In presenting this thesis in partial fulfilment of the requirements for an advanced degree at the University of British Columbia, I agree that the Library shall make it freely available for reference and study. I further agree that permission for extensive copying of this thesis for scholarly purposes may be granted by the head of my department or by his or her representatives. It is understood that copying or publication of this thesis for financial gain shall not be allowed without my written permission.

Department of Political Science

The University of British Columbia
Vancouver, Canada

Date December 19, 2003
Abstract

Sequences of Reforms and
The Dynamic Decentralization Process in Peru

Catherine M. Hirbour

Efforts to promote decentralization have spread globally in response to pressures to better address the needs of citizens, and these processes have produced varying degrees of change in the distribution of power between national and subnational governments. I apply Tulia Falleti’s groundbreaking sequential decentralization theory to shed light on the outcomes of the current decentralization process in Peru. I test the robustness of her theory using entirely new data gathered from more than 90 interviews with actors involved in the process.

According to Falleti, decentralization reforms are categorized as administrative, fiscal and political. The nature of coalitions (national, subnational, ruling, opposition and two types of mixed coalitions) determines the next round of reform to emerge. The types of interests, whether territorial, corresponding to the government level that a politician represents, or partisan, namely party affiliation, affect reformers when bargaining for more power. The analysis of sequences and the nature of coalitions affect the degree of change in the intergovernmental balance of power (IBOP) after the reforms.

I argue that in Peru the sequence of reforms—political, administrative and fiscal—has produced a low level of change in IBOP. A mixed coalition, with prevailing subnational interests, promoted political reforms. A reactive mechanism triggered the formation of a national coalition between the ruling and opposition parties, promoting national interests. As the result of a power reproduction mechanism, which strengthens
the prevailing interests, a national coalition dominated the fiscal reforms. Although this decentralization process generated a low level of change in the intergovernmental balance of power, it is a significant process considering Peru’s long list of failed decentralization attempts. Moreover, greater political representation will take place as civil participation mechanisms are outlined in the decentralization laws, contributing to legitimating the democratization of Peru’s state and society.
# Table of Contents

Abstract \hspace{1cm} ii

Table of Contents \hspace{1cm} iv

List of Tables \hspace{1cm} vi

List of Figures \hspace{1cm} vii

List of Abbreviations \hspace{1cm} viii

Acknowledgements \hspace{1cm} ix

CHAPTER I Decentralization Reforms: Examining the Outcomes \hspace{1cm} 1

1.1. Introduction: The Birth of a Potential Giant \hspace{1cm} 1
1.2. The Democratic Decentralization Conundrum \hspace{1cm} 5
1.3. Decentralization Theories: Implementing Reforms \hspace{1cm} 7
1.4. Background to the New Decentralization Initiative \hspace{1cm} 10
1.5. The Inner Workings and Methodology of the Study \hspace{1cm} 13
1.6. Conclusion \hspace{1cm} 14

CHAPTER II Falleti’s Dynamic and Sequential Theory of Decentralization and Expectations for Peruvian Decentralization \hspace{1cm} 15

2.1 Introduction \hspace{1cm} 15
2.2. The Backbone of the Theory: Sequences \hspace{1cm} 15
2.3. Territorial Interests and Coalitions \hspace{1cm} 18
2.4. Sequences in Peru \hspace{1cm} 21
2.5 Coalitions in Peru \hspace{1cm} 25
2.6. A Condition for Fiscal Reforms \hspace{1cm} 29
2.7. Conclusion \hspace{1cm} 31

CHAPTER III Subnational Interests Driving the First Stage of Decentralization in Peru \hspace{1cm} 33

3.1. Introduction \hspace{1cm} 33
3.2. First Reform: Political Decentralization \hspace{1cm} 34
  3.2.1. Political Environment \hspace{1cm} 34
  3.2.2. Subnational Interests and the Incentives for Political Reform \hspace{1cm} 35
  3.2.3. Leading Actors \hspace{1cm} 44
  3.2.4. Political Decentralization in Southern Peru \hspace{1cm} 46
3.3. Second Reform: Administrative Decentralization' \hspace{1cm} 49
  3.3.1. Legal Framework \hspace{1cm} 49
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.3.2. Bargaining for Administrative Reforms</td>
<td>52</td>
</tr>
<tr>
<td>3.4. Third Reform: Fiscal Decentralization</td>
<td>56</td>
</tr>
<tr>
<td>3.5. Subnational Level Dynamics in Southern Peru</td>
<td>57</td>
</tr>
<tr>
<td>3.6. A Daunting Task: Challenges Ahead</td>
<td>60</td>
</tr>
<tr>
<td>3.7. Conclusion</td>
<td>66</td>
</tr>
<tr>
<td>CHAPTER IV Conclusion: Sequences and Civil Society Participation</td>
<td>67</td>
</tr>
<tr>
<td>4.1. Introduction</td>
<td>67</td>
</tr>
<tr>
<td>4.2. Sequences and Coalitions in Peru</td>
<td>68</td>
</tr>
<tr>
<td>4.3. Assessment of Peru’s Decentralization</td>
<td>71</td>
</tr>
<tr>
<td>4.4. Civil Society Participation</td>
<td>74</td>
</tr>
<tr>
<td>4.5. Review of Sequences</td>
<td>76</td>
</tr>
<tr>
<td>4.6. Conclusion</td>
<td>78</td>
</tr>
<tr>
<td>Bibliography</td>
<td>83</td>
</tr>
<tr>
<td>Appendix I</td>
<td>87</td>
</tr>
<tr>
<td>Appendix II</td>
<td>88</td>
</tr>
<tr>
<td>Appendix III</td>
<td>91</td>
</tr>
<tr>
<td>Appendix IV</td>
<td>93</td>
</tr>
<tr>
<td>Appendix V</td>
<td>94</td>
</tr>
</tbody>
</table>
List of Tables

Table

2.1. Type of Interests Leading the Rounds of Reforms in Peru and the Amount of Change in the Intergovernmental Balance of Power 25

2.2. Intergovernmental Balance of Power Before and After The First Two Rounds of Decentralization in Peru 27

2.3. Degree of Change in the Intergovernmental Balance of Power Before and After the First Two Rounds of Decentralization in Peru 29

A. 1. Explanation for IBOP Measure 90

A. 2. Perceptions of Peruvian Congressmen, 2001 94
List of Figures

Figure

1.1. Urban and Rural Population, 1940-2002 (Relative Distribution) 11

2.1. Sequence of Decentralization Reforms, Peru, 2002-2004 24

3.1. Perceptions of Respondents from Lima About

the Future of Decentralization in Peru, 63

3.2. Perceptions of Respondents from Arequipa, Cusco,

Huancayo and Puno Residents About the Future

of Decentralization in Peru, 2003 64

3.3. Perception of Respondents From Lima

About the Central Government’s Will to Decentralize, 2003 65

3.4. Perceptions of Residents From Arequipa, Cusco,

Huancayo and Puno about the Central Government’s

Will to Decentralize, 2003 65
List of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMPE</td>
<td>Asociación de Municipalidades del Perú, Peruvian Association of Municipalities</td>
</tr>
<tr>
<td>APRA</td>
<td>Alianza Popular Revolucionaria Americana, American Popular Revolutionary Alliance (APRA), or PAP for Peruvian Aprista Party</td>
</tr>
<tr>
<td>AUPA</td>
<td>Asociación de Urbanización Popular de Arequipa, Popular Urbanization Association of Arequipa</td>
</tr>
<tr>
<td>CND</td>
<td>Consejo Nacional de Descentralización, National Decentralization Council</td>
</tr>
<tr>
<td>FONCODES</td>
<td>Fondo Nacional de Compensación y Desarrollo, National Compensation and Development Fund</td>
</tr>
<tr>
<td>IBOP</td>
<td>Intergovernmental Balance of Power</td>
</tr>
<tr>
<td>IU</td>
<td>Izquierda Unida, United Left</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-governmental Organization</td>
</tr>
<tr>
<td>ORDESUR</td>
<td>Organization for the Rebuilding of the South, Organismo de Reconstrucción del Sur</td>
</tr>
<tr>
<td>PMA</td>
<td>Policy-Making Authority</td>
</tr>
<tr>
<td>PRONAA</td>
<td>Programa Nacional de Asistencia Alimentaria, National Food Assistance Program</td>
</tr>
<tr>
<td>SOA</td>
<td>Subnational Officials Appointment</td>
</tr>
<tr>
<td>SSE</td>
<td>Subnational Share of Expenditures</td>
</tr>
<tr>
<td>TRI</td>
<td>Territorial Representation of Interests</td>
</tr>
</tbody>
</table>
Acknowledgments

I would like to thank my supervisor, Dr. Maxwell A. Cameron, for his helpful comments and guidance throughout the research phase as well as the writing process for this thesis. I am also very grateful to Dr. Tulia Falleti for her constructive feedback as I sought to understand and apply her theory. I thank Dr. John Wood for his work as examiner of this thesis. My deep gratitude goes to the International Development Research Center of Canada (IDRC, www.idrc.ca) for financing this research project, making the fieldwork component of this thesis feasible. I also warmly thank the Consorcio de Investigación Económica y Social (CIES, www.consortio.org) in Peru and its staffs for providing an enjoyable research environment during my stay in their country. I am grateful to CIES director Carlos Eduardo Aramburú and assistant director Javier Portocarrero for their guidance, comments and assistance as I was conducting research in Peru. Gerrett Rusnak and Jean-Claude Dumais, coordinators for my grant at IDRC, were also very helpful.

I dedicate a special thanks to the Peruvian interviewees for their support, their participation in this project, and their desire to share with me the intricacies of decentralization in their beautiful country. Feedback from Betty Alvarado, Juan Sánchez Barba, Carlos Barrenechea Lercari, Eduardo López Ayala and Giancarlo Marchesi among others was very appreciated. I would like to thank my friends Val and Jamie for their help in the editing process and my parents, René and Linda, for their comments and continuous support. Last but not least, I am very grateful to Dan for his unfailing encouragement throughout the research and writing stages as well as his editing work.
Chapter One

Decentralization Reforms: Examining the Outcomes

One day, we went to the inauguration of a college (...)[in Puno in the high Andes mountains]. The teacher told me, ‘Look, this college is very cold.’ The roof was too wide, the sun could not shine in. The school had been designed in Lima, modeled after the coastal climate, so that the sun would not come in during the afternoons. Even the classrooms were designed in Lima. The education ministry used its models designed for Lima all over the country. This is just a small example of how it is with everything.¹

Decentralization has to be a process allowing the building of a more modern, efficient, facilitative state, but also a mechanism letting the population decide on a more daily basis on what affects their lives.²

1.1. Introduction: The Birth of a Potential Giant

The quotes above exemplify a case of the inadequacy of central planning and the hope that such problems can be addressed through decentralization. Great differences between the quasi-monopoly of power and services within the capital versus the living conditions in the rest of the country are not atypical of Latin American countries. In fact, many of these countries have customarily been ruled by strong central governments (Diamond 1999: 18). Until recently, as a worldwide, enduring trend, central governments have tightly ruled their countries. In many cases, a top-down approach has had disappointing results in addressing poverty and development, and this has led to decentralization (Johnson, in Manor 1999, viii). Since the mid-1980s, decentralization has been generally perceived as an agent for reducing poverty and

¹ “Una vez hemos ido a la inauguración de un colegio... El día de la inauguración la profesora me dijo, ‘mira este colegio es muy frigido’. El techo era demasiado largo, no entraba el sol. La escuela fue diseñada en Lima, modelada para el clima de la costa, para que no entraba el sol en las tardes. Incluso las aulas eran diseñadas en Lima. El ministerio de educación tenía modelos diseñados sobre las exigencias en Lima y los usó por todo el país. Así como este ejemplo pequeño vas a ver todo.” Interview on May 28, 2003 in Lima with a regional president. All translations were done by the author.

² “La descentralización tiene que ser un proceso con el cual te permite construir un estado más moderno, más eficaz, más facilitador, pero también un mecanismo que te permita que las poblaciones decidan de manera más cotidiana sobre aquello que va a tener que ver con sus vidas.” Interview in Lima with a state official, realized on June 3rd, 2003.
fostering development. A radical shift in the perception of the traditional role of centralized
governments has been taking place.

International pressure for governments to participate in global markets, democratize and
include minority groups has forced central governments to reassess their connection to their
citizens. As a result of this generalized shift from centralized to decentralized government,
many Latin American countries such as Argentina, Brazil, Bolivia, Chile, Colombia, Mexico
and Venezuela have implemented decentralized forms of governance with varying success
reforms can affect the distribution of power between central and subnational governments in
different ways. Some initiatives allocate a high level of autonomy to subnational governments
while others hardly transfer any decision-making capacities and resources; the central
government guarding its power and decentralizing only to a low degree.

Peru, one of the most centralized countries in Latin America, has experienced an
enduring concentration of resources in its capital, Lima, despite various decentralization
initiatives. In July 2001, the newly elected president, Alejandro Toledo, called for subnational
elections to take place in a little over a year, including those of mayors and regional presidents.
A new decentralization process had begun, which has slowly created a low level of change in
the distribution of power between the national and subnational governments. Why has the
current Peruvian decentralization process gradually changed the distribution of power when
every other previous endeavour failed or was short-lived? What is the explanation behind the
level of change in the power allocated to national and subnational governments?

I use Tulia Falleti's sequential and dynamic theory of decentralization to shed light on
the Peruvian case (Falleti 2002). First of all, according to her theory, decentralization reforms
may be categorized as administrative, fiscal and political reforms. Secondly, in the case of the
Peruvian decentralization initiative, the sequence of political, administrative and fiscal reforms and the nature of the coalitions leading these reforms, should, according to Falleti, create a low to medium degree of change in the distribution of power between the central government and subnational governments. Thirdly, according to Falleti’s model, the territorial interests and party affiliation of the negotiators involved in the reforms dictate their actions. These three points are crucial in understanding decentralization in Peru.

Using this framework, I argue that in the first round of reforms in Peru, subnational interests prevailed as political decentralization responded to a general popular demand. The interests of the national government spearheaded the two subsequent rounds of reforms, as some powers were divested to subnational entities. The Peruvian reforms conferred to subnational governments not only political autonomy, but also more administrative responsibilities toward their constituencies and more resources to implement specific projects. Further fiscal reforms are planned for 2004. Overall, the decentralization process favoured the national government’s interests as a low level of power was transferred. In their negotiations with the central government, Peruvian politicians tend to favour their territorial interests (and often purely nepotistic considerations) over their weak partisan interests.

The independent variable of this study is decentralization, the process of transferring resources, political authority and/or responsibilities from a central body to subnational entities, whether regional or municipal, while the dependent variable is the intergovernmental balance of power (IBOP). As defined by Falleti, the latter variable stands for, “the relative power of subnational executives [regional presidents and mayors] with regard to the national executive” (Falleti 2002: 3). In other words, IBOP refers to the level of power of governments, before and

---

3 For historical antecedents to the current decentralization process, see Contreras (2002) and Tanaka (2002).
4 Due to space limit, I focus on public sector decentralization. I do not address privatization as a form of decentralization in this thesis, although it embodies important reforms. Considering that the size of private sector investment is much larger in Peru than government spending in certain areas, it would be interesting to examine
after decentralization, seeing as it is likely to change to a high or low level through the implementation of decentralization reforms. This thesis focuses particularly on the implementation of reforms and on the outcomes of the process. The degree of change in the distribution of power between central and subnational governments before and after the reforms is examined.

