ambiguity increased the project's susceptibility to political influence in component selection.

#### 4. Conclusion

The preceding review of AID/Peru experience vis-à-vis key propositions from the recent literature suggests that the incremental capacity-building approach to decentralization is fundamentally sound but incomplete. Decentralization programs should not be designed without reference to the broader political system. Moreover, a number of design features present in the IRD and DRR projects are likely to be appropriate for decentralization programs undertaken in highly centralized contexts: provision of technical assistance on a rolling basis, project-related units in central agencies, assistance linkages used for multiple objectives, and categorical transfers from central project funds. Furthermore, in highly centralized contexts, efforts to strengthen decentralized organizations should be linked to institutional reform: both objectives are potentially reinforcing and some success in meeting each goal is necessary for sustainability.

The pursuit of both capacity-building and reform objectives requires certain attributes in donor and national agencies that implement decentralization policies. Whether donors are well suited for the difficult task of supporting decentralization is the issue addressed in the next chapter.

#### Notes

1. See Rondinelli, Nellis, and Cheema (1984, 41–46) or Rondinelli and Nellis (1986, 15–19).
2. See especially Leonard (1982) or (1983).
3. See Rondinelli, Nellis, and Cheema (1984, 75).
4. Additional hypotheses posited by these authors deal with training components at the central and local levels, the desirability of financial transfers, and the sustainability of decentralization efforts after donor involvement. These issues are addressed in Sections 2 and 3 of this chapter and in Chapter 9. For further discussion, also see Rondinelli, Nellis, and Cheema (1984, 72–75).
5. See in particular Leonard (1983) and Leonard and Marshall (1982). In addition to *vertical* assistance linkages between national and subnational organizations, the importance of *horizontal* linkages among various kinds of organizations at the regional and local levels is increasingly recognized. See especially Uphoff (1986), who provides extensive treatment of both vertical and horizontal linkages. For discussion of IRD and DRR impacts on horizontal linkages, see

Chapter 7.5 and the treatment of categorical transfers in the next section of this chapter.

6. See Rondinelli, Nellis, and Cheema (1984, 74–75) for discussion of training components for central organizations.

7. See Cheema and Rondinelli (1983, 297) and Rondinelli and Nellis (1986, 16).

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## Insights from AID/Peru Experience: 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.<sup>1</sup> The evidence presented in this study strongly supports this conclusion. Indeed, to the extent that the hypotheses developed in Chapters 4 and 8 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 capabilities to assist decentralized organizations are weak or lacking, or when incentives are needed to mobilize political entrepreneurs and potential beneficiaries to support decentralization.

Yet, much of the more general literature on foreign assistance argues that 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 limit or even undermine effective donor support for 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.<sup>2</sup>

The first section of this chapter examines the apparent donor-decentralization gap through a review of the relevant literature. The second

section assesses the extent to which there were tensions between donor imperatives and institutional development in the IRD and DRR projects. Drawing on AID's experience in Peru, the third section argues that there are potential congruities and synergisms between the 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. The fourth section extracts three broader lessons for donors from AID/Peru experience.

### 1. A Donor-Decentralization Gap?

Some influential analyses of foreign assistance suggest that external pressures and internal organizational processes severely constrain the ability of major donor agencies to support institution building in general and the strengthening of permanent decentralized organizations in particular. This section examines three interrelated 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 various modes of decentralization during the project cycle.

The *blueprinting syndrome*<sup>3</sup> characterizes development planning, implementation, and evaluation in most international donor and many recipient country agencies. On the basis of 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 follow rigorously. Implementation is monitored through elaborate information systems and controlled through legally binding requirements (*conditions of effectiveness* or *conditions precedent*) written into project agreements. At the end of implementation, project impacts are measured by evaluation researchers, so that blueprints can be revised. Although donors may provide technical assistance to improve recipient country capabilities 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 of and potential remedies for the blueprinting syndrome. More optimistic analyses suggest that the major challenge is identifying and overcoming a largely self-perpetuating and self-defeating bureaucratic logic, though blueprinting may also be related to donor agencies' need to maintain credibility with the governments and investors that provide their funding.<sup>4</sup> A more pessimistic interpretation would be that the credibility require-

ments of donors leave little room for innovative behavior. Furthermore, to the extent that the roles of development practitioners are inextricably tied to the authoritative style or complex techniques of blueprinting, the syndrome cannot be overcome without drastically altering their professional socialization.

External and internal factors also contribute to the *money-moving syndrome*.<sup>5</sup> The most salient measure of a donor agency's accomplishment is its expenditure to staff ratio, rather than the developmental impacts 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 performances of managers in development agencies are typically evaluated in terms of the rate at which they can generate and complete projects. As a result, “movability,” instead of 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 environments.<sup>6</sup> 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 or, more recently, by nongovernmental organizations in the recipient country.<sup>7</sup> 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 susceptibility to political interference. Indeed, donors sometimes insist that a separate, autonomous agency be set up to carry out “their” project or program.<sup>8</sup> Moreover, some donors, most notably the World Bank, have often bypassed the permanent organizations of the recipient country by relying on temporary project management units (PMUs) to expedite implementation of projects that they support.