This thesis assesses the results of the reforms carried out in 2002-2003. Fieldwork was carried out in Peru, producing new data, which was collected first-hand through 93 interviews. Research was conducted in the Lima region, seat of the nation’s capital, and in the central and southern parts of Peru, in particular the Arequipa, Cusco, Huancayo, and Puno regions (see Appendix I for a political map of Peru, page 87). A comparison of decentralization in these regions as reforms unfold throughout the country provides a sample of the diversity as well as of the common dynamics at play.

The first chapter of this thesis explains the importance of decentralization reforms in the context of democratization and provides a literature review as well as a brief background of the Peruvian endeavour. The methodology used is also described. The second chapter presents Falleti’s sequential and dynamic theory and a description of the initiative in Peru. The expected results for the current Peruvian decentralization process, derived from Falleti’s framework, are examined. The third chapter presents new evidence collected from extensive field research, rendering a snapshot picture of the developing decentralization process. The unfolding of sequences and the nature of the coalitions behind them are then presented. The fourth and final chapter closes the thesis by analyzing the sequences and coalitions in Peru. It offers conclusions about the outcomes of reforms and the implications of decentralization for democratization.

privatization reforms in a further study. The current government decentralization endeavour however also calls for explanation, thus justifying the topic of this thesis.
1.2. The Democratic Decentralization Conundrum

When looking at the larger outcomes of decentralization reforms, it is important to distinguish between the transfer in the distribution of power between government levels before and after the reforms, and the impact of reforms for democracy, political representation and accountability. Therefore, I incorporate a debate on democratic decentralization, which addresses the broader implications of decentralization. When addressing these issues, the predominance of clientelistic relations is a key factor. Stokes succinctly defines clientelism as "involving privately negotiated exchanges of consumption goods for support" (Stokes 2000:22). A brief review of the democratic decentralization conundrum is presented below, exploring the relationship between these two concepts.

A highly contested concept, democracy literally refers to 'rule by the people.' As Handelman states, "...democracy is explained in terms of essential procedures governing the election and behavior of government officials" (Handelman 2002: 27). More specifically, my reference point is Dahl’s definition of polyarchy (a term coined to describe electoral democracy), including free and fair elections and the protection and growth of a set of political attributes (Dahl 1989: 120 in O'Donnell 2000: note 43). Democratic regimes hence entail substantially more than the procedure of 'free and fair' elections. They must also guarantee citizens’ freedom of opinion, right to alternative information and right of association among others.

Decentralization is widely perceived as fostering democratization, which is seen as a transition towards democracy, by bringing government 'closer to the people.' Blair, in a World Bank study, gives deconcentration and devolution the qualities of important components of democracy, leading to the creation of accountable and accessible subnational governments (Blair 1996: 4 in Hutchcroft 2001:32). Diamond et al. argue that, "momentum has gathered behind the alternative argument [to government centralization] that devolution of power is
necessary to enhance participation, deepen democracy, and stimulate development in the periphery” (Diamond 1998: 18). Furthermore, Diamond concludes that, “Centralized government may or may not be more efficient, but it is intrinsically less democratic. Only if political power over certain issues and government functions is devolved to lower levels of authority, democratically elected, can government be truly responsive, representative, and accountable” (Diamond 1999: 159, in Hutchcroft 2001: 44). Rondinelli et al. argue along the same lines that decentralization has the potential to generate numerous benefits: “Ultimately, however, decentralization is an ideological principle, associated with objectives of self-reliance, democratic decision-making, popular participation in government, and accountability of public officials to citizens” (Rondinelli et al. 1984: 3).

Many studies are strongly biased toward linking and almost equating decentralization with democracy. Increased popular participation and sustainable institutional development are clearly identified as goals for every decentralization reform. In fact, analysts write, “the decentralization of resources and responsibilities without... (democratizing) political reforms would have been incomplete and, probably, not conducive to socially effective results.” (World Bank Report 1995: 2 in Manor 1999: 6-7). While democratization and greater political representation form the core of the attraction of decentralization, the extent of their materialization is not as clear-cut as often portrayed. Indeed, Manor cautiously emphasizes that accountability of government institutions, in his view the vital aspect of a successful decentralization, is not easily achieved, “even when substantial democratic elements are introduced into the decentralization process” (Manor 1999: 7).

The existence of clientelistic relationships may affect the outcomes of decentralization processes when reforms reach the local level through clientelistic networks. When looking at the consequences of decentralization, I propose that the level of clientelism and nepotism (bestowing favours upon family and friends) should be considered as a relevant influence on
the societal impacts of decentralization. As Hutchcroft points out, it is important to situate local
governments in relation to national governments (Hutchcroft 2001: 33). Hence, following
Hutchcroft, no direct relationship between democracy and decentralization should be assumed.
However, in many instances, it is true that decentralization by aiming at increasing popular
participation and involvement in decision-making processes results in a more participative
democracy. Diamond, Rondinelli, Manor and Blair's arguments regarding decentralization's
positive effects for democracy are convincing in the sense that often when power is devolved,
participation is increased and populations get a greater say in local politics. An increase in
popular participation may significantly contribute to the legitimation of the new regime and
thus considerably enhance representation and democratization. Nevertheless, the presence of
strongmen at the local level should make us wary of assuming any causal link between
decentralization and democracy.

1.3. Decentralization Theories: Implementing Reforms

Various schools within the field of political science explore aspects of decentralization.
These include economic, structural, behavioural or socio-cultural perspectives to name a few.
If we focus only on the political literature (Garman, Haggard and Willis 2001, Grindle 2000,
O'Neill 1999, among others), the outcomes of reforms are explained according to the lines of
accountability in political parties and the initial conditions for the process, which are based on
the rational preferences of its actors. These theories are limited in their application. Since I
agree with Falleti on the major shortfalls of the literature, I present in this section some of the
compelling points she raised in her literature review (Falleti 2002: 17-23). First, the literature
fails to account for the degree of change in the balance of power before and after the reforms;
second, it overemphasizes the importance for rational actors of political incentives when the
influence of previous rounds of reforms must also be considered; and third, it offers static
depictions of decentralization processes when in reality, realignments of actors' preferences occur after each round of reforms. Studies recommending policy advice for decentralization practitioners abound but lack clear, applicable measures.

Focusing on the lines of accountability of political parties, Garman et al. (Garman, Haggard and Willis 2001) examine these at the national, subnational and local levels through their party partisanship. They argue that the internal structure of political parties directly affects politicians' behaviour. They advocate that, "if parties are more centralized, any bargaining over intergovernmental fiscal relations will favour the centre and the fiscal structure of the state will be more centralized" (Garman, Haggard and Willis 2001: 207). The opposite would also hold true in their view, that parties with strong regional bases will favour the interests of their constituents during decentralization processes in order to retain their popularity and consequently, reinforce their own power. Lines of accountability in political parties, in other words the extent to which national parties are responsible to subnational counterparts, are portrayed as crucial in shaping the incentives of decentralization actors (Garman, Haggard and Willis 2001).

This explanation targets the level of autonomy of subnational actors before or after reforms. In the case of Mexico, which is classified as a centralized party system, the nature of the party system accounts for the low level of decentralization before the reform. However, Garman et al. (2001) do not explain the level of change before and after the decentralization reforms were implemented. As Falleti argues, even with its decentralized party system, Argentina saw little change in the autonomy of subnational governments after its reforms (Falleti 2002: 15-16). In Peru, the fragmentation of the party system under Fujimori, with the decline of organized parties and the rise of independent candidates, poses a further challenge to this theory. What happens when independent movements dominate the political arena and the few parties are too weak to offer lines of accountability to voters? An alternative explanation is
then necessary to measure the level of change in the distribution of power between the national and subnational governments.

Theories focusing on the motivations of national actors to divest themselves of power have relied on rational choice explanations (Grindle 2000, O’Neill 1999). These studies focus on the political incentives for national politicians to allocate power to subnational governments. They emphasize the initial conditions leading to the decentralization process and their influence in shaping national politicians’ interests as they decide to transfer functions, resources, and authority. It is important to include the impact that previous rounds of decentralization reforms have on bargainers as they force them to reconsider their interests and realign their position. Because of interests’ reorientations, the theory must recognize the flexibility between rounds of reforms, which is absent in studies overemphasizing political incentives for one round of reform.

Explanations of the outcomes of decentralization must account for the dynamic nature of the process and the often rapid changes brought about by the reforms. With the realignments of bargainers after each round of reforms, theories have to take into account these changes. Also, many studies were conducted to offer policy advice. For instance, Rondinelli et al. offer six recommendations for implementing decentralization, but do not provide a rationale or a mechanism governing the outcome of the process. Some of the recommendations include, “[to] plan small; expand incrementally” and, “[to] plan for the ‘long-term.’” (Rondinelli 1984: 74-75). The recommendations are very vague and do not propose a method to calculate the outcome of decentralization processes. Other studies focused on the consequences of decentralization for democratization and accountability (Manor 1999, Veltmeyer 1997). For example, Manor provides four conditions for successful implementation, which emphasize the importance of accountability: sufficient political power, sufficient financial resources, the administrative capacity to carry out responsibilities and the presence of accountability
mechanisms (Manor 1999: 55). But what is ‘sufficient’? Can these recommendations only be applied on a case-by-case basis? Could broader conclusions be reached? Thus, an alternative explanation to the few presented here is necessary. The remainder of this chapter presents a brief historical overview of previous decentralization attempts in Peru, my methodology, and an outline of the following chapters of this thesis.

1.4. Background to the New Decentralization Initiative

During the wars of independence of the early nineteenth century, Simon Bolivar, a champion for liberation from the Spanish colonizers, praised the value of a unified central government. In a speech in 1819, he claimed, “Unity, unity, unity must be our motto in all things. (...) Our Constitution has divided the powers of government: let them be bound together to secure unity.” (Bierk and Lecuna in Dealy 1974: 44). This view highly contrasts for example, with the principles emanating from the American constitution seeking to divide governmental powers. From the onset of their independence, Latin Americans sought to unify governmental powers, entrenching a trend that would markedly affect the countries’ development (Dealy 1974: 44).

Throughout the twentieth century, persistent and periodically stronger calls for greater political representation, democratization and decentralization of governmental powers were directed towards Peru’s rulers. Yet, up to 2002, local governments had remained extremely limited in their administrative and fiscal functions, while regional governments had only existed for a short two-year period from 1990-1992. Reform initiatives undertaken were soon left crumbling into disarray and oblivion. With the rush toward urbanization, the city-countryside cleavage was enhanced and centralization became even more acute. In 2002, 72.2% of Peruvians lived in urban areas (INEI, 2002). Calls for decentralization grew more frequent as the divide was accentuated. The distribution pattern shaping Lima-periphery relations in an
unbalanced fashion, and city-countryside divisions in general, was to endure. The figure below shows the rapid evolution of urbanization:

**Figure 1.1. Urban and Rural Population 1940-2002 (Relative Distribution)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>Urban</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population (%)</td>
<td>10</td>
<td>50</td>
<td>70</td>
<td>80</td>
<td>80</td>
</tr>
</tbody>
</table>

The bulk of urbanization occurred in the capital. In fact, Lima’s massive concentration of resources is reflected through material and political indicators. In 1994, almost a third (29%) of Peru’s population lived in the capital. More than half of the national income (55%), 48% of the Gross National Product, 70% of the industrial National Product, and 60% of services were generated there. Even more telling statistics illustrate the accumulation of power and resources in Lima:

...52% of governmental services are offered in Lima, the central government collects 90% of taxes and spends 55%, while the rest of the regions collect barely 10% of taxes and 45% of public spending is directed toward three fourths of the population, showing the unequal side of centralism (Gonzales de Olarte in Gonzales de Olarte 1997: 226-227).²

² "...el 52% de los servicios gubernamentales se ofrecen en Lima, el gobierno central recauda el 90% de los impuestos y gasta el 55%, mientras que en el resto de regiones apenas recauda el 10% y asigna el 45% del gasto público para tres cuartos de la población, lo que muestra el lado inequitativo del centralismo."
Over the years, numerous decentralization efforts have arisen in the country, when citizens faced with a tremendous economic and social gap with Lima have attempted to gain more power. Recent initiatives include the uprisings during the Belaúnde administration, the García regional governments and health decentralization under Fujimori. Following Fernando Belaúnde’s election to the presidency in 1980, municipal elections for mayors were held in 1981, after having been suspended during the previous military government. Regional demands for more autonomy, in the period from 1980 to 1984, sent an urgent message to the administration. In response, deliberations among central government officials and political party leaders took place, instigating debates on regionalization while ignoring municipal issues. These discussions remained inconclusive hence decentralization objectives were not perceived as pressing and the reform impetus waned with the passing of the 1984 plan to create regions.

A change in administration then cut the momentum. A few years later, García’s government was faced with extremely divided views on regionalization. New and fragile regional governments struggled amidst a fierce debate on territorial delimitations. Fujimori disbanded the regional governments before they could become full-fledged, autonomous entities. Lima however retained its gravitational power, unscathed.

Garman et al.’s (2001) theory about the role of political parties does not account for instances when political parties become almost obsolete and reforms are nevertheless undertaken, or when territorial interests strongly influence politicians. In the 1980s, the three major parties were centralized in their attachment to Lima and its electorate. Yet with the sudden rise of regional movements, both the American Popular Revolutionary Alliance (APRA, or PAP for Peruvian Aprista Party, Peru’s mass political party and today’s leading opposition party) and the United Left (IU) exploited this trend and openly supported certain regional movements. This caused the APRA to bring regionalization back onto its political campaign agenda and then pass the Regionalization Law of 1987. Consequently, the party’s shift of
allegiance to specific regions did provide momentum for decentralization. However, it was short-lived; Fujimori was elected and parties began their free fall toward disintegration, as the rise of personalistic movements—merely public relations tools for the candidacy of independents—became the norm. Some aspects of decentralization did survive under Fujimori such as initiatives to decentralize health care.

1.5. The Inner Workings and Methodology of the Study

This project relies on “theoretically explicit narratives” to develop my case study (Aminzade 1993 in Falleti 2002: 52). The methodology is based upon extensive field research, including almost 100 in-depth interviews. I conducted field research from May to August 2003, in the Peruvian capital Lima, and major Central and Southern Andean cities including Huancayo, Arequipa, Puno and Cusco (see Appendix I for a map of Peru, page 87).

The persons I interviewed were chosen for their involvement in the current decentralization process and their knowledge of Peruvian politics. They represented the viewpoint of civil society or the state. Recommendations of persons to interview were also made by members of the Consorcio de Investigación Económica y Social (CIES), an academic organization to which I was affiliated and which works on economic and social issues in Peru. In total, I interviewed 93 persons, gathering information to explain the practical implementation of decentralization. The interviewees included 38 NGO members, 21 university professors and 1 student, 18 politicians and state functionaries at the local, regional and national levels, and 15 professionals (see Appendix IV, page 93). Secondary sources were also used for this research, such as books, legal documents and organizations’ leaflets.