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 PMUs. Such a combination allegedly (1) increases the chances of absorbing large amounts of money during short periods of time (Chambers 1978, 211; Korten 1980, 484); (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 (Ron-

dinelli 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.<sup>9</sup> Decentralized organizations in developing countries generally have lower levels of technical competence than do central government agencies, especially in the kinds of analytic techniques presumed by the blueprinting syndrome. In any event, 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 decentralized organizations in recipient countries, it is not surprising that donors have primarily collaborated with central government agencies or worked through special implementation arrangements. For example, in a representative sample of twenty-one AID-sponsored integrated rural development projects mostly initiated during the late 1970s, only five were implemented through permanent subnational units of the recipient governments, and four of these five were geographically targeted to only one subnational unit (Honadle and Van Sant 1985, Appendix B).

The donor-decentralization gap does not preclude attempts by donors 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, the World Bank moved from a reliance on PMUs 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 institution-building goals became displaced (Morgan 1983).

Similarly, in analyzing AID's 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 activity is necessary, so preplanning 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 local 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 pressure to disburse funds for works. (1983, 11)

## **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 need to move money and institutional development appeared in AID/Peru projects. In particular, inflexible or short project time frames resulted in some adverse institutional impacts. Nevertheless, particular characteristics of the IRD and DRR projects, the orientations of their management, and more general changes in AID allowed the blueprinting syndrome to be at least partially transcended. Moreover, as is argued in the next section, there also were some important congruities and synergisms between the organizational needs of AID/Peru and CORDES.

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 1979–1980. Pressures from AID/Washington to begin implementation contributed to two unfortunate decisions during the initial phase 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 Chapter 5.1).

Focusing on the objectives of reconstruction and rehabilitation, the DRR project had a short time frame that limited the scope for community-level participation and the effectiveness of more developmentally oriented components. Nevertheless, 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 AID/Peru in recent years, the DRR project did not feel the pressure because it was one of the mission's most-efficient projects. Indeed, the large and efficient DRR project helped the mission to move money at a significantly faster rate than it had done in the past.

The susceptibility of the IRD and DRR projects to the blueprinting syndrome was reduced by recent trends in AID worldwide, characteristics of the two projects, and orientations within AID/Peru.

In recent years the adoption of institutional development as one of four basic elements in AID strategy has made the agency more sensitive to the blueprinting syndrome. In addition, since the late 1970s attempts to reduce the time and resources devoted to project planning and preparation and to delegate more project approval authority to missions have permitted more flexible modes of programming and implementation.<sup>10</sup> This greater delegation and flexibility within AID facilitated initial approval of the DRR project, the badly needed 1983 revision of the IRD project, and extension of both projects. On the other hand, low direct-hire ceilings and personnel reductions through attrition in recent years have stretched mission staffs thin, making it more difficult to support organization-intensive projects.

The IRD project was considered to be experimental, whereas the DRR project's goals of reconstruction and rehabilitation meant that it did not have to satisfy developmental criteria. After revision of the IRD project and corresponding personnel changes in 1983, its management style approximated the "learning process" approach that has been outlined as an alternative to the blueprinting syndrome by Korten (1980). 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. Furthermore, the director of AID/Peru who served from late 1982 to late 1986 was especially sensitive to institutional development and supportive of decentralized organizations.

Nevertheless, some problems associated with the blueprinting syndrome were evident in the IRD project before 1983. The project was not adapted to fit the rapidly changing institutional context at the regional level. Moreover, 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, corresponding design changes were not made.

Notwithstanding the DRR project's overall success 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 GAO's conclusions were based partially on the erroneous assumption that all activities in these projects were time critical, a career-sensitive officer in an AID mission would conclude that he or she should blueprint, insulate, and rapidly move projects along in order to avoid such criticism.

### **3. Bridging the Donor-Decentralization Gap: Some Insights from Peru**

The preceding section reveals that some of the donor biases identified in the literature, especially the money-moving syndrome, did indeed have negative repercussions for the development of decentralized organizations in Peru. Analysis of AID/Peru experience, however, also provides evidence that there are potential congruities and synergisms, as well as tensions, between the needs of donors and those of decentralized organizations that have not been widely appreciated. 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 ability to assist decentralized organizations.

More specifically, AID's experience in Peru lends support to the following hypotheses.

- Hypothesis 9.1: In highly centralized political systems, the donor's traditional tendency to "insulate" its projects from uncertainty and to support efficient implementation may also be used to clear "institutional space" for decentralized organizations.
- Hypothesis 9.2: Where implementation is hindered by slow disbursements or excessive red tape at the central government level,

projects can be most efficiently carried out in collaboration with decentralized organizations that receive resources directly from the donor.