All respondents received a letter providing information on the research project, specifying that the information gathered was strictly confidential and would not be used for
attribution. The interview questionnaire was composed of 16 questions, the vast majority being open-ended, with a section based on the decentralization process and another, on the actors guiding it. The interview data was analyzed, taking into account the respondents’ different views on decentralization. This is the first time that someone conducted extensive interviews on the current decentralization process, immediately after the reforms took place, providing unprecedented insight into the changes that are now occurring in Peru. The interviews were crucial in gathering first-hand insiders’ knowledge of the process, and in allowing me to reconstruct the sequences and coalitions behind it.

1.6. Conclusion

Previous decentralization attempts have failed in Peru and the country has remained extremely centralized. An examination of the sequence of decentralization reforms using Falleti's theory will shed light on how low changes in the intergovernmental balance of power came about. The following chapter explains Falleti's theory and its groundbreaking implications for the study of the outcomes of decentralization processes. The operationalization of both the sequence and the nature of the coalitions in the decentralization process are detailed. The expected results of decentralization in Peru, according to Falleti's framework, are outlined.

The third chapter presents the new fieldwork data, focusing on each round of reform and the bargaining for power between the actors. The sequence and coalitions involved in the process are discussed. The interviews provide information on the unfolding of decentralization in Peru, offering examples with which to evaluate the achievements and obstacles facing reformers. Finally, the fourth and last chapter concludes with an analysis of the reforms and their implications for the distribution of power in Peru. I then discuss the implications of decentralization for democracy and political representation.

ee CIES website, on-line: www.consorcio.or
Chapter Two

Falleti’s Sequential and Dynamic Theory

and Expectations for Peruvian Decentralization

Of course, decentralization is not a process in which success is assured in advance, to the contrary the possibility of failure is as real as that of success... decentralization is the process of transferring power, decision-making capacity and resources from the centre to the periphery, it is an economic means and a political end. Consequently, its success depends on its institutional and political engineering ensuring that the transfer of power and resources from the centre to the periphery is legitimate, irreversible, efficient and sustainable (Gonzales de Olarte in Gonzales de Olarte 1997: 223-224).

2.1. Introduction

Falleti’s groundbreaking theory of decentralization provides a clear framework for analyzing the various rounds of reforms in a decentralization process, while offering key insights into the outcomes of such reforms. Other theories offered in the literature are limited in their explanatory power. These include theories based on the accountability of political parties, the political incentives for reform, and the first round of reforms. Unlike these decentralization theories, Falleti’s model provides remarkable conceptual clarity, which has been useful in framing my analysis of the Peruvian decentralization process. Her theory takes into account the preferences of decentralization actors and the factors shaping their perspectives, as well as the dynamic nature of the process. In this chapter, I present Falleti’s theory and its sweeping implications when applied to the Peruvian case.

2.2. The Backbone of the Theory: Sequences

On the one hand, decentralization, the independent variable of this study, refers to the process of transfers to subnational units. On the other hand, the intergovernmental balance of

---

7 "Por cierto, la descentralización no es un proceso que tenga asegurado de antemano su éxito, por el contrario las posibilidades de fracaso son tantas como las de éxito... la descentralización es el proceso de transferencia de poder, de capacidades de decisión y de recursos del centro a la periferia; es un medio económico y un fin político.
power, the dependent variable, measures the degree of change produced by reforms. IBOP operates along four lines: “the subnational share of expenditures, policy-making authority, political appointment authority, and territorial over-representation in the national legislature” (Falleti 2002: 3). The subnational share of expenditures indicates the operations of subnational governments relative to central government expenditures. Policy-making authority refers to administrative responsibilities such as in the education or health sectors. Political appointment authority refers to whether politicians are appointed or elected. Finally, territorial over-representation in the national legislature measures the proportion of representatives from electoral districts in the national legislature.

Through her sequential and dynamic theory, Falleti argues that the timing of reforms and the nature of coalitions involved determine the outcome of decentralization endeavours (Falleti 2002: 5). As mentioned previously, she distinguishes between political, administrative and fiscal reforms. First, political decentralization refers to the creation or strengthening of subnational government offices or political arenas for the representation of subnational interests, formalized in constitutional change or electoral reforms. For example, departmental, regional or municipal elections result from political decentralization (Falleti 2002: 22). Second, administrative decentralization entails the delegation of managerial responsibilities in the social services to subnational units. Responsibility at the subnational level for implementing education, health care or infrastructure projects constitutes administrative decentralization. Third, Falleti suggests that fiscal decentralization constitute policies that “increase the revenues of subnational units” (Falleti 2002: 21). Growth in taxing authority at the subnational level is an example of fiscal decentralization.

Por consiguiente, su éxito depende de la ingeniería institucional y política que asegure que la transferencia de poder y recursos del centro a la periferia sea legítima, irreversible, eficiente y sostenible.”
Regarding the sequences of reform, Falleti derives six scenarios, which can set in motion changes in the intergovernmental balance of power. The order of the three rounds of reforms (political, administrative or fiscal), and the nature of the coalitions leading them affect each scenario. She argues that when reforms begin with political and are followed by fiscal restructuring or vice-versa (both before administrative decentralization), then subnational officials are favoured in their relations with the central government because of their new autonomy and resources. As a result, when these subnational officials receive new responsibilities through administrative reforms, they possess not only the authority, but also the resources to put them in place. This sequence of reforms results in a high level of change in the distribution of power, favouring the interests of subnational governments. On the one hand, two of Falleti’s sequences of reforms cause a high level of change in the intergovernmental balance of power: political, fiscal and administrative and fiscal, political and administrative. On the other hand, two of the sequences, administrative, fiscal and political, and political, administrative and fiscal, produce a low to medium change. The remaining two sequences generate only medium degrees of change.

As Falleti argues, change in the intergovernmental balance of power may be explained endogenously as the product of a dynamic process. In other words, not external factors, but elements within the process, may cause the change in IBOP. Garman et al.’s (2001) argument that the nature of the political party system (whether centralized or decentralized) is a chief determinant for decentralization processes does not have the wherewithal to measure the level of change brought forth by decentralization reforms. External factors are important as well as endogenous ones, which occur within the process, but the endogenous evolution of the reforms offers critical elements explaining the outcome of the process. The endeavours are based on the bargaining between national and subnational actors, unfolding through various rounds of reforms, with the players reorienting their interests after every set (Falleti 2002: 6). This
constant strategic realignment of preferences after every round of negotiations calls for a path-
dependent perspective. Although game theoretic models are revealing in bargaining situations,
the reorientation of interests after every round renders such models unsuitable.

2.3. Territorial and Partisan Interests in Coalition Formation

According to territorial allegiance, bargainers will promote different perspectives. National government executives would prefer to divest their government first of administrative responsibilities, then of fiscal resources, and lastly of political autonomy. The national government would thus be reluctant to allocate political decentralization; instead it would be more inclined to devolve responsibilities to its counterparts. Subnational officials would, in turn, favour the decentralization first of political autonomy, then of fiscal resources and lastly of administrative functions (Falleti 2002: 30-32). Falleti more generally states, "if national interests were to prevail in the decentralization coalition, the type and content of the reform that they would push forward would tend to produce a minimal change in intergovernmental balance of power" (Falleti 2002: 36). The opposite would be expected from coalitions where subnational interests prevail. Falleti prioritizes these government preferences as a result of her research and interviews.

Decentralization is a path-dependent process, where the order of reforms acquires crucial importance; this is especially true for the first reform, because the type of this reform will determine the direction of subsequent reforms and of the endeavour as a whole. For instance, when subnational interests prevail in the negotiations with the central government, political decentralization takes place first (Falleti 2002: 298). Consequently, when a decentralization process begins with political reforms, new stakeholders arise at the subnational levels, eventually mobilizing and by the same token, acquiring more bargaining power in
further negotiations (Falleti 2002: 91). In turn, when national interests dominate, administrative reforms are more likely to occur.

Decentralization processes engender policy feedback mechanisms, as each round of reforms affects the next one. For example, power reproduction takes place when, after a first round of reforms, the leading coalition is in a good position to implement the next reform according to its interests (Stinchcombe 1968 in Falleti 2002: 42). Political or administrative reforms in a first round are particularly significant as they will promote subnational or national interests creating a power relation that is likely to endure throughout the process.

Policy ratchet effects occur when stakeholders created by the first round of reforms successfully push their agenda into the subsequent rounds (Falleti 2002: 41; Pierson 1996). Referring to the Colombian case, Falleti proposes that, “[t]he popular elections of mayors created what Huber and Stephens (2001:10) call a policy ratchet effect: the creation of a group of followers interested in further deepening the policy change implemented, in this case decentralization” (Falleti 2002: 207). For example, the Peruvian Association of Municipalities (AMPE) was created to protest the president’s attempt to force through a new municipal code in 1981. This was done with financing from the international community. Another example is Proregiones, an NGO, which provides a support network for its member regional presidents, and which was formed after the new regional elections in 2002 (Nickson 1995: 245).

Both organizations funnel their members’ territorial demands to the national executive. In certain cases, reactive sequences may take place. This type of sequence produces a transformation in the decentralization process, differing from the course set by the first reform as new coalitions are formed. As Mahoney states, “[i]n a reactive sequence, early events trigger subsequent development not by reproducing a given pattern, but by setting in motion a chain of tightly linked reactions and counterreactions” (Mahoney 2000: 526-7 in Falleti 2002: 43).
The nature of coalitions, which will drive policy feedback mechanisms, is determined along territorial and partisan interests. The type of alliance shapes the strategic priorities of the protagonists for further reforms in decentralization initiatives. National or subnational coalitions refer to the territorial dimension, while ruling or opposition parties associations reflect partisan interests. As a result, six types of coalitions are possible. A national-level coalition includes national politicians from the ruling and opposition parties; a subnational coalition is formed by subnational ruling and opposition parties; a ruling coalition is led by members of the ruling party at the national and subnational levels; an opposition coalition includes opposition members at both government levels; and two mixed coalitions may also arise. Mixed coalitions are formed when the national ruling actors and the subnational opposition members join forces (Type I). An alliance of the national opposition and subnational ruling actors form the second mixed coalition (Type II) (Falleti 2002: 34-35).

The actors' specific interests, whether primarily territorial or partisan, also influence their bargaining positions. Regarding the preferences of politicians, Falleti assumes that their inclinations in bargaining will reflect the government level they represent (i.e. territorial allegiance) and/or their political affiliation (i.e. partisan interest). When national level coalitions bargain, their preferences will lean toward decentralizing administratively first, then fiscally and finally, politically. This tendency reflects the desire to transfer responsibilities above all and as a last resort to allocate political autonomy. Subnational level officials will strive to achieve political decentralization first, then, fiscal autonomy and finally, administrative decentralization (Falleti 2002: 30-31). By securing political decision-making at the outset and then fiscal independence, these officials seek more autonomy from the central government.

8 See Proregiones website, on-line www.proregiones.org.pe
Falleti’s research includes countries where at least two rounds of decentralization reforms were undertaken, focusing solely on successful decentralization attempts where some level of change in the intergovernmental balance of power has taken place. The reforms she examines pertain to second-generation reforms occurring in neoliberal states as part of a move to free market economies (Falleti 2002: 24). She looks at one cycle of reforms, including the three types aforementioned although new cycles arise constantly. Falleti considers the cases of Argentina, Mexico and Colombia. I focus on Peru, adding a new case to test Falleti’s theory and contributing to the literature on decentralization. I concentrate on the first complete cycle of reforms of the current Peruvian decentralization process. Moreover, the sequence of political, administrative and fiscal reforms has not been tested by Falleti through her original case studies. The application of her model to a new case study tests its strength and accuracy.

2.4. Sequences in Peru

Following Falleti’s guidelines, one finds that the country’s previous major decentralization attempts did not complete the full cycle of political, administrative and fiscal reforms. For instance, the 1931 Decentralist Party dropped its claims once its members’ economic interests had been secured with no reforms implemented. With President Fernando Belaúnde Terry (1980-1985), political debate was opened to regional concerns but no reforms were undertaken. Under President Alan García (1985-1990), a decentralization process saw political and administrative reforms that could have altered governmental power structures had it not been severed by Fujimori’s takeover and re-centralization measures.

Contextual factors contributed to these failed decentralization attempts. First, the concentration of resources had long been firmly established with businesses headquarters, administrative and political decision-making bodies, and cultural activity centered in Lima.
Second, the President and his political party’s commitment to decentralization, crucial, particularly when heading national-level or ruling coalitions, was often absent or weak. Third, highly destabilizing factors, including a severe economic crisis through the 1980s, violent acts by the Shining Path insurgency group, Fujimori’s near complete control of power, and the delegitimation of traditional political parties have led to insecurity and turmoil. Such conditions create a hostile environment for decentralization projects and can halt reform attempts.

In the current decentralization endeavour, I argue that three rounds of reforms have occurred, namely political, administrative and fiscal, with administrative and fiscal reforms still ongoing. It is interesting to note that the ongoing administrative reforms are funded through transfers of budgets earmarked for infrastructure projects and social programs, thus slightly increasing the autonomy of subnational entities and constituting fiscal decentralization. Other fiscal reforms are pending such as higher municipal governments’ budgets for 2004, with an incremental increase until 2012 (Law of Municipalities, no. 27972, 2003). In order to examine administrative reforms, Falleti investigates educational reforms in her case studies. I base my analysis of administrative reforms on the infrastructure projects and the social programs being transferred to the regional and municipal governments respectively. I have chosen not to include education in my analysis because of the lack of decentralizing reforms thus far. In the health sector, decentralization debates are unfolding across the country, which would be an interesting topic for future research.

Subnational demands for decentralization in opposition to the government surged in the latter years of Fujimori’s rule. In the 2001 presidential elections, candidates banked on the demand for decentralization and promoted the issue to gain political support. Political decentralization was promoted by a mixed coalition (Type I) comprising of the national president Alejandro Toledo and members of the ruling party, Perú Possible, along with
subnational opposition members in the national legislature. This move responded to the popular demand for reforms, which had been brewing under Fujimori. According to Falleti, when a subnational coalition promotes reforms due to the subnational interests that prevail among bargainers, their preferred type of decentralization is political decentralization. Coalition members seek to acquire political autonomy, more resources and ultimately, administrative responsibilities. By forming a mixed coalition where subnational interests prevailed, the Toledo government searched for support from voters, sought to distinguish its rule from Fujimori’s, and responded to the popular interests in subnational departments. Chapter three examines the reasons for these preferences.

A reactive sequence was triggered following political reforms, forcing a realignment of the process as national interests drove the next coalition and put in place their preference, administrative reforms. A national coalition between the executive, the ruling party and opposition parties orchestrated the next batch of reforms. Through a power reproduction mechanism, national interests dominated through administrative and fiscal reforms. According to Falleti, this sequence may generate a low to medium degree of change in IBOP, more likely to produce a medium degree if the administrative reforms are funded (Falleti 2002: 50, 52). In this case, administrative reforms transfer only a few infrastructure projects (9) and some social programs, leading us to expect a low change.