- Hypothesis 9.3: Categorical transfers from project funds can be used to move money in large amounts.
- Hypothesis 9.4: The threat of the money-moving syndrome to institutional development varies considerably by the type of task or project.
- Hypothesis 9.5: Assistance linkages between supportive national-level agencies and decentralized organizations can significantly lower the amount of donor staff resources devoted to decentralized implementation.
- Hypothesis 9.6: Where there are alternative channels for implementation, direct financial ties between the donor and decentralized organizations can increase the donor's flexibility and lessen its dependence on any one organization.
- Hypothesis 9.7: In highly centralized contexts, PMUs within permanent decentralized organizations can be used to facilitate both implementation and institution-building objectives.
- Hypothesis 9.8: The long-term institutional impacts of PMUs are likely to be greatest when the units are established within organizations that have broadly congruent goals, rather than merged into existing agencies.
- Hypothesis 9.9: If higher salaries are needed to attract superior personnel to a PMU, organizational jealousies will be minimized if salary differentials are limited to a few key persons.

This section draws on AID/Peru experience to explicate and discuss these hypotheses.

### *Implementation and Institutional Space*

Analysis of DRR and IRD project experiences suggests that the donor's traditional tendency to insulate its projects from uncertainty and to support efficient implementation may also serve the end of at least temporarily clearing institutional space for decentralized organizations facing national-level constraints. In accordance with the traditional concerns of donor agencies, the two AID projects intentionally or inadvertently worked to circumvent or ameliorate centrally determined policies that threatened efficient implementation by the corporations. Both projects used special channels and national-level project units to greatly increase the predictability of CORDE resources, provide the corporations with a more supportive and predictable program context, and augment their

political power. Thus, apart from the explicit institution-building goals of the IRD project, AID's concern for efficient implementation led to policies that greatly improved the context for CORDE development.

But DRR project experience also suggests that donor agencies are more likely to have success in insulating decentralized organizations from counterproductive administrative and budgetary regulations than from national policies that affect their activities. Although their project's objective was reconstruction and rehabilitation after natural disasters, DRR management and advisors encouraged the corporations to think how future disasters might be ameliorated or even avoided through watershed management, improved irrigation use, and other measures to better utilize natural resources. CORDES, however, were discouraged by national policies from taking new initiatives in these fields.<sup>11</sup>

### *Moving Money and Decentralized Implementation*

Even if donors are primarily concerned 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 agencies and their high vulnerability to political and bureaucratic pressures from above. AID's experience in Peru suggests, however, that donors are well equipped to overcome these problems through supportive technical assistance, direct financial linkages, and prudent use of PMUs (see below). In contrast, it is usually more difficult to reform structures and processes in central agencies that impede implementation progress in many developing countries. In cases where implementation is likely to be hindered by slow disbursements or excessive red tape at the central government level, donors are well-advised to carry out projects in collaboration with decentralized organizations and to channel resources directly to them. Indeed, in Peru the implementation records of the CORDES compare very favorably with those of central agencies in charge of similar types of donor-supported projects (see Chapter 7.1).

Categorical transfers from project funds, which can facilitate the incremental capacity-building approach to decentralization (see Chapter 8.3), can also be used to move money in large amounts. A large number of smaller undertakings can match a few larger ones in scale. The \$65 million DRR project—the largest ever financed in Peru by AID—was divided into dozens of subprojects and literally hundreds of components. Similarly, very large-scale, but disaggregated, AID projects in Indonesia and Egypt have been implemented in collaboration with many subnational governmental units. Indeed, given limits to the absorptive capacities of

central agencies and geographically focused projects, collaboration with numerous decentralized organizations in different areas 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 by the type of task or project. Although the project's fast-track approach was sometimes inappropriate for more developmentally oriented components in southern drought areas, it may have actually enhanced the institutional development of CORDES in northern flood areas, where the nature of the reconstruction task was much better defined. In a sense, the project challenged the corporations in the north by assigning them major and sometimes unprecedented tasks to be completed 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 corporations' self-confidence. Had the project been implemented over a longer time frame, bureaucratic lethargy might have set in among the CORDES.

#### *Assistance Linkages and Staff Intensity*

The allegedly high staff intensity of decentralized implementation is yet another disincentive for donors to work with decentralized organizations. DRR project experience demonstrates, however, that assistance linkages between supportive national-level agencies and decentralized organizations can help the donor agency to economize on its own staff resources. 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. DRR managers emphasized that the GRR's role as the CORDES' "consulate" in Lima substantially reduced AID staff time devoted to interagency coordination.

Of course, even when donor personnel costs are lessened by assistance linkages, decentralized implementation might still be too staff intensive in an era of decreasing personnel. Moreover, donors might economize on their own staffs by providing inordinate amounts of financial support to increase personnel and technical assistance capabilities in supportive national organizations of the recipient country. In Peru, however, the DRR project's expenditures for technical assistance and operational support were in line with those of comparable projects undertaken through central agencies.<sup>12</sup> This record is especially impressive given the high percentage of expenditures on expensive expatriate technical assistance under the DRR project. If more technical assistance had 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.

### *Avoiding Donor Dependence*

The legally binding mechanisms written into project agreements to penalize inadequate implementation are seldom invoked because political, rather than managerial or developmental, 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, AID/Peru's frustration with lethargic central agencies prompted the mission to collaborate with CORDES on the DRR project, despite their recent origin and weaknesses.

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 organizations can increase the donor's flexibility and lessen its dependence on any one organization. Not only was the DRR project implemented through fifteen CORDES, rather than through a single central agency, but each corporation could carry out subprojects and components by forced account, contract them out to private firms, or delegate implementation to other agencies—which, in turn, could employ forced account or contracting mechanisms. Furthermore, disaggregation into numerous components gave DRR managers some flexibility in adjusting the rhythm of implementation to suit the capabilities of implementing organizations.

This combination of disaggregation, alternative channels, and multiple modes of implementation usually allowed AID to avoid or lessen dependence on any one implementing organization.<sup>13</sup> Although not defined in terms of rigid timetables, performance was repeatedly emphasized in project implementation letters and other correspondence with the corporations. By reprogramming during a given year or adjusting the subsequent year's budget to reflect implementation progress, DRR 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 AID. Thus, direct financial ties between the donor and various decentralized organizations potentially allow 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.

An interesting contrast to the DRR project is the Provincial Development Program in Indonesia, in which there were no direct financial links between AID 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 the AID mission in a paper transaction. Under these conditions, AID monitors had little leverage with officials carrying out the program at the grass roots level (King 1982, 15).

### *Project Management Units Reconsidered*

As discussed in the first section of this chapter, international aid donors have often attempted to insulate the projects they finance from political and administrative uncertainty by implementing them through temporary PMUs. In many cases such units have been “virtually autonomous with minimal connections to their environments” (Smith, Lethem, and Thoolen 1980, 9). PMUs have typically had their own sources of funds, hired their own staffs, followed their own administrative and personnel procedures, and purchased their own equipment.

Most of the recent literature suggests that PMUs facilitate short-term, implementation goals at the expense of longer-term, institution-building objectives.<sup>14</sup> It is argued that high salaries and other incentives used to attract the “best and brightest” usually increase PMU capacity at the expense of permanent organizations that lose key personnel. Critics also maintain that any improvements in technical or administrative capabilities achieved in PMUs are difficult to transfer to permanent organizations. Moreover, donors that rely on PMUs are unlikely to support needed capacity-building efforts in permanent organizations or crucial administrative reforms. Furthermore, the use of special units foments bureaucratic rivalries that may significantly undermine efficient implementation, which is supposedly the main advantage of the PMU approach.

As institution building has become a more important priority, PMUs 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 PMU strategy, but which has virtually abandoned it in recently funded projects (Ayres 1984, 47–48; Honadle and Van Sant 1985, 14–15).

Although the concerns expressed by critics of PMUs are genuine, their conclusions appear to be overgeneralized and not based on careful analysis of different types of PMUs or factors affecting their comparative advantages. The literature tends to gloss over important distinctions among PMUs: 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, such factors as the management philosophy and design of the project are not considered as contextual variables that might influence the effectiveness and institutional impacts of PMUs.

As discussed in Chapter 8, the experiences of the IRD and DRR projects illustrate potential advantages of supporting project-related units within key national-level agencies, as well as assistance linkages between these units and decentralized organizations. Similarly, DRR project experience suggests that, at least in highly centralized contexts, PMUs within permanent decentralized organizations can be used to facilitate both implementation and institution-building objectives.

From the perspective of DRR management, PIRR units in the corporations furthered the traditional donor objectives of rapid implementation and program insulation by (1) facilitating compliance with AID requirements, (2) increasing the likelihood that DRR components would have high priority, (3) decreasing the probability that DRR resources would be diverted to other purposes, (4) focusing technical assistance on DRR-supported works, and (5) helping DRR-supported activities to circumvent externally imposed administrative bottlenecks. Nevertheless, by pursuing these traditional concerns of the donor, AID/Peru also insulated PIRR units from many centrally imposed constraints that severely limited the possibilities for CORDE development. For example, even though the corporation in Lambayeque 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 established in a way that left considerable room for institutional learning, perhaps at some cost to expediency. To its credit, DRR 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, AID could threaten to cut off funds; indeed, this threat was made implicitly or explicitly to several corporations. Nevertheless, again to its credit, DRR management did not attempt to dictate the actual structure of the PIRR units. The PIRR units in the CORDES visited by the author 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 corporations of which they were parts. Most CORDES emulated improvements in programming and technical capabilities achieved in their PIRR units. Moreover, on average, 70 percent of professional personnel in PIRR units were retained

by the corporations and their microregional offices after 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, discussed in Chapters 5 and 7. A comparison of these experiences suggests two hypotheses regarding the institutional impacts of decentralized PMUs.