Thus far, Peruvians have witnessed both political and funded administrative reforms, in this case producing a slow and small shift in the distribution of power from the central governments to its subnational counterparts. When we examine this process applying Falleti’s model, we see that the Peruvian process complies with her model by filling the required minimum of two rounds of reforms. Following is a figure depicting the order of decentralization reforms since the beginning of this endeavour and the upcoming fiscal reforms planned for early 2004.
Falleti’s incisive framework allows me to deduce that once the ongoing administrative decentralization round is completed, fiscal reforms should follow, which will provide much needed resources to subnational governments and thus close this first cycle of intergovernmental reforms. Subsequent cycles of reforms may develop, as the process is ongoing. Effects of the reforms can already be seen as the new regional governments take responsibility for the administration and financial management of some infrastructure projects.

---

9 The layers are positioned chronologically from bottom to top, following the order of reforms.
In addition, municipal governments carried out preparatory measures to fulfill requirements necessary for the transfer of certain social programs that started in October 2003. Analyzing the policy feedback mechanisms between the rounds of reforms will explain the strategic behaviour of decentralization actors.

Table 2.1. Type of Interests Leading the Rounds of Reforms in Peru and the Amount of Change in the Intergovernmental Balance of Power

<table>
<thead>
<tr>
<th>Country</th>
<th>First Round of Decentralization (Interests)</th>
<th>Second round Decentralization (Interests)</th>
<th>Third Round Decentralization (Interests)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Layer Timing</td>
<td>Layer Timing</td>
<td>Layer Timing</td>
</tr>
<tr>
<td>Peru</td>
<td>(Subnational) Political 2002</td>
<td>(National) Administrative 2003-...</td>
<td>(National) Fiscal 2004-...</td>
</tr>
</tbody>
</table>

2.5. Coalitions in Peru

When examining the intricacies of the Peruvian decentralization process, I identify the policy feedback mechanisms generated by policy reforms that affect mayors, regional presidents, the president, and their negotiations. The sequence below describes the Peruvian process.

1

1st Coal. 1st Dec. 2nd Coal. 2nd Dec. 3rd Dec. IBOP Ch.11

Reactive Mechanism
Power Reproduction Mechanism

Using Falleti’s operationalization of IBOP and her four indicators of subnational share of expenditures, policy-making authority, subnational officials appointment and territorial representation of interests, I argue that the Peruvian state saw a transition from a low degree of autonomy at the subnational level to a medium degree. First of all, the subnational share of

10 The funds allocated to administrative infrastructure projects consist the fiscal reforms included in my analysis. More reforms are planned for January 2004 with the increase of municipal budgets. This table is based on Falleti’s table on page 49.
expenditures (SSE), referring to the percentage of expenditures spent by the subnational governments, increased according to 2001 data and 2003 estimates (see Table 2.2. on page 27). It is noteworthy that although SSE is relatively high, transfers such as municipal funds and social programs, while increasing expenditures, do not delegate more authority to the subnational level.

Secondly, to measure the policy-making authority, I refer to the ongoing transfer of infrastructure projects from the national executive to the regional governments and to social programs decentralized to the municipal level. Such programs include the National Compensation and Development Fund (Fondo Nacional de Compensación y Desarrollo, FONCODES), an infrastructure and development projects fund, which targets in particular the construction of small public works projects and is geared towards the least affluent sectors of society. As well, there is the National Food Assistance Program (Programa Nacional de Asistencia Alimentaria, PRONAA) whose mission it is to assist and feed needy families, more specifically the ones living in extreme poverty.\footnote{See Falleti (2002:46) for other scenarios of decentralization conceptualized in the same manner.} In 2000, food assistance programs reached 75.3% of Peruvians living in extreme poverty. Among poor people (not in extreme poverty), 59.2% benefited from these programs and almost half of the country's population received support through food assistance programs (Tanaka 2002: 12). The administration of these programs will now be conducted at the subnational level with supervision from the central government.

Thirdly, with the inclusion of elections for regional presidents in 2002, voters could freely choose their municipal and regional level representatives. Finally, I measured the territorial representation of interests (TRI) in the national Congress, which was close to strict \footnote{See FONCODES website, on-line, www.foncodes.gob.pe and PRONAA website, www.pronaa.gob.pe}
proportional representation with a ratio of 1.15, based on 2002 population estimates. The following table summarizes these findings.

Table 2.2. Intergovernmental Balance of Power Before and After

The First Two Rounds of Decentralization in Peru

<table>
<thead>
<tr>
<th>Variable</th>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subnational Share of Expenditures¹³</td>
<td>35.91% (2001)</td>
<td>42.38% (2003 estimates)</td>
</tr>
<tr>
<td>Policy-Making Authority</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subnational Share of Expenditures</td>
<td>National</td>
<td>Subnational</td>
</tr>
<tr>
<td>Infrastructure Projects</td>
<td>Concurrent</td>
<td>(2003)</td>
</tr>
<tr>
<td>Social Programs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subnational Officials Appointment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional Presidents</td>
<td>Appointed</td>
<td>Elected</td>
</tr>
<tr>
<td>Subnational Share of Expenditures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Territorial Representation of Interests</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IBOP</td>
<td>Low</td>
<td>Medium</td>
</tr>
</tbody>
</table>

References to Table 2.2.:  

"Subnational Share of Expenditures." Taken from the Public Sector Budget Law for the Fiscal Year 2001 (Ley de Presupuesto del Sector Público Para el Año Fiscal 2001), decree no. 909, on the Ministry of Economics and Finance website, http://www.mef.gob.pe/dnpp/leyes/2001/dleg909_lpp2001.doc The estimates for 2003 were based on the Public Sector Budget Law for the Fiscal Year 2003 no. 27879 (Ley de Presupuesto del Sector Público Para el Año Fiscal 2003), on Peru’s Congress website, www.congreso.gob.pe In order to compare SSE for 2001 and 2003, I calculated the proportion of expenditures of “decentralized entities” (instancias descentralizadas) to the total budget for each year. “Decentralized entities” refers to municipal governments (2001) and to regional and municipal governments (2003), their municipal and regional enterprises as well as public institutions from the national government. For the 2001 budget, I added the Municipal Transfer Fund (Fondo de Compensación Municipal) as outlined in article 3 to the decentralized entities expenditures and to the total budget amount. Article 3 of the law describes the amount assigned to the fund and specifies that it was not included in the budget outlined in article 1. Since the

¹³ These figures may be an overestimation of the resources that subnational governments get to allocate because municipal and regional enterprises as well as national decentralized public institutions are included. Nonetheless, the available data was aggregated to include these enterprises and institutions; and since I am interested in the degree of change in IBOP, it will not affect my conclusions.
2003 budget includes the Municipal Transfer Fund, I included it in my calculations for the 2001 budget to ensure the comparability of my values.

"Policy-Making Authority" is measured with two indicators, infrastructure projects and social programs. A national authority equals a low score, concurrent, a medium score, and subnational, a high score.

"Subnational Officials Appointment" may either occur through elections or appointment. It should be noted that for a brief period (1990-1992), regional presidents were elected as a result of ex-president Alan Garcia’s decentralization initiative. This effort was short-lived, since Fujimori appointed regional presidents in 1992 following his self-coup.

The “Territorial Representation of Interests” is the average of the ratio of the departments’ percentage share of seats (elected in multiple national districts) to the departments’ percentage share of the population. INEI 2002 Population Estimates were used (INEI 2002). A score of 1 shows that seats are allocated according to proportional representation, in other words, the proportion of population in a department. The author calculated the Peruvian territorial representation of interests.

IBOP or "Intergovernmental Balance of Power" is a cumulative measure of the four elements described above. A low score means that a low degree of autonomy of subnational officials was achieved in comparison with the national executive. A high score would indicate a large degree of autonomy held by subnational officials and a medium score shows the middle ground between high and low degrees. This table models Falletti’s table for her three case studies. See Falleti’s Table 1.1. for an application of these measures to the cases of Argentina, Colombia and Mexico. I used the same measures because of their clarity and to facilitate comparison with Falletti’s cases and the incorporation of the Peruvian case to her theory. (Falleti 2002: 11-12 and 345-349). See also Appendix II on page 88, for an in-depth explanation of the variables used to measure IBOP and IBOP change.

The table below shows the expected level of change in IBOP before and after the decentralization reforms. Following Falletti’s method, to calculate the overall change, I ranked the amount of change for each indicator on a scale of low to high (1 to 3). Falleti elaborated the following formula, \((\sum_{i=1}^{4} \text{score}_i / 4)\), which is \((1+1+2+1.5)/ 4\) or 1.375 when applied to Peru (Falleti 2002: 14). Hence, the overall change in Peru (1.375) is low when measured on a scale of 1 to 3. IBOP change is low because social programs are administered jointly with the central government (not solely by the subnational level), and the territorial representation of interests remains unchanged, not allowing for overrepresentation of smaller regions in the national Congress. As Falletti explains, “...the higher is the overrepresentation of subnational interests in the national legislature, the higher will be the autonomy of a group of subnational officials”
(Falleti 2002: 86). In short, the overall change in Peru is expected to vary from a low to a medium degree of autonomy held by subnational officials, producing a low degree of change in IBOP.

Table 2.3. Degree of Change in the Intergovernmental Balance of Power Before and After the First Two Rounds of Decentralization in Peru

<table>
<thead>
<tr>
<th>Variable</th>
<th>Before</th>
<th>After</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subnational Share of Expenditures</td>
<td>35.91% (2001)</td>
<td>42.38% (2003)</td>
<td>18%</td>
</tr>
<tr>
<td>Policy-Making Authority</td>
<td></td>
<td></td>
<td>1.5</td>
</tr>
<tr>
<td>Regional Presidents Mayors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Territorial Representation of Interests</td>
<td>1.15 (2002)</td>
<td>1.15 (2003)</td>
<td>0</td>
</tr>
<tr>
<td>Congress</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall Change in IBOP</td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
</tr>
</tbody>
</table>

2.6. A Condition for Fiscal Reforms

In an alternative scenario; should a policy ratchet mechanism have been generated after the political reform, the new stakeholders at the subnational level would have advocated for

---

14 “Subnational Share of Expenditures” or SSE is the same as Table 1.1. The “SSE Change” = (SSE After - SSE Before) / SSE Before.

15 The 2003 values are based on estimates provided in the Public Sector Budget Law for the Fiscal Year 2003 no. 27879 (Ley de Presupuesto del Sector Público para el Año Fiscal 2003), Peru’s Congress website, on-line www.congreso.gob.pe

16 “Policy-Making Authority” or PMA is the same as Table 1.1. National level responsibility is calculated as (N)= 0, Concurrent responsibility as (C)=0.5 and Subnational responsibility as (S)=1. “PMA change” is calculated by subtracting “PMA Before” from “PMA After”.

17 “Subnational Officials Appointment” or SOA is the same as Table 1.1. Elected = 1, Appointed= 0. “SOA Change” is the result of the subtraction of the before score to the after score.

18 “Territorial Representation of Interests” or TRI is the same as Table 1.1. “TRI Change” is calculated by subtracting “TRI Before” from “TRI After”.
fiscal decentralization. Moreover, should a strong momentum for fiscal decentralization have existed and triggered that reform, followed by the decentralization of more responsibilities (administrative decentralization); the process would have led to a high level of change in the balance of power between the national and the subnational governments. Thus, such an initiative would have decentralized to a much greater extent than in the current situation.

Nevertheless, it is noteworthy to indicate that this sequence could not have occurred in Peru even if as a second round of reforms, strong subnational stakeholders had pushed for fiscal decentralization. Contextual factors such as the population's low level of education, the entrenched clientelistic practices in every sphere of daily life and the politicians' lack of experience in managing budgets were an impediment to fiscal decentralization after political reforms and blocked a high level of decentralization. The resources transferred could easily be misappropriated, creating a situation of financial chaos at the subnational level. For this reason, administrative decentralization was vital to prepare officials and politicians for their new responsibilities, to teach them through workshops and seminars how to manage a larger budget, and to ensure accountability for their activities.

This amendment comes as a condition for the implementation of fiscal reforms, but does not impede the logic of Falleti's argument. Indeed, the actual sequence of reforms taking place in Peru follows her model that political, administrative, and fiscal reforms lead to low degree of change in the distribution of power, although with funded administrative reforms she would expect a medium degree of change. In this case, even with funded administrative reforms, a low degree of change results from the reforms. However, the condition for fiscal reforms presented above is important since other countries may face the same predicament and follow a path identical to that of Peru.

---

19 Change in IBOP reflects the four indicators above and is calculated on an ordinal scale including low, medium, and high degrees of change (from 1 to 3).
2.7. Conclusion

Considering the strategic choices involved when implementing a reform, Falleti’s sequential, dynamic theory with its emphasis on bargaining rounds between officials offers a clear framework for understanding the outcome of such reform efforts. The sequence of reforms political, administrative and fiscal as described, may produce a low to medium degree of change in the intergovernmental balance of power. When a reactive mechanism occurs and administrative reforms are not funded, a low degree of change is expected. When the same mechanism takes place along with funded administrative reforms, a medium degree of change may be expected. Considering the limited amounts of projects and programs transferred through administrative reforms, the sequence in Peru is more likely to produce a low degree of change. Accordingly, the expected outcomes of Peru’s decentralization process are a low degree of change in IBOP.

Consequently, when subnational interests prevail and a process starts with a mixed coalition, it is expected that political decentralization will be the reform promoted by the coalition. Should a reactive mechanism occur between the rounds of reforms, with new forces joining efforts, national interests would dominate the next round of reforms. Here, considering that the national level’s preference for decentralization is administrative reforms, one would expect a national coalition to advocate administrative reforms as a second step in this process. Through a power reproduction mechanism after this round of reforms, according to expectations, the national coalition will be able to enforce its interests in fiscal reforms by funding administrative reforms. The final outcome of this sequence of reforms and coalitions may produce a low to medium degree of change in the distribution of power between the national level and its subnational counterparts. However, because of the limited number of the infrastructure projects and social programs being decentralized, although funded, the reforms will more likely produce only a low degree of change in IBOP.
To sum up, Falleti’s theory is a useful tool when analyzing the outcomes of decentralization initiatives for its conceptual clarity and explanatory power. Decentralization holds the potential to fundamentally reform the centralized structure of the Peruvian state as the process unfolds, promoting regional and municipal development. The next chapter provides an entirely new data set that focuses on the implementation of reforms in Peru, based on more than 90 interviews.
Chapter Three

Subnational Interests Driving the First Stage of Decentralization in Peru

The unanimous approval by parliament of the Law of Regional Elections was a logical consequence to the consensus reached among all of the political forces. The immediate promulgation by the President of the Republic of both laws [a law of constitutional reform for decentralization and the Law of Regional Elections], on the same day, and before the entire congressional representation, is an expression of the political will that exists in both state powers to promote decentralization, now I hope, definitively (Guerrero Figueroa 2002: 6).

3.1. Introduction

Political decentralization and funded administrative reforms have begun to alter Peruvian intergovernmental relations. In this chapter, based on close to 100 interviews which I conducted during the summer of 2003, I examine why the reforms started, which bargainers were involved, how their interests moulded the coalitions during the various rounds of negotiations and the subsequent implementation of the reforms. In the next section, I will present the recent political factors that led Toledo to announce the regional elections, forming a mixed coalition and thereby placing decentralization on the national agenda. By examining the mixed coalition that was formed to promote decentralization, I show the prevailing subnational interests behind the policy rhetoric and the reasons for starting the reforms at that particular time. I then in the third section deal with the ongoing administrative reforms including the particular coalition that promoted the reforms and their legal framework. In the fourth section, I examine fiscal decentralization. I then conclude by addressing the challenges faced by reformers. The implementation of reforms in Central and Southern Andean towns is included throughout the text, providing concrete examples of the obstacles that reformers may encounter.

20 “La aprobación unánime por el parlamento de la Ley de Elecciones Regionales ha sido una consecuencia lógica del consenso alcanzado entre todas las fuerzas políticas. La promulgación inmediata por el Presidente de la República de ambas leyes [una ley de reforma constitucional y la Ley de Elecciones Regionales], en el mismo día, y ante toda la representación congresional, es una expresión de la voluntad política que existe en ambos poderes del Estado para impulsar la descentralización, ahora sí, espero, definitivamente.”
3.2. First Reform: Political Decentralization

3.2.1. Political Environment

The structure of the Peruvian state and its voting system generate an unfavourable environment for the formation of political coalitions. The presidential system within this unitary republic is outlined in its current constitution, which was last revised in 1993 (Peruvian Congress, 1993). The state consists of a national government with 24 regions, a constitutional province, 194 standard provinces and 1,828 districts (Alvarado Perez 2003: 18).\(^{21}\) Peruvian subnational governments possess a two-tier local government system; both provinces and districts are given municipal status (Nickson 1995: 237).

Regarding the voting system, the president is directly elected in a single electoral district for a five-year term. The legislative branch is composed of a unitary Congress with its 120 members elected through popular vote every five years (The World Factbook 2003). Congress members are elected through multiple electoral districts with proportional representation and an optional double preferential vote (except in electoral districts where less than two congressmen are elected, when a single preferential vote is required) (Elections Organic Law, section II, chapter 1, article 21).\(^{22}\) At the regional level, citizens elect the regional president and vice-president with a plurality of votes. The members of the regional council are also elected and correspond to the number of a region's provinces. Seats in the regional council are assigned according to proportional representation or half-plus-one seats depending on which favours the winners (Regional Elections Law, section II, chapter 1, articles 5-8). This system may conflict with the principle of having every province represented in the council. The same procedures are applied in local elections for a mayor and his municipal government.

---

\(^{21}\) The number of local governments corresponds to the June 15, 2001 numbers.

\(^{22}\) Proportional representation consists of allocating a number of seats corresponding to the ratio of votes won. Here, voters choose candidates on party lists, selecting their two preferred candidates. A measure of the percentage of votes and preferential ordering determines the winning candidates.
council (Municipal Elections Law no 26864). The councillors do not pertain to a specific geographic boundary.

Reflecting on the nature of the regime and its impact on political parties, McClintock points out that in Peru, "Under both the 1979 and 1993 Constitutions, a predominant concern has been that (...) presidentialist principles relegate political parties to irrelevance and, accordingly, doom them to weakness" (McClintock in Diamond et al. 1999: 344). Moreover, electoral rules in Peru impede the creation of large, well-organized parties (McClintock in Diamond et al. 1999: 344). With an explosion of independent candidates arising under Fujimori, coalitions between political movements are not frequent. Their leaders are influenced by clientelistic concerns, trying to benefit as much as possible from their position. The politics of survival, in a pool of weak parties and movements lacking clear programs, do not foster coalitions unless both partners gain in a struggle against a common enemy. Puzzling questions, namely how a mixed coalition was formed to promote decentralization and why political reforms were chosen to begin with, are examined below.

### 3.2.2. Subnational Interests and the Incentives for Political Decentralization

In Colombia, Peru's northern neighbour, the popular election of mayors was a response to the country's deep political crisis and the formation of a mixed coalition with subnational interests prevailing (Falleti 2002: 191-192). In the Peruvian case, the elections of mayors and regional presidents also came as the first decentralization reform, which was led by a mixed coalition with subnational interests prevailing. Was Toledo's call for subnational elections the result of a 'top-down' decentralization approach or did it respond to the demands of subnational movements, springing from the 'bottom-up'? I will examine the ascendance of decentralization to the national agenda by looking more closely at the 2001 presidential campaign and popular
opinion leading up to it. In fact, a vast majority of respondents stated that the political reforms emerged from Toledo’s response to a popular demand.

During his dictatorial rule, Fujimori proceeded to constrain any opposition to his government including the provincial municipalities’ power. The shrewd dictator employed measures such as Legislative Decree no. 776, which assigned governmental transfers through the Municipal Compensation Fund (Fondo de Compensación Municipal) primarily to the municipal district level to the detriment of provincial municipalities. For instance, the municipality of Lima was divested of around 80% of its transfer revenues consequently reducing its capacity to oppose the regime (Tanaka 2002: 13). Notwithstanding Fujimori’s attempts, provincial mayors maintained their political presence. In turn, their progressively louder dissenting voices were heard through the Peruvian Municipalities’ Association (AMPE), usually led by Lima’s mayor. An increase in local government revenues in general, jumping from 579 million of New Soles (Peru’s currency) in 1985 to 2.05 billion of New Soles in 1997, favoured their resilience (Tanaka 1999, in Tanaka 2002: 13-14).

In the latter years of Fujimori’s rule, social and popular demands that had been fomenting grew bolder with efforts to mobilize and with public claims for more autonomy. Many respondents, particularly from subnational NGOs, expressed views similar to this one: “In the last few years, decentralization was put on the national agenda by regional movements and local governments.”23 Local roundtable discussions emerged in a few towns producing strategic development plans as a result of a participatory process between local institutions and the population. One of the first roundtables was held in Cajamarca, a Northern town, under mayor Luis Guerrero. The experience was successful in producing provincial and district development plans, but started to wane when Guerrero left (Tanaka 2002: 18-19). Some

23 “En los últimos años, la descentralización fue puesta en la agenda nacional por movimientos regionales y los gobiernos locales.” Interview in Lima with an NGO member, on August 8, 2003.
municipalities have formed ephemeral associations such as the Municipal association of the San Martin region, with foreign investment to strengthen local governments. Yet, once aid ran out, these associations declined. However, the Municipalities' Association of Peru, formed in 1982 as the first national municipal congress, survived and became influential in channelling decentralizing proposals to the executive and mediating relations between civil society and the state (Nickson 1995: 245, Guerrero Figueroa 2002).

A number of interviewees also highlighted these points. For example, an NGO member argued that, "Lucho Guerrero, the ex-mayor of Cajamarca, particularly played an important role in promoting roundtable discussions like the one in Cajamarca... With Fujimori, [centralism] reached an extreme. Local governments reacted. AMPE proposed a decentralization law that was archived by the central government."24 Another interesting initiative is the creation in 1992 of the Group Civil Proposal (Grupo Propuesta Ciudadana), a consortium of nongovernmental organizations (NGOs) generating proposals on state reform, regionalization and decentralization.

Remarkably, in 1998, the mayors of Cajamarca, Huancavelica and Iquitos, respectively Luis Guerrero, Federico Salas and Jorge Chávez, formed Peru Now (Perú Ahora), an independent movement for greater municipal autonomy and resources from the central government. However, the movement fell apart in 2000 when Guerrero and Chávez joined Perú Possible and Salas became a presidential candidate (Tanaka 2002: 20-21). The lack of organization between isolated movements dampened their efforts, but a genuine subnational coalition emerged as demands for decentralization spread across the country, sending a clear

24 "Lucho Guerrero, el exalcalde de Cajamarca, en particular tuvo un rol rol importante en promover experiencias como la que dirigió en Cajamarca... Con Fujimori, [el centralismo] se llevó al extremo. Una reacción provino de los gobiernos locales. AMPE alcanzó una propuesta de ley de descentralización, la cual fue archivada por el gobierno central.” Interview in Lima with an NGO member, on August 8, 2003.
message that was to be upheld by national politicians. Subnational interviewees espoused this view in large numbers.

In the April 2000 presidential elections, Alejandro Toledo waved the decentralization banner in opposition to Fujimori's campaign, but was defeated. After the videotaped corruption scandals that brought down Fujimori along with his chief intelligence advisor, Vladimiro Montesinos, in the fall of 2000, a transition government was formed, headed by Valentín Paniagua. Under Paniagua, public consultations on the nature and goals of decentralization were held throughout the country as part of an initiative by the new congressional decentralization commission. Luis Guerrero, now a Perú Possible Congressman, was heavily involved in these consultations and later became director of the commission.

In April 2001, new presidential elections were held to democratically choose Peru's next leader. Decentralization became once more an important issue in the campaign. Reflecting the view of many respondents, one interviewee said, "Decentralization was an important part of the candidates' campaign in 2001. We have to salute Toledo for beginning the process." Political advantages were hard sought by the two main candidates, this time Alejandro Toledo, an Indian-descent economist educated in the United States and Alan García, leader of the APRA and Peru's president from 1985-1990. As the campaign progressed, a competitive race developed between Toledo and García over the issue of decentralization, where each candidate wanted to prove that he was willing to go further along the decentralization path to beat his opponent and garner more popular support. Respondents overwhelmingly answered that the large demand for decentralization in the context of Toledo's campaign placed the issue at the centre of his agenda.

25 "La descentralización era una parte importante de la campaña de los candidatos del 2001. Hay que saludar a Toledo por lanzar el proceso." Interview on June 20, 2003 with an NGO member in Lima.
When asked for his view, a government functionary in Huancayo responded that, "Toledo’s decentralization was a campaign promise to initiate the process, and, in the end, to strengthen his political position." Another perspective is that of Tanaka, who argues that the electoral race was the chief reason that caused the importance of decentralization at the time as a process imposed from the top down, rather than from subnational pressures (Tanaka 2002: 22). This however does not recognize the existing subnational demands for decentralization. The perceptions of Peruvians interviewed showed that the very reason for politicians to campaign on decentralization was a genuine subnational claim for this reform. In fact, 89 respondents (96%) saw the political campaign’s promise in a bid for popularity at the subnational level as the primary reason behind Toledo’s championing of the reforms. A historical popular longing for decentralization reforms increased the popularity of the leader promoting it. An interviewee, reflecting the general view of my respondents, stated that, 

Since the electoral campaign, the current president [Toledo] has received considerable support from the provinces. When Fujimori was still [president], mobilizations occurred calling for his resignation. The regions were considerable protagonists. [Decentralization] is a demand that has existed for many years. It was pending because even the 1993 Constitution stipulated it. It had not taken place because Fujimori’s government strengthened centralism. It is an old regional claim.

The leader of this cause would thus garner popular support across the country. Another respondent explained that, “Decentralization is believed to be a necessary process by most Peruvians. Many do not know why, but the country believes it is the way to go.” An academic also commented on the lack of planning of the initiative, “Toledo’s entire electoral

26 “La descentralización de Toledo fue un ofrecimiento de campaña de iniciar un proceso, en el fondo ha sido para reforzar su posición política.” Interview on June 18, 2003, with a subnational government functionary in Huancayo.
27 “Desde la campaña electoral, el actual presidente [Toledo] tuvo bastante apoyo desde las provincias... Cuando estaba todavía Fujimori, hubo mobilizaciones para su renuncia. Las regiones tuvieron bastante protagonismo. [La descentralización] es un reclamo que desde muchos años atrás existe. Estaba pendiente porque la Constitución inclusive del 1993 lo plantea. No se había llevado porque el gobierno de Fujimori fortaleció el centralismo... Es un reclamo muy antiguo de las regiones.” Interview in Lima with an NGO member on June 3, 2003.
28 Interview with an NGO member on June 24 in Lima.
campaign was based in saying what the population wanted to hear... There was no plan from Perú Possible for decentralization. It was the adoption of (...) a popular demand.”

In the electoral race, García used his previous decentralization initiative to display his commitment to the policy reform. Toledo bounced back with more and more promises to outrun García in the race, thus promising a sweeping decentralization reform with subnational elections. After his electoral victory, the newly anointed president Toledo, in his inaugural address in Machu Picchu, amidst the ruins of the famous Inca city, announced the holding of new regional elections as he went on to commit to the defence of democracy, human rights, the fight against poverty and the respect of ethnic plurality in his country. Whether this gesture demonstrated a popular impulse as a plea for support or a lack of experience, it effectively tied the president and his party to their electoral promises.

Some analysts have described this measure as an impulsive, unreasonable move, especially since it based the new regional bodies on the existing departmental boundaries. As Tanaka advocates, “Calling regional elections is an eloquent sample of a major mistake from the president, in an attempt to do a spectacular gesture in the name of decentralization, and expresses the flagrant lack of clarity both from the president and his political party, Perú Possible, regarding what to do from the government” (Tanaka 2002: 25). A few others (only 4% of interviewees) see in it clever political strategizing on Toledo’s part, hoping to cash in from his recent electoral victory and the following honeymoon period with high popularity.

---

29 “Toda la campaña electoral de Toledo se basó en decir lo que la población quería oír... No había un plan de Perú Possible para la descentralización. Fue un recogimiento de (...) una demanda de la población.” Interview in Lima on June 5, 2003 with an academic.


31 “La convocatoria a elecciones regionales es una muestra elocuente de un grueso error de cálculo por parte del presidente, en un intento por hacer un gesto espectacular en nombre de la descentralización, y expresión de la desconcertante falta de claridad tanto del presidente como de su partido, Perú Possible, respecto a qué hacer desde el gobierno.”
rankings.\textsuperscript{32} The initiative also divested some political pressure to subnational governments since the population now directs their claims to local and regional governments before the national one.

In the end, decentralization was precipitated by Toledo’s declaration, answering to a subnational plea and gathering national legislators’ support representing their territorial interests in Congress. No clear long-term decentralization plan was designed at the time. As a Huancayo government functionary declared, “[the process was] a little rushed since there was no central plan.”\textsuperscript{33} The lack of planning reflects the suddenness of the process’ imposition. The National Decentralization Council (Consejo Nacional de Descentralización, CND) has since then produced a proposal for a national decentralization plan for 2003-2006.\textsuperscript{34}

According to subnational interests, the preferences for political decentralization were concordant with Falleti’s theory. Toledo’s choice seems to have been prompted by his electoral promises, an attempt to foster popularity and a lack of vision for the long-term effects of his decision. However, the creation of regions proclaimed the central government’s will to progressively transfer authority and resources to autonomous subnational entities thereby positively distinguishing the new democratic government from Fujimori’s dictatorship. The sequence of reforms, political, administrative and fiscal, may devolve a low to medium level of power to subnational governments, following the expectations for the preferences of the national government.

Following his victory, Toledo named the popular Arequipa mayor, Juan Manuel Guillén, as head of a National Decentralization Commission (CND). Guillén later renounced his position as a result of differences with the executive power. Another decentralization

\textsuperscript{32} Respondents in Arequipa and Puno expressed this view.
\textsuperscript{33} “[El proceso ha sido] un poco precipitado antes que no haya un plan central.” Interview with a subnational government official in Huancayo on June 18, 2003.
\textsuperscript{34} See CND website, on-line, www.cnd.gob.pe
commission was then formed, this time in Congress, and headed by Luis Guerrero, Cajamarca’s mayor for two consecutive terms. Interestingly, Guerrero, although elected with the Perú Possible party, was a guest and not a party militant, thus coming with a different agenda than the party in power (Tanaka 2002: 24). His territorial affiliation to Cajamarca turned him into a fervent advocate of participation, particularly at the municipal level (Guerrero Figueroa 2002). A well-informed respondent emphasized, in an interview, Guerrero’s role in driving the initiative in a participative manner:

The will of Lucho Guerrero... drives the reform. The laws ranged from constitutional reform to the Law of the Bases [of Decentralization]. There were very strong institutional changes... Lucho’s vocation is a participatory one. In September 2001, a process of citizen consultations was instituted all across the country, through 75 regional consultations (3 per week) from September to October... The first draft of the Law of the Bases of Decentralization was corrected by everyone.35

Amidst disorganization and lack of direction from the central government, the popularity of decentralization called for imperious attention to the issue. A poll among congressmen showed that decentralization was the number one priority for strengthening Peru’s democracy, over consensus on the constitution and institutions, as well as free and fair elections (see Appendix V, page 94). Hence, responding to popular longing repressed for years under Fujimori, and resurging in the 2001 electoral campaign, decentralization emerged as an issue dear to Peruvians’ hearts.