First, the long-term institutional impacts of PMUs are likely to be greatest if they are established within organizations that have broadly congruent goals, such as the PIRR units within the corporations, rather than merged into existing agencies. Mergers between PRODERINs and CORDES were processes wrought with conflict. Although fading, the strains from this experience are still evident in the Cajamarca and Junín corporations.

Second, if higher salaries are needed to attract superior personnel to a PMU, organizational jealousies will be minimized if salary differentials are limited to a few key persons. 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 key skills. Some conflict resulted from giving bonuses to PIRR unit personnel of selected corporations in recognition of overtime services; however, in two CORDES visited, this conflict was ameliorated by also giving bonuses to deserving staff in other units who had contributed to the reconstruction and rehabilitation program.

#### **4. Conclusion: The Challenge for International Donors**

To the extent that the lines of argument developed in the preceding section are correct, effective donor support for decentralization is less likely to be constrained by organizational imperatives than by the ability to design and implement appropriate projects. Reflection on both positive and negative aspects of AID's 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 AID/Peru experience. 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. Moreover, donor agencies may transcend some of the apparent trade-offs between these two objectives through better-designed projects. Furthermore, support for decentralized organizations can be channeled through sectorially or programmatically defined projects, such as the DRR project, and through institution-building projects, such as the IRD project. Thus, the project mechanism itself does not appear to significantly constrain the ability of donors to support capacity-building efforts in decentralized organizations.

The analysis in this 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 AID's concern for institutional reform. In addition, the IRD and DRR projects both helped to mobilize a decentralist lobby in support of reform. But the major push for institutional reform during 1985–1986 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. Furthermore, AID/Peru actively supported institutional reform because the mission director at this critical juncture happened to take a personal interest in this issue. The director charged the IRD project manager with coordinating the mission's efforts, using Program Development and Support (PD&S) funds and relevant resources from his project.

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

Unfortunately, a legitimate concern for self-determination frequently leads to a passive or merely advisory stance vis-à-vis institutional change. This orientation is inappropriate for two interrelated reasons. First, the governments of recipient states are not monolithic. Different ministries and agencies usually have varying commitments to institutional reforms that further decentralization. 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 AID/Peru 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. On the one hand, AID project experiences and the skillful use of PD&S 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 scrutiny and at least acquiescence of the country's elected governments. Moreover, the demands articulated by the lobby were logical outgrowths of Peru's constitutional tradition and recent government policies, rather than foreign ideological transplants.

Finally, AID's experience 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 AID/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 AID/Washington. The IRD project was extended for a year in 1986, but the proposed follow-up 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 decentralized projects should always have top priority; indeed, there are inevitable trade-offs among various developmental objectives. Moreover, this study suggests that decentralization usually is best pursued in conjunction with other goals. Nevertheless, decentralization is an objective worthy of long-term support from donors, and support for decentralized projects should not depend on the trendiness of the term. A decision to support or not support any project, whether centralized or decentralized, should be based on careful, comparative analysis of its probable developmental and institutional impacts.

### Notes

1. See Rondinelli and Nellis (1986, 20) and Rondinelli, Nellis, and Cheema (1984, 73-74).

2. The major exception to this pattern of neglect is the *bureaucratic reorientation* approach, which holds that the structures, processes, and orientations of donor

and recipient agencies must be modified to support more flexible, decentralized, and participatory approaches to development. See especially Korten and Uphoff (1981).

3. Korten (1980) coined the term *blueprint approach* to refer to the style of programming summarized in this paragraph. Similar terms used by other authors include *synoptic problem solving* (Lindblom 1965), *comprehensive planning and management* (Rondinelli 1983b), and the *rational paradigm* (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, 496–497) and Rondinelli (1983b, 65–74). The latter also provides a useful survey of procedures used by specific donor agencies.

4. See Rondinelli (1983b, 116) and Strachan (1978, especially 469 and 474–476).

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

6. For 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.

7. During 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” has typically occurred in poorer countries that lack trained planning staffs (Morgan 1983, 334–335).

8. Ayres (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, as discussed in Anderson (1967, 226–227).

9. For elaboration of the arguments in this paragraph, see Bryant and White (1982, 159–163), Gow and Van Sant (1985, 111), and Tendler (1975, 105–108).

10. See GAO (1985) for discussion of attempts to streamline project planning, which were primarily motivated by a desire to cut expenses and expedite implementation. There is no systematic research assessing the implications of these changes for AID’s institution-building capabilities, though a more general analysis of AID projects in Asia (Korten 1983) suggests that their impact has been minimal.