In a nutshell, I argue that subnational demands for decentralization forced the issue onto the presidential candidates’ agendas in the 2001 electoral race. Subnational opposition to Fujimori had developed, spearheaded by AMPE and influential mayors such as Chávez, Salas and Guerrero, militating for decentralization reforms. Toledo’s desire to appeal to all voters

35 “La voluntad de Lucho Guerrero... empujo la reforma. Las leyes pasaban desde la reforma de la constitución hasta la Ley de Bases [de la Descentralización]. Hubo cambios institucionales muy fuertes... La vocación de Lucho es participativa. Desde setiembre 2001 hubo un proceso de consultas ciudadanas en todo el país, en 75 consultas regionales (3 por semana) de setiembre a octubre... El primer borrador de la Ley de Bases de la Descentralización fue corregido por toda la gente.” Interview in Lima with an NGO member on August 8, 2003.
even those living in the remotest areas and to distinguish himself from Fujimori most likely influenced Peru’s president as he vied on a platform of democratic change and decentralization. Thus, a subnational coalition led by the president, Perú Possible, Congress’ decentralization commission and opposition forces to Fujimori’s rule at the subnational level, particularly AMPE and municipal provincial mayors, advocated the reform.

Subsequently, a reform of the 1993 Constitution on decentralization was adopted unanimously after Congressional debates and a unanimous vote on December 13, 2001, and a vote with only one dissenter on the March 6, 2002. The reform project was proposed by the Congressional Decentralization and Regionalization, Local Governments and Constitutional Commissions, including suggestions gathered through Guerrero’s public consultations with more than 8,000 citizens (Guerrero Figueroa 2002: 5-6). This congressional reform was significant in that it laid the groundwork for the adoption of the Law of the Basis of Decentralization (2002). It also merged opposition parties with the Perú Possible proposal, preparing for the future formation of the national coalition.

Consequently, after voters elected their new president, subnational elections were planned. On November 17, 2002, regional presidents, vice-presidents and regional council members (with representatives from every province) were elected for the first time in Peru’s history, simultaneously as the regular municipal elections, held periodically since 1981. Thus, political decentralization led the decentralization process, becoming the driving force behind it. The first step of reforms is very important in a path-dependent process, as the first reform highly impacts the subsequent ones. As a result of political decentralization, the new stakeholders at the subnational level subsequently created their own organizations to defend their interests. For example, a regional presidents’ organization was formed. Also, an APRA NGO, Proregiones, was created to advise its affiliated regional presidents. As various
respondents observed, prominent regional or municipal actors may later use their position to propel their candidacy to the regional or the national level.

3.2.3. Leading Actors

In the regional elections, Peru’s political parties resurfaced after a weak performance for the past decade. The APRA won twelve of the regional governments, thus securing a large presence at that level (Melendez Guerrero 2003: 17). Perú Possible, the government’s party, merely managed to win one region, Callao. Independent candidates, heading their own movements, took the remaining 11 regions. This illustrates the clear defeat of Perú Possible and the strong comeback of the APRA party. The votes were dispersed among numerous candidates with the winning candidates securing only a slim share of the votes, wavering between 15% and 30%. As an NGO member underlines,

In the La Libertad regional government, the candidate won with more than 50% of the votes. He is from the APRA. In all the other regions, the presidents won with less than 30% of the votes, only winning with 5 advantage points over the second runner-up, and not winning in the majority of provinces. The second candidate was very close. The legitimacy is very fragile. It may cause a governing problem. Next year, there will be the possibility of recall: anyone can collect signatures to determine if the regional president stays or goes. It is very probable that it begins in every region.

The election results reflect the weakness and fragmentation of the Peruvian political party system and the governability threat that recall may pose.

36 “Al interior de cada gobierno regional, solamente en el gobierno de La Libertad el candidato ganó con más de 50%. Es del APRA. En todas las otras regiones, el presidente ganó con menos del 30%, solamente le lleva 5 puntos de ventajas al segundo, no ganó en la mayoría de las provincias; el segundo está muy cerca. La legitimidad es muy frágil. Puede crear un problema de gobernabilidad. El próximo año, hay la posibilidad de hacer revocatorias: cualquier puede recoger firmas para determinar si el presidente de la región se queda o se va. Es más probable que en todas se empiece.” Interview in Lima, on June 20, 2003, with an NGO member.

The principal actors involved in the decentralization process consist of the politicians and bureaucrats at the national, regional and local government levels. Unions, interest groups, farmers associations, local organizations (such as popular kitchens and other organizations administering social programs), NGOs and church groups are also involved in the process. Universities are present as well although especially in Southern Peru they do not play a leading role as would have been expected. Another key actor is the National Decentralization Council (CND), formed in July 2002, a coordination and technical body created to act as an intermediary between the central government and its subnational counterparts. The CND was created as an independent body, by the central government, with the mandate to facilitate the implementation of the legal norms passed by Congress and its two decentralization commissions (for the regional and local levels).

More specifically, the CND’s administrative council is composed of five representatives from the executive: a representative of the national President, two representatives of the Presidency of the Ministers’ Council and two from the Finance ministry. From the subnational level, two regional presidents, a provincial mayor and a district mayor defend their territorial interests. Hence this arrangement, by ensuring a majority of 5 to 4 for central government members, skews power relations in the interactions between the subnational entities and the center. The mayor's association made a public request for this composition to be altered to ensure a more fair representation of national and subnational interests. Numerous regional presidents also expressed their discontentment. The vicepresident of the Commission for Decentralization, Regionalization and State Modernization voiced their suggestion of having an elected regional president as head of the CND.  

---

38 Interview in Puno with a functionary of the municipal provincial government on July 17, 2003.
3.2.4. Political Decentralization in Southern Peru

In the three main cities of the Southern Andes, Arequipa, Cusco and Puno, the decentralization impetus resonates to greater or lesser levels among the population as leaders strive to defend their regions’ interests. The Arequipa region holds the country’s second largest city, Arequipa, traditionally the economic centre of Southern Peru. This region has persistently been highly militant. From the 1930s with the creation of the Decentralization Party under Leguía’s government, to anti-privatization rallies in June 2002, Arequipa has long displayed its vibrant local identity. Arequipa residents proudly boast of their cultural roots, to the point of having their own ‘national passport.’ Beyond the funny touch, this parody of the Peruvian proof of identity reflects the tension towards the central government. Due to its sheer size, the city of Arequipa reproduces Lima’s centralism on a smaller scale, as a researcher remarked in my interview, “In the Arequipa region, the capital city concentrates 75% of the region’s population; there are communication problems outside the city.”

In the subnational elections, the APRA won at both the regional level and in the important provincial municipality of Arequipa, although not traditionally an APRA stronghold. In fact, the regional president, Daniel Vera Ballón won with 31% of the votes while the provincial mayor, Yamel Romero, secured only 23% of the votes. The results mirror the dispersion of the electorate. The lack of political parties and of alternatives to the APRA produced the observed outcome. The APRA now faces a large percentage of disgruntled citizens and must conciliate with Arequipa’s diverse, still weak, civil society. The electoral

---

40 "En la región Arequipa, la ciudad capital concentra el 75% de la población de la región, hay problemas de comunicación a fuera de la ciudad." Interview on May 30, 2003, in Lima with an NGO member.
result reflects the powerful presence obtained by the APRA in the 2001 presidential elections, Alan García finishing as the second place contender.

Many obstacles lie on the APRA’s path to good governance in Arequipa. First, the low percentage of the vote won by both Daniel Vera Ballón and Yamel Romero pushes them to form coalitions with opposition forces (mostly independent movements). Second, there is a widespread sentiment among respondents that the government only hires APRA party members, and that it is not inclined to share its power. \textsuperscript{42} Third, the open aversion and rivalry between the regional and provincial authorities, albeit from the same party, increases distrust and instability in intergovernmental relations and among the population. In fact, conflicts over management of numerous projects and institutions, where the regional and municipal laws are vague, exacerbate personal tensions between the two authorities. Moreover, public disputes between Arequipa’s provincial mayor and his deputy mayor, generate a pessimistic public image for the party.

Similarly, the Puno region grapples with an analogous situation. The region borders with Bolivia, Chile and Brazil, and includes Lake Titicaca, the world’s highest navigable lake, and the Andean mountain terrain as well as luxurious jungle. It is one of the country’s poorest regions. The average level of education in Puno is extremely low, a mere 5.9 schooling years on average.\textsuperscript{43} The Puno region is characterized by its large Quechua and Aymara population, two distinct ethnic groups, which have occupied the area for generations. The last census in 1993 showed that 44% of the Puno population is of Quechua origins, 33% Aymara and 23% mixed (Diez Hurtado 2003: 8 ft 6). Since the 1950s, migratory movements from the departments (now regions) have taken place, in particular in direction of Arequipa, the economic centre of the South (Diez Hurtado 2003: 9, 11). The identification of regional elites

\textsuperscript{42} Taken from for example an interview with an NGO member in Arequipa, on July 1, 2003.
\textsuperscript{43} Interview in Puno on July 17, 2003 with a professional.
with traditional families was loosened leaving room for educated peasants and newcomers on the regional leadership scene.

In the regional government, David Jimenez, of the Movement for Quechua and Aymara Regional Autonomy (Movimiento Por la Autonomía Regional Quechua y Aymara), was elected with 26% of the votes. Coming from a leftist background, he ran as an independent, on a platform for a Quechua and Aymara social nation. He stated, "If the sentiment of belonging to the region is very strong, decentralization will take place more quickly... I am Aymara. There is a huge ethnic diversity [in Peru], the Quechua and Aymara nation, as a social construct will take place." Jimenez, the president of the regional government’s association, is now affiliated with Proregiones, the APRA support organization for its regional governments and benefits from the network’s technical advice. At the provincial level, an independent candidate, Mariano Portugal Catacora, won 22% of the votes. Both politicians struggle to gain the population’s support, enjoying very low popularity levels. Regional governments following municipal ones have a new role to play in receiving the population’s complaints and attempting to deal with the problems rather than go to the national level. The election of regional governments thus gave some political room to Toledo, a breather from the constant demands directed at his government.

Located in the Southern Peruvian Andes as well, Cusco, the historical central point of the Inca Empire, has retained various cultural elements of this powerful empire. Its main tourist attraction, the Inca city of Machu Picchu, attracts millions of tourists from around the

45 “Si el sentimiento de pertenencia regional es muy grande, la descentralización se hace más rápidamente... Yo soy Aymara. Hay muchisima variedad étnica [en Peru], la nación quechua y ayamara, como un concepto social se va a realizar.” Interview with a regional president, conducted in Lima, on May 28, 2003.
47 Oficina nacional de procesos electorales, ONPE website, on-line. http://www.onpe.gob.pe
48 Interview with an academic, conducted in Puno with an NGO member on July 13, 2003.
world each year. A top priority for local governments is obviously to promote the tourism industry. The regional government is headed by a journalist, Carlos Cuaresma, from the Frente Independiente Moralizador (FIM), a Perú Possible ally. He won with barely 19% of the votes and thus faces a large popular opposition.\textsuperscript{50} The provincial mayor served under Fujimori and was reelection in 2002 with 28% of the popular support.\textsuperscript{51} He maintains a low profile, which seems to favour his mandate. Even if rumours of corruption abound, the population supports him because of the efficiency he has achieved in his construction of public works. He also enjoys a very good marketing and communication strategy.\textsuperscript{52} The three regions described above are characterized by a deep fragmentation of interests, weak political parties and a disorganized civil society. Now, let us examine the legal framework in which decentralization began, and that led to the implementation of administrative reforms.

3.3. Second Reform: Administrative Decentralization

3.3.1. Legal Framework

Three principal laws establish the legal framework for the decentralization process: the Law for the Basis of Decentralization (Ley de Bases de la Descentralización), the Law of Regional Governments (Ley de los Gobiernos Regionales), and the Law of Municipalities (Ley Orgánica de los Municipios). These laws all include clauses specifically outlining the transfer of infrastructure projects to the regional level and social programs to the municipal level.\textsuperscript{53} The laws were adopted as a result of concerted efforts between the ruling party and opposition parties at the national level. For example, the Law of Regional Governments was approved by

\begin{footnotesize}
\begin{itemize}
\item\textsuperscript{49} The region formed under Alan García’s regionalization attempt, including Apurimac, Cusco and Madre de Dios, was even called region Inka. Interview in Cusco with an NGO member July 21, 2003.
\item\textsuperscript{50} El Comercio, December 31, 2002.
\item\textsuperscript{51} ONPE website, on-line. \url{http://www.onpe.gob.pe}
\item\textsuperscript{52} Interview in Cusco with an NGO member on July 19, 2003.
\item\textsuperscript{53} See the respective laws and Mesa de concertación, 2003, on-line. \url{www.mesadeconcertacion.org.pe/DocumentosNuevos/transferencia%20de%20Programas%20sociales.pdf}
\end{itemize}
\end{footnotesize}
congressmen from *Perú Possible*, the APRA, National Unity (*Unidad Nacional*), We Are Peru (*Somos Perú*) and the Independent Moralizing Front (*Frente Independiente Moralizador*). The Fiscal Decentralization Law (*Ley de Descentralización Fiscal*), the Law of Incentives for the Amalgamation of Regions (*Ley de Incentivos a la Fusión de Regiones*), and the Law of the Executive Power (*Ley del Poder Ejecutivo*) are currently being designed and debated among others.  

It is important to note the timing in which the laws have been passed. Until the very day of the regional and municipal elections, only a draft of the Regional Governments’ Law existed. Regional candidates were thus running without being fully aware of the responsibilities, functions, and territorial jurisdiction of the office for which they were running. Only after the election results were known did the official law become public. According to my respondents, regardless of their geographic location, this situation was inappropriate. A Lima NGO member summed up his perception, corresponding to many other respondents’ as well:

They [Toledo and congressmen] approved an organic regional law that says white; but afterward they approved a municipal decentralization law that says red; and still there is no organic law of the executive power to say dark blue. There is no clarity in fiscal terms and competencies. Regional elections took place without a definite law. The law was approved 24 hours before the elections and changed 72 hours after. This is the clearest example of a disordered process.

The regional organic law included some modifications reducing the regional presidents’ power, strengthening the municipalities, considering that the government’s party had done so

---

54 See congressional debates. For the debate regarding the Law of Regional Governments, see Congress 2002: 19B.
55 See CND website, on-line, www.cnd.gob.pe
56 "[Toledo y los congresistas] aprueban una ley orgánica de regiones que dice blanco; pero después aprueban una ley de descentralización de las municipalidades que dice rojo; y todavía no hay una ley orgánica del poder ejecutivo que dice azul oscuro. No hay claridad en términos fiscal y de competencias. Se hizo elecciones regionales sin que haya una ley definida. La ley fue aprobada 24 horas antes de las elecciones y cambió 72 horas después de las elecciones. Ese es el ejemplo más claro de un proceso desordenado.” Interview with an NGO member in Lima, on May 30, 2003.
poorly in the elections. The objective of Perú Possible members in Congress was thus to fortify the municipal level to counterbalance the weight of opposition regional presidents, the majority being from the APRA. This political strategy became crucial in light of García’s preparation for the 2006 presidential elections.

Within the legal boundaries, mechanisms are included to allow citizen participation. In fact, both the regional and municipal governments’ laws stipulate the elaboration of concerted development plans, participative budgets and the creation of both Regional Coordination Committees (Comités de Coordinación Regionales, CCR) and local provincial and district ones (Comités de Coordinación Local Provincial o Distrital, CCLP or CCLD). The CCR and CCL members, with civil society representatives forming 40% of the committees, are elected for a two-year period. They must belong to a legal institution with a minimum three-year existence (Municipalities’ Organic Law no. 27972, section 8, chapter 2, article 98). This provision aims at preventing the inscription of populist candidates, postulating only to enjoy the perks of the status. Both councils meet twice a year and in emergency sessions when called upon by the regional president and mayor respectively (Municipalities’ Organic Law no. 27972, section 8, chapter 2, article 99).

Work realized with the Roundtable in the Fight Against Poverty (Mesa de Concertación de Lucha Contra la Pobreza), created during Valentin Paniagua’s transition government, with a focus to alleviate poverty, produced concerted development plans. The Mesa discussions between civil society and state representatives must be taken advantage of by integrating valid elements of the previous plans to the new ones.

The regions and municipalities must present their plans to the CND and budgets to the Finance ministry (Ministerio de Economía y Finanzas, MEF) for approval outlining their

---
57 Interviews realized in Lima with a regional president on May 28, 2003 and a researcher from an NGO, on May 30, 2003.
development priorities as the result of negotiations between state authorities and the regional and local population. Unfortunately, many regional and particularly municipal governments hire professional consultants to write their plan or budget. Many subnational NGO members noted that problem: “Certain districts hire consultants that elaborate their development plan for them, using their computer, their desk, without consulting the population, to comply with the August deadline.” The authorities then conduct a meeting where they present the plan for the approval of the few present at the meeting. The plan is sent to the CND, as the fruit of a concerted activity, supposedly reflecting the needs and priorities of the population, but often with completely different priorities.

Strongly polarized views exist regarding this accreditation process. On the one hand, mainly Lima residents, whether academics, civil society members, politicians, or professionals, recognize the necessity of an evaluation of the administrative and managerial capabilities existing at the subnational level. The accreditation process also serves to standardize the proposals from a tremendously diverse country. On the other hand, in Central and Southern Peru, the majority of the persons interviewed feel resentment toward the CND. Many wonder, “Who accredits the CND?” The fact that the personnel of this organization is appointed and not popularly elected generates a legitimacy concern, in a climate of wide distrust of state institutions.

3.3.2. Bargaining for Funded Administrative Reforms

At the regional level, major projects are being transferred from the central to regional governments. This initiative is clearly led by the ruling party in a coalition with opposition

58 When I refer to the Local Coordination Committees, I include the provincial and district level committees.
59 “Algunos distritos contratan a consultores para que le hacen su plan de desarrollo, lo hacen en la computadora, en el escritorio, sin consultar a la gente, para cumplir con la fecha de agosto.” Interview on July 16, 2003, with an NGO member in Huancayo.
60 Interview on July 17, 2003, in Puno, with an NGO member.
parties at the national level. The transfer of political power generated a reactive mechanism coalescing national actors to promote their interests and to ensure that only low levels of decentralization would take place. The executive dominated CND designed a transfer timeline for Toledo and the Woman and Development Ministry (Ministerio de la Mujer y del Desarrollo, MIMDES) to hand over some national projects to the regional governments where they are implemented. It is noteworthy that funds were allocated along with these projects. This way, the central government upheld its commitment to decentralization and the new regional governments received some transfers, as they had been pressuring for more resources. For example, on September 8th, the Alto Mayo infrastructure project was handed over to the San Martín region, with a budget of 9,203,253.86 Euros, making it the fifth completed transfer. Although previously in the hands of the central government, the financing for this project comes from the German financial, technical and social cooperation (CND website). Competitions have also been held across the country to designate regional directors preparing ahead for health and education transfers when decentralization will be more firmly established.

In Arequipa, a minor dispute divided Daniel Vera Ballón and Carlos Bruce, the housing minister, over the administration of a mega-project, Majes-Siguas, involving agricultural and irrigation activities. Its administration was scheduled to be handed over to the regional government on July 1st, but it was then postponed until August 15th. Vera Ballón demanded Minister Bruce’s resignation, because of his role in the delay in the transfer of the project to the regional government. On August 15th, another project was transferred to comply with the transfer schedule, this time the Organismo de Reconstrucción y Desarrollo del Sur (ORDESUR), to the municipal provincial government of Arequipa. When these projects were

---

passed on to the new administration, their budgets were as well, thus producing funded administrative decentralization. As such, the Majes-Siguas mega project was handed over with its 15.5 million New Soles budget so that its new administrators could pursue its development with the resources needed. Cusco and Puno’s governments were not among the 9 chosen to obtain projects, as the gradual decentralization started with only a few regions.

At the municipal level, the MIMDES is in charge of the decentralization of social programs, which alleviate poverty in the poorest sectors of the country, mainly rural areas. Such programs include FONCODES, an infrastructure and development projects fund, and PRONAA to assist and feed needy families. Although these programs may have been used for clientelistic leverage, strictly handled by the central government, their administration is evolving through their decentralization. The district level is seen as the key body to which to decentralize responsibilities and later on, resources. As one MIMDES official stated, “For us, the district is the strategic space”. A large portion of respondents (76% of those who discussed this issue), principally NGO members at the subnational level, fervently approved the initiative while many politicians and academics believed that it will worsen the quality of services. A Puno professional stated that, “The social programs are directed from Lima without knowing the region, managed by people ignoring the reality of the region [where they will be implemented].... They [the programs] are misoriented, the benefits do not make it [to the population].”

---

64 See FONCODES website, online, www.foncodes.gob.pe and PRONAA website, www.pronaa.gob.pe
65 “Para nosotros, el distrito es el espacio estratégico.” Interview on June 3rd, 2003 in Lima.
66 Actually only 17 respondents elaborated on this issue, 13 of which were supportive and 4 of which were against the transfers to districts. Many suggested that the municipal provincial level would have been a more adequate level for these transfers.
67 “Los programas sociales son digitados desde Lima con desconocimiento de la región, manejados por ignorantes de la realidad de la región [donde serán efectuados]... Están [los programas] mal orientados, no llegue el beneficio [a la población].” Interview on July 17, 2003 in Puno with a professional.
The transfers of these programs began in October, after an accreditation process. Through a supreme decree, the central government officially started the transfer of 7 MIMDES programs to 241 district municipalities and 67 provincial governments. These governments had fulfilled the requisites set by the CND for their approval. The programs include 4 from FONCODES and 3 from PRONAA and their fiscal decentralized administration is scheduled for January 1st 2004. Until then, governments will receive funds earmarked for specific project areas for the rest of the year. For example, FONCODES will allocate 301 infrastructure projects corresponding to the “Rural Work” (“A Trabajar Rural”) and “Improving your Life” (“Mejorando tu Vida”) programs to district municipalities. These projects include wastewater management, electrification, classrooms, roads, bridges and health care centres.

The sum of 46,158,010 New Soles will be transferred shortly to ensure municipalities can implement the projects before the end of the year. Of the 1588 municipal districts the program attends, 241 districts will receive transfers. The chosen local governments are responsible to set up management committees (Comités de Gestión) within 30 days of the transfers. The committees will be integrated by representatives from local organizations such as communal kitchens and mothers’ clubs members to ensure the accountability and transparency of their local governments. Other municipalities will be able to receive new responsibilities for social programs as long as they meet the accreditation requirements.

Similarly, the popular kitchens program (Comedores Populares) and Food for Work and Housing (Alimentos por Trabajo y Hogares y Albergues) PRONAA programs are transferred to 67 municipal provincial governments that have successfully complied with the CND’s requirements. Road maintenance programs from the Transport ministry are also transferred to

---

*Presidente Toledo firma decreto que transfiere proyectos de FONCODES a 241 distritos, FONCODES website, on-line, [http://www.foncodes.gob.pe/noticias/146.asp](http://www.foncodes.gob.pe/noticias/146.asp)*
municipal provincial governments. The total amount of these programs, including the FONCODES infrastructure projects comes to 71,437,941 New Soles.69

3.4. Third Reform: Fiscal Decentralization

More than 71,437 million New Soles will be transferred to regional and local governments through social programs in the MIMDES-led initiative.70 Through FONCODES and PRONAA programs, resources will be transferred to 67 provincial municipalities and 241 district municipalities. Also, through the same decree, the central government allocates 18,825 million New Soles to local governments from the Arequipa, Ayacucho, Apurimac, Tacna, Moquegua and Puno regions by transferring public works from the Organization for the Rebuilding of the South. Regional governments receive transfers as well; the Ancash, Cajamarca, Ica and San Martin regional governments will receive 192,655 New Soles to repair and upkeep roads with a Transport and Communications Ministry program (Ministro de Transporte y Comunicaciones). For the transfer of these resources, the respective government levels had to pass the relevant CND accreditation process. The provincial mayor of Huancayo, speaking as representative of provincial mayors in the CND, declared, “...that they wish that the myth according to which local authorities and the national government are separated be ruptured.”71

For regional governments, their current budgets are based on the Regional Administration Transitory Committees budgets (or CTAR, the regional entities created under Fujimori to replace the regional governments). Municipal governments will however benefit

---

69 PRONAA transfiere programas de complementación alimentaria a primeros 67 municipios provinciales, on-line. http://www.pronaa.gob.pe/
71 “...que desean que se rompa el mito según el cual las autoridades locales y el gobierno nacional están separados.” Mandatario firma decreto de transferencia: Transfieren programas sociales por mas de S/.71 millones.
from a substantial increase starting in 2004. Municipal budgets currently make up 4% of the public sector budget. With the 2003 municipal law, the portion allocated to local governments will be raised to 6% for 2004, and then will incrementally reach 12% in 2008. For this year, the municipalities remain with the same budget, but for 2004 they will see it increased by 50% of its actual amount, which is considerable for local governments.72

3.5. Subnational Level Dynamics in Southern Peru

With decentralization reforms undertaken all across the country, the nascent process in Southern Peru provides insights into the challenges facing reformers nationwide. They grapple with numerous competing interests, weak parties and the predominance of independent leaders, as well as a fragmented civil society. For example, a chasm between development priorities of regional governments and civil society organizations, controversy over the competition for regional directors and on the election of the Coordination Committees' members reflect the difficulties of the practical implementation of decentralization reforms. This section discusses these obstacles as they arise in Arequipa, Cusco and Puno and their implications for the momentum of the sequences of reforms. A culture of “Pepe, the savvy one” (“Pepe, el vivo”) exists in Peru, which is summarized by finding ways in which one can benefit from the state, taking advantage of its resources for one's personal benefit while it is possible. An overwhelming majority of interviewees believed that mere personal and family interests drive their politicians, while a small part also acknowledged territorial and partisan interests. Territorial interests prevail at the municipal levels as mayors and regional presidents struggle to improve the lives of their constituents. Partisan interests seem to dominate in regions governed

---

72 See Municipalities' Organic Law section XIII, chapter IV, article 166, 6th par., and an interview in Puno, on July 17, 2003, with an official from the municipal provincial government.
by the APRA party (although personal interests remain key), but partisan affiliation is mostly absent in other regions where independent candidates lead the regional governments.

Arequipa’s regional government was the first to comply with the CND’s requirements for the approval of its development plan. Among the top priorities of Arequipa’s development plans are a chairlift to the Misti, a nearby volcano, and the upgrading of the local airport to international standards to serve as an alternative gateway to Lima. Many sectors of civil society denounced these priorities, when nearby provinces have more pressing needs, lacking basic necessities and infrastructure. Few avenues exist for participation and dialogue among citizens and politicians despite recent efforts by the Mesa or the creation of the CCR. The outreach of the Mesa de Concertación’s work seems to be limited to its members: very little diffusion of the discussions and agreements is done. Also, the composition of the new Regional Coordination Committee excludes the Arequipa Chamber of Commerce and Industry and the Asociación de Urbanización Popular de Arequipa (AUPA), two organizations with tremendous experience and knowledge about decentralization and regional development.

In Cusco, the Mesa along with the CTAR led a process where a development plan was done with numerous organizations from civil society. The regional government at first rejected the participatory plan, wanting to elaborate its own. Nonetheless, pressure from the organizations that designed the plan compelled the government to accept it. The regional president, Carlos Cuaresma, publicly endorsed the plan and declared that his government would work along the plan’s priorities. What is taking place now seems to be just the opposite. The plan was accepted, praised and then set aside while the regional government worked along its own agenda and interests.73 There were also conflicts in the competition for regional directors. Manipulation occurred in the health competition.74 The CND intervened declaring the contest

73 Interview in Cusco, on July 18, 2003 with an NGO member.
74 Interview in Cusco, on July 19, 2003 with an NGO member.
It thus played the role of an arbitrator in the dispute, surpassing and undermining the authority of the regional government.

In Puno, a few key issues unite regional interest such as the hydroelectric central of San Gabán, the inter-oceanic highway project, and the decontamination of Lake Titicaca. Jiménez also promoted the need to preserve the genetic background of Puno’s lamas, alpacas and vicuñas. By banking on these common themes, territorial interests become salient for political leaders. In 2002, the Mesa led the elaboration of a regional development plan, concerting with prominent members of civil society organizations. The plan was completed and presented to the regional government, which did not recognize it. Instead, the functionaries of the regional government, without the population’s assent, devised a new plan. The regional government plan established different priorities than the Mesa’s participatory plan. For instance, the regional government focused on recuperating the genetic capital of its alpaca population while the Mesa promoted agro-industry activities as a whole. There was thus a drastic divide and apparent rivalry between the Mesa and the regional government.

Moreover, a large section of the population ignored what the decentralization process entails and its potential to improve the development of the region. The ‘vivo’ culture is very much present as a Puno academic pointed out: “In peasant communities, the politicians’ vices are being reproduced. People say, ‘We must get money out of the government.’ They think along a short-term vision.” A student council’s representative at the university highlighted the importance of beginning with the decentralization of education and the reform of that sector. He also suggested that the CND open a regional office in Puno, to better promote its

75 Interview on May 28, 2003 with a regional president in Lima.
76 “En comunidades campesinas, se están reproduciendo los vicios de los políticos. La gente dice, ‘Hay que sacarle plata al gobierno.’ Piensan con una visión de corto plazo.” Interview in Puno with an academic on July 13, 2003.
role and the decentralization process.\textsuperscript{77} This would help increase its visibility and spread information about the decentralization process.