11. For example, under Peruvian law irrigation water is the property of the state, and the Ministry of Agriculture has responsibility for its distribution. Under pressure from organized users, water is virtually free and there is little incentive for conservation by farmers who irrigate. Users in the upper reaches of some coastal valleys grow water-intensive crops, leaving little water for farmers downstream. Although officials of some CORDES seem genuinely interested in improving water management, there is little that they can do without changes in national policies.

12. According to the author's analysis of comparable project 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 the Improved Water and Land Use in the Sierra Project (Plan MERIS), and 17.3 percent under the Rural Water Systems and Environmental Sanitation (RWSES) Project. The DRR project placed greater emphasis on operational support, which was equal to 6.2 percent of construction costs, in contrast to the 4.6 percent ratio of Plan MERIS and the 4.8 percent ratio of the RWSES project. But the ratio of expenditures for technical assistance to construction was only 10.5 percent under the DRR project, as compared to 12.5 percent under the RWSES project and 12.6 percent under Plan MERIS.

13. In several departments there were inefficient CORDES, a lack of viable alternative channels for certain kinds of components, and insufficient domestic financing through reconstruction bonds. Not wanting to deny assistance for reconstruction and rehabilitation to the citizens of these departments, AID had little choice but to work with inefficient corporations under these circumstances.

14. For example, see Honadle and Van Sant (1985); Korten (1980); Morss and Gow (1985); Smith, Lethem, and Thoolen (1980); and Tendler (1975).

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## Conclusions and Implications

This study has examined AID's efforts to support Peruvian decentralization in light of recent research on decentralization and international assistance in developing countries. Some of the principal arguments in favor of decentralization have found new empirical support in the experiences and impacts of the IRD and DRR projects. The preceding analysis of the Peruvian case has also highlighted some of the strengths and exposed some of the weaknesses of the recent policy-oriented literature. On the one hand, the study has provided strong evidence that the incremental capacity-building approach to decentralization is fundamentally sound and that recent emphases on assistance linkages and financial transfers in the literature are well-founded. On the other hand, the reviews of policy issues in Chapters 4, 8, and 9 have suggested that the recent literature does not shed much light on how to mobilize political support for decentralization, that current thinking about design does not adequately deal with the frequent need for institutional reform at the center, and that the supportive capabilities of donors should be an explicit concern in designing decentralized projects or programs.

This final chapter summarizes the major conclusions of the study and lists the hypotheses that have been developed to address weaknesses in the literature, guide future research, and inform policy.

### 1. Decentralization in Peru

Despite tremendous changes in the Peruvian political system over time, there are some consistent patterns in decentralization. Politics generally has not been organized along ethnic or regional lines; instead, national and local power typically have been linked and mutually reinforcing. Throughout Peruvian history many political actors have rhetorically called for decentralization, but few have been willing to actually invest political resources to support the development of decentralized institutions. Indeed, some sort of external "shock" or exogenous factor,

such as a natural disaster or regime transition, usually has been necessary to stimulate decentralizing initiatives.

Although decentralization has lacked sustained political support, economic and social trends have made it an enduring political and policy concern since the end of World War II. Beginning in 1949, each successive presidential administration has established multisectorial development organizations at the departmental or regional levels. Military administrations have implemented various schemes of bureaucratic delegation and deconcentration but have consistently rejected devolution and political delegation. During most of this period, democratically elected administrations have emphasized political delegation at the departmental level, though the current administration of President Alan García is attempting to establish an ambitious system of regional governments that stresses general devolution. Under both authoritarian and democratic regimes, the varying strength and cohesion of governing alliances have strongly influenced the success of decentralization efforts.

Whereas regime type and alliance strength have had fluctuating impacts on the mode and feasibility of decentralization, since 1968 the centralization, sectorialization, and expansion of the public sector have made it more difficult to effectively devolve, delegate, or deconcentrate authority and resources to the departmental or regional levels. Contemporary CORDES have faced a very different context than the pre-1968 corporations on which they are modeled. Moreover, disputes over regional boundaries and capitals among the provincial population have complicated efforts to establish multidepartmental regions.

## **2. Mobilizing Support for Decentralization**

The recent literature on decentralization in developing countries maintains that decentralization policies are frequently undermined by low levels of political commitment or political support, but sheds little light on why this problem is so prevalent or how it might be overcome. This study has argued that analysts and practitioners must examine the costs and benefits of decentralization from the perspectives of relevant political actors in order to devise effective strategies for mobilizing support. By applying some elementary concepts from the "public choice" school of policy analysis to the Peruvian case, it also has derived and discussed several illustrative hypotheses relevant to this issue:

- Collective action is usually much easier for opponents of decentralization than for its potential beneficiaries. (Hypothesis 4.1)
- The costs and benefits of collective action for and against decentralization are influenced by the organization and scope of the public

sector; the importance and alignment of ethnic, religious, and social cleavages; and linkages to other issues. (Hypothesis 4.2)

- In competitive political systems, “political entrepreneurs” will seldom invest in governmental decentralization, which typically provides relatively low returns in the form of political support while entailing high political costs. (Hypothesis 4.3)
- 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 4.4)

In addition, on the basis of the Peruvian case, this study has posited several hypotheses regarding relationships between macropolitical variables and various modes of decentralization:

- Under authoritarian regimes governments are most likely to support some sort of deconcentration or bureaucratic delegation. (Hypothesis 4.5)
- Under authoritarian regimes governments are not likely to support devolution or political delegation. (Hypothesis 4.6)
- Under democratic regimes various modes of governmental decentralization may be consistent with a pluralist model of politics, depending on the locus of party or pressure group influence. (Hypothesis 4.7)
- Regardless of regime type, the ability of a government to implement a given mode of decentralization is strongly influenced by the strength and programmatic unity of its supporting alliance. (Hypothesis 4.8)

### **3. The Impacts of Decentralized AID Projects**

Recent AID collaboration with CORDES and their predecessors began in 1979 under the IRD project, which was initially a small, pilot effort to improve regional planning capabilities in two departments of the sierra. This collaboration was greatly expanded under the DRR project, which supported recovery from the drought and floods of 1983. Although their objectives and scale were quite different, these two projects employed similar design features: (1) support for project-related units serving the corporations, which were established within national-level agencies; (2) central funds for subprojects and components meeting project criteria; (3) supportive technical assistance; and (4) project management units (PMUs) within CORDES.

Both projects improved the performances of the corporations in two mutually reinforcing ways. First, they circumvented or ameliorated external

constraints hindering CORDE development because these constraints also inhibited efficient implementation. Second, within this expanded "institutional space," the two projects helped the corporations to develop planning and implementation capabilities that are more flexible, efficient, responsive, and innovative than those found in most central government agencies. Public works constructed by CORDES under both projects contributed to Peru's economic development and benefited economically and socially disadvantaged groups.

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. Most components financed by the IRD project's RPW fund began as community initiatives, and beneficiaries of RPW roads and irrigation systems gave high marks to the PRODERINs and CORDES that built them. In contrast, beneficiaries of KMTD electrification works—which suffered from long delays caused by central agencies—gave considerably lower evaluations. RPW irrigation systems contributed to greater agricultural and livestock production by increasing the predictability of water supply, the area under cultivation, crop yields, and the number of crops per year. RPW roads facilitated more rapid and economical transportation of farm products and other goods, stimulated commercial activity, and made improved or additional services available to rural communities.

In the predictable program context provided by the DRR project, PIRR units within the corporations developed more flexible styles of management, process capacities, and improved technical capabilities. In the flood-ravaged north, CORDES rapidly restored damaged economic infrastructure upon which agricultural production and distribution depend. In the drought-stricken south, the project's relief and rehabilitation efforts were generally successful, but its fast-track approach limited the effectiveness of more developmentally oriented components. Most works financed by the DRR project—the largest and most geographically dispersed project in the history of AID/Peru—were completed within three years of the signing of the project agreement, despite the initial inexperience of PIRR unit personnel. In contrast, similar donor-assisted projects undertaken by central agencies in Peru have suffered long delays in implementation because of glacial disbursements, excessive red tape, and overcentralization of authority.

AID's experience in Peru suggests that decentralized organizations have some comparative advantages for mobilizing and managing resources. Under the IRD project, PRODERINs and CORDES stimulated substantial contributions of local resources for construction and facilitated relatively successful community-based maintenance. Components implemented by the corporations under both projects generally were technically sound

and cost-effective. Despite national legislation and regulations that constrain the ability of CORDES to recover investments, some corporations have begun to make assessments for improvements and to charge users for services.

In addition, AID projects strengthened organizational networks at the regional and local levels while reinforcing the private sector. Although sectorially defined structures and processes in Peruvian public administration limit the potential for horizontal coordination, CORDES have had some success in collaborating with field offices of central ministries and agencies, thanks to the DRR project and the policies of the current government. The DRR project also improved working relationships between the corporations and PVOs. 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 promoted collaboration between CORDES and municipalities. Both projects utilized private contractors and benefited independent farmers. Moreover, the IRD project has stimulated incipient efforts to promote greater partnership between the public and private sectors.

In summary, the generally positive experiences and impacts of the IRD and DRR projects 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 in developing countries.

#### **4. Balancing Capacity Building and Institutional Change**

AID/Peru experience suggests that the incremental capacity-building approach to decentralization emphasized in the recent comparative literature is fundamentally sound but incomplete. 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 national level. If they are to be effective, capacity-building strategies must be designed with reference to the broader political system.

The achievements of the IRD and DRR projects would not have been possible if AID/Peru and supportive national-level organizations—the GRR, PATC-CORDES, and the PMS—had not devised strategies for circumventing or ameliorating central constraints that impeded implementation and inhibited CORDE development. Furthermore, anticipating a window of opportunity around the 1985 presidential election, the mission made a conscious effort to link project experience to more permanent institutional reform. Lessons learned from project experience

gave rise to applied research on decentralization issues. Proposals developed through this research were articulated by a decentralist lobby that in large part grew out of the IRD and DRR projects. Supportive national organizations and personnel affiliated with both AID projects played key roles in winning budgetary reforms that give the corporations more predictable funding and greater autonomy. They also drafted the law that outlines the new system of regional governments and helped the García administration to operationalize its microregional strategy.