Members of the Puno Coordination Committee were elected in early July. The National University of the Altiplano, a theoretically crucial actor in regional development, failed to register its candidacy in the elections. This is unusual as the university is reputed as the principal area for partisan and technical political debates (Diez Hurtado 2003: 18). The lack of a participatory culture and communication between the various institutions is thus clearly illustrated. In the elections, the Coordinadora Rural, a producers' association, was elected among other farmers' productive organizations. Qualified organizations were left out of the CCR as a result of the elections, but the democratic process reflected the citizens' preferences. Another criticism of the low civil participation was shared by a member of the Mesa, describing his experience in drafting the 2002 plan:

Civil participation: there was none. It is only to legitimate the government that civil society was called upon. The only thing that we did in Puno was to correct terms, the semantics. Every participant of the workshop signed the final report. This document was sent to the CND and the international community. There is no co-government between civil society and the government. I had said a comment on the theme of energy, and it was in the report, but after it was not in the report for Lima.\textsuperscript{78}

Experiences like this one reflect the challenges that lie ahead, in creating a more inclusive, participative and transparent society.

3.6. A Daunting Task: Challenges Ahead

One of the main challenges to face this process will be the formation of macro regions by uniting two or three of the actual regions, as some of them are unviable entities due to their

\textsuperscript{77} Interview with a student in Puno, on July 16, 2003.

\textsuperscript{78} "De la participación ciudadana, no ha sido tal. Es simplemente para legitimar el gobierno que la sociedad civil fue convocada. Lo único que hemos hecho en Puno, fue corregir términos, la semántica. Todos los participantes de talleres firmaban el informe final. Esos documentos han ido al CND y a la comunidad internacional. No hay
small size and limited revenues. The designing of territorial delimitations usually generates conflict between numerous opposing interests. In 1987-1990, during the regionalization experience promoted by Alan Garcia’s government, the territorial delimitations of the regions caused much controversy and considerably slowed down the process. By starting the actual process on the basis of the departments, which total 25 (including Callao, the constitutional province) in a country smaller than the Canadian province of Québec, a complex situation was brought forth (Canada At A Glance and World Factbook). Regions with a low urban population lack the markets necessary to attract state and private investments. An amalgamation process led by the CND was planned to begin shortly after the political reforms, but was reported to an undetermined date.

With every region now possessing its own regional government and bureaucrats, wielding political power, it will become very difficult to convince for example, the region Tumbes to annex itself to its more powerful neighbour, the Piura region, or for Madre de Dios to attach itself to Cusco, when traditional rivalries, distinct ethnic groups and the reluctance to cede power will be obstacles to the process (see Appendix I for a map of Peru, page 87). The same difficulties as under García’s initiative are likely to arise regarding the regional capital’s location, the union of richer departments with poorer ones, and the fact that some level of identity with the department exists historically (Contreras 2002: 28). Peru’s high degree of ethnic heterogeneity may ultimately create many tensions in this process.

Another important challenge lies in the concentration not only of material resources in Lima, but also of social capital, in other words, of qualified professionals, who have emigrated for decades to the capital in search of better opportunities. As Contreras states, this factor significantly constrains the subnational institutional capacity: “...decades of emigration of its co-gobierno con la sociedad civil y el gobierno. Yo había dicho una parte sobre el tema de energía, y estaba en el informe, pero después no estaba en el informe para Lima.” Interview in Puno with an academic, on July 13, 2003.
best professionals, on top of the levelling Agrarian Reform of the seventies, have beheaded regional societies. Today there are no other elites than university professors, a few nongovernmental organizations’ professionals (generally in a transition situation only) and weak merchants and small entrepreneurs (Contreras 2002: 30).”

New elites arise slowly, and cannot be improvised following the new laws.

With clientelistic relations ever present and a plethora of diverging interests, the reforms turn out to produce a low level of change in the intergovernmental balance of power, an outcome dramatically different from official discourse and expectations. The maintenance of the momentum of reforms is thus fragile, as the numerous obstacles along the way constantly threaten the political will of reformers and challenge them to appeal to their societies to unite in a common effort to promote decentralization reforms. When asked to speculate on the future of the decentralization endeavour, respondents showed their scepticism regarding the momentum of the current process. The perception of interviewees reflects to a large extent their territorial affiliation. The next two figures show the responses of Lima residents and subnational residents regarding the near future of decentralization. Sixteen respondents chose not to answer the question.

Québec covers 1,500,000 sq. Km versus Peru’s 1,285,220 sq. Km.

"Otro de los obstáculos para la transición al estadio descentralizado, es que décadas de emigración de sus mejores cuadros, más la aplanadora de la Reforma Agraria de los años setenta, han descabezado a las sociedades regionales. Hoy no hay en ellas más élites que los profesores universitarios, algunos profesionales de los
Interestingly, more Lima residents thought a reversal of decentralization possible, perhaps reflecting their vivid recollection of Fujimori’s abrupt halt of decentralization in the early 1990s. The Lima-based politicians involved in the process all answered negatively with some specifying unless a dictator seized power. The subnational population was evenly split on the issue as is shown in the following figure.
In Puno, when asked about the issue, a large number of respondents said, "There currently exists a movement generated by the major economic interests from Lima that could threaten decentralization. The government does not possess the will to decentralize, it has to deal with much bigger problems."\(^{81}\) A few others, particularly in Arequipa, however noted that, "In the provinces, we are all sure that we need decentralization and in Lima, they are developing that conscience."\(^{82}\) The next figures depict the answers of respondents on the central government’s will to decentralize. By comparing the two figures, the slightly higher number of Lima residents believing in the strength of the executive and the national coalition’s political will sharply contrast the scepticism of subnational residents about the centre’s genuine political will to decentralize.

\(^{81}\) “Existe en actualidad un movimiento que está generado por los grandes intereses económicos de Lima que podría actuar en contra de la descentralización. El gobierno no tiene la voluntad de descentralizar, tiene problemas mucho más fuertes.” Interview with a professional in Puno, on July 17, 2003.
Figure 3.3. Perception of Respondents From Lima About the Central Government’s Will to Decentralize, 2003

(Is the political will behind the initiative strong enough to maintain the momentum necessary for the decentralization process to occur?)

Figure 3.4. Perceptions of Residents From Arequipa, Cusco, Huancayo and Puno About the Central Government’s Will to Decentralize, 2003

(Is the political will behind the initiative strong enough to maintain the momentum necessary for the decentralization process to occur?)

These figures explicitly display the interviewees’ uncertain vision for the fragile decentralization process. The diffusion of information is a key element to strengthen the

---

82 "En provincias, todos estamos seguros que necesitamos la descentralización y en Lima, desarrollan esta..."
initiative, by educating the population about the process and engaging Peruvians in shaping the reforms in participatory instances. Decentralization is seen by many interviewees as a way to address the distrust of state institutions by reaching people at the lowest level of government and providing democratic avenues to its citizens. However, many feel as a regional president put it that, "The government is now confusing the urgent and the important. The urgent thing for the government is to survive politically. Between survival and decentralization, it chooses political survival. The important thing is to decentralize."  

3.7. Conclusion

By describing and analyzing the sequences of reforms and the coalitions driving the decentralization process, I explain the low change that the process produced in IBOP. The presence of a reactive feedback mechanism between the political and administrative reforms is particularly interesting since Falleti had not encountered this type of feedback effect in her case studies. Based on my 93 interviews, this chapter offered an insider’s feel to the decentralization initiative, by piecing together the various pieces of the puzzle created by the reforms. The next chapter analyzes the sequences and reforms, drawing out larger conclusions about the outcomes of decentralization processes and democratization.

---

Chapter Four

Conclusion: Sequences and Civil Society Participation

The tragedy is that Toledo hurried up in the decentralization process, and that the result is a disordered process; in practice, the process is like creating a Frankenstein.84

Fiscal decentralization, political participation and democracy are processes that complement and strengthen one another, whether as a cause or as a consequence... (Afonso and Lobo in Luders and Robio 1999: 246).85

4.1. Introduction

The current Peruvian decentralization process is slowly reshaping the intergovernmental balance of power. The sequences of reforms, political, administrative and fiscal, reinforce Falleti’s theory that they would produce a low to medium degree of change in the balance of power between the national and the subnational governments. This case significantly increases the reliability of Falleti’s framework as the logic of her theory stood up to the application to an entirely new case with a sequence that was not previously tested in her work. The analysis of the sequences of reforms and the nature of the coalitions explain the degree of change in the intergovernmental balance of power as a result of decentralization processes. The clientelistic nature of relations between the centre and local governments is important in order to assess the potential impacts of decentralization to Peru’s democratization. Civil society participation, as entrenched in the decentralization legislation, invites citizens to take an active role in their local and regional governments.

While no direct relation between decentralization and democracy is established in the literature, I argue that strengthening civil participation mechanisms generates new avenues for a population to voice its concerns, thus opening a greater degree of political representation to

84 “La tragedia es que Toledo se ha apurado en el proceso de descentralización, y el resultado es que el proceso está en un desorden, en la práctica en el proceso es como armar un Frankenstein.” Interview in Lima, with an NGO member on May 30, 2003.
85 “La descentralización fiscal, la participación política y la democracia son procesos que se complementan y fortalecen unos a otros, ya sea como una causa o como una consecuencia...”
citizens. In many regions of Peru, a participatory culture is absent and will take time and dedication to develop. Education programs, workshops, and the promotion of decentralization with information campaigns will positively affect the lives of Peruvians. Even if decentralization only occurs to a low level, this reform initiates a restructuring of the state apparatus and favours regional and local development to a small degree. The failures of previous decentralization reforms throughout the twentieth century confers even more clout to the present process for breaking the mould and transferring some degree of power outside of Lima. This chapter discusses these achievements and raises new questions that lie ahead for reformers and Peruvian citizens.

4.2. Sequences and Coalition in Peru

Of course, long-held centralist traditions cannot be reversed from one day to the next, and the decentralization process will be a lengthy one. One of the more promising aspects of the actual decentralization process is that it emanated from a genuine popular demand. With isolated subnational movements calling for decentralization in opposition to Fujimori’s rule, the issue generated consensus at the subnational level and became a central issue in the 2001 presidential race. Reforms were bound to begin on a strong note to appease subnational demands and bring popularity to the newly elected government. In the electoral campaign, Toledo sold his image as that of a true decentralist, even more than García, promising to initiate decentralization should he be elected. As an alternative explanation, Tanaka argues that decentralization became highly politicized as each candidates raised its banner in an attempt to raise more votes, while at the same time, projecting its image from ‘the top’, instead of taking the inputs from ‘below’ (Tanaka 2002: 22). This explanation does not account for the subnational demand for decentralization.
By calling for regional elections on the day of his proclamation, Toledo effectively committed his government to decentralize politically first and foremost, when this should be the last of the executive’s preferences according to our theoretical framework. Subnational opposition to Fujimori, as well as Toledo and his party Perú Possible allied to form a mixed coalition that could be used as a springboard for political reform and would garner support for the 2001 presidential election. The logic of the framework holds up in the other cases examined by Falleti. Perú Possible party members rallied opposition party members in the national Congress to drive the legal reforms. The mixed coalition with prevailing subnational interests was efficient as Toledo desperately searched for the voters’ approval and longed to distinguish himself from Fujimori. As seen in the congressmen’s survey concerning the importance of decentralization, the issue was widely perceived as popular across the country. By appeasing claims for decentralization, Toledo and his party hoped to gain political legitimacy. With the formation of new regional governments, Toledo also assured that some of the claims and tensions would be directed to these units rather than to his national government.

With election results giving the APRA 12 regional governments, and Perú Possible only one, a serious governance problem was looming on the horizon. Such results likely arose out of the population’s discontent with Toledo’s government. Both party leaders were already positioning themselves for the 2006 presidential elections; the regional governments suddenly became an APRA stronghold that could either promote the official opposition party or dampen its 2006 electoral prospects. The regional governments’ law was modified after the election results, thereby reducing their power. The central government’s hand was at play, protecting its interests. The new municipal law published in June 2003 attempted to strengthen municipal governments. After the first round of reforms, if a policy ratchet mechanism had occurred, the new stakeholders, namely mayors and regional presidents, would have promoted their subnational interests by bargaining for fiscal reforms that would grant them resources. A
realignment of actors’ interests, as a result of a reactive policy feedback mechanism, produced a new coalition between the ruling and opposition parties at the national level to ensure that the national interests would oversee the decentralization.

Political electoral incentives play an interesting role in determining the administrative transfers’ priorities. Indeed, the transfer of social programs directly to the municipal levels (whether to provincial or district municipalities) illustrates the central government’s intention to support and build political allegiances in the municipalities, bypassing the regional governments. In addition, to ensure its governments’ performance, the APRA created the NGO Proregiones to offer legal and administrative advice to its regional governments. An independent candidate also joined their ranks, seeking the NGO’s support. So far, the regional governments’ main request has been for more resources from the national government with the APRA adopting an opposing and critical stance toward government policy-making.

The administrative and fiscal reforms are linked by a power reproduction mechanism, for the national coalition strengthened its position and imposed the framework for the new reforms. Executives in the Ministry of the Woman and Development in coordination with CND officials organized the transfer procedures for social programs. By funding administrative reforms, the executive attempted to address the subnational claims for more resources. With the promise of a gradual increase of municipal budgets up to the year 2012, the central government appeases them to the detriment of the regional governments still trying to do more with only the CTAR budgets. The strategic political incentives for decentralization in light of the imminent 2006 presidential elections play thus an important role in shaping the interests of politicians involved.
4.3. Assessment of Peru’s Decentralization

After the initial steps of the decentralization process, a small degree of change is taking place, favouring subnational governments. Disorder and chaos however dominate the development of the process, but the strengths of the endeavour are noteworthy. First, gradual decentralization is underway, and regional presidents were democratically elected. This is a major accomplishment in itself in an extremely centralized country like Peru, particularly considering its recent democratic transition following Fujimori’s dictatorial rule. Second, civil society participation mechanisms are granted in the laws, thus protecting the new avenues opened to Peruvians for voicing their opinion on their local and regional politics. Third, a collective demand for decentralization exists in the provinces outside Lima and a strong desire for their regional development surges in most of the population.

Many weaknesses plague the endeavour as well. First of all, the lack or little amount of resources impedes the work of subnational governments and prevents them from answering the pressing needs of their population. The poverty levels in Peru call for urgent action at all government levels. Secondly, administrative responsibilities are being gradually decentralized, with a few infrastructure and social programs transferred to only a few accredited subnational governments. These include the FONCODES and PRONAA social programs to the municipalities, and larger infrastructure projects at the regional level. Subnational governments are still effectively dependent on the prior approval of Lima officials for many of their decisions. Thirdly, there exists a lack of information about the decentralization process, its objectives, how it fits within the nation’s development and its potential benefits for local populations. These restrict the participation and involvement of populations ignoring their rights as citizens and the opportunities offered by the process. Numerous expectations are raised at the same time, as people view the endeavour as a solution to all of Peru’s social and economic ills. Fourthly, the fragmentation of interests weakens negotiations between the main
actors involved. The dispersion of the electoral vote reflects the fragility of regional
governments and their weak social base. At the same time, this dispersion may also favour
discussion that could eventually lead to shared visions between numerous small actors.\textsuperscript{86}

Competing opinions exist