Several hypotheses that may shed light on relationships between capacity building and institutional change were extrapolated from AID's experience in Peru:

- 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 8.1)
- In highly centralized political systems, incremental capacity building and efforts to achieve institutional reform are both necessary and potentially reinforcing, though simultaneous pursuit of both objectives requires considerable managerial skill. (Hypothesis 8.2)
- 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 8.3)
- The long-term 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. (Hypothesis 8.4)

### **5. Using Assistance Linkages for Multiple Objectives**

Recent analyses of decentralization in developing countries stress an interorganizational approach. Key central agencies 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. AID/Peru experience provides significant evidence to support such an approach and suggests a strategy for achieving reorientation at the center. The IRD and DRR projects also demonstrated that assistance linkages can serve other functions while they build capacity. Two hypotheses that might guide future project-design efforts were derived from analysis of this experience:

- In highly centralized political systems, the most effective way of establishing or reinforcing central organizational capabilities to assist decentralized organizations is by working through project-related units located in key national-level agencies. (Hypothesis 8.5)
- Assistance 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 mobilize support for institutional reforms that favor decentralization, and (3) to spread innovations generated through project experience at the periphery. (Hypothesis 8.6)

### **6. Designing Financial Transfers**

Some major proponents of decentralization argue that financial transfers, even if modest and supervised from the center, can be a catalyst for effective decentralization. AID/Peru experience confirms this view, while providing insights regarding the categorical transfer mechanism employed under the IRD and DRR projects. Several hypotheses on this topic are grounded in the experiences of these projects:

- 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 8.7)
- 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 8.8)
- A prerequisite for successful use of categorical transfers is consensus on clear, easily understood criteria that can be made operational. (Hypothesis 8.9)

### **7. 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 AID's experience in Peru, which also provides additional rationales for donor involvement.

Yet, ironically, some influential analyses of foreign assistance suggest that organizational imperatives of major donor agencies severely constrain their abilities to effectively support the development of decentralized institutions.

This study has demonstrated 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. Moreover, appropriate project design may allow donors to transcend some of the apparent trade-offs between implementation and institution building. The following hypotheses emerged from analysis of AID's role in supporting Peruvian decentralization:

- In highly centralized political systems, the donor's traditional tendency to "insulate" its projects from uncertainty and to support efficient implementation may also be used to clear "institutional space" for decentralized organizations. (Hypothesis 9.1)
- Where implementation is hindered by slow disbursements or excessive red tape at the central government level, projects can be most efficiently carried out in collaboration with decentralized organizations that receive resources directly from the donor. (Hypothesis 9.2)
- Categorical transfers from project funds can be used to move money in large amounts. (Hypothesis 9.3)
- The threat of the money-moving syndrome to institutional development varies considerably by the type of task or project. (Hypothesis 9.4)
- Assistance linkages between supportive national-level agencies and decentralized organizations can significantly lower the amount of donor staff resources devoted to decentralized implementation. (Hypothesis 9.5)
- Where there are alternative channels for implementation, direct financial ties between the donor and decentralized organizations can increase the donor's flexibility and lessen its dependence on any one organization. (Hypothesis 9.6)
- In highly centralized contexts, PMUs within permanent decentralized organizations can be used to facilitate both implementation and institution-building objectives. (Hypothesis 9.7)
- The long-term institutional impacts of PMUs are likely to be greatest when the units are established within organizations that have broadly congruent goals, rather than merged into existing agencies. (Hypothesis 9.8)

- If higher salaries are needed to attract superior personnel to a PMU, organizational jealousies will be minimized if salary differentials are limited to a few key persons. (Hypothesis 9.9)

### **8. Implications for Future Research and Policy**

The comparative research on decentralization undertaken 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 decentralization might be achieved in developing countries with effective donor support.

These hypotheses suggest that capabilities for institutional analysis and policy design in the international development community must be improved. Proponents of decentralization must have the patience to support incremental capacity building and also be able to take advantage of opportunities for institutional reform. They must use assistance linkages to enhance political sustainability, build capacity, and facilitate the spread of innovations. Advocates of decentralization can design financial mechanisms to take advantage of natural synergisms between implementation and institution-building. They can even use PMUs, which are often considered to be antithetical to institutional development, to pursue both kinds of objectives.

The present study is hardly the final word on decentralization in the developing world. The ideas discussed in the preceding pages need to be tested and refined through additional comparative research and policy experience; some may even prove to be incorrect or impractical. In any event, the author will consider this study to be a success if it helps to stimulate additional progress in decentralization research and policy.

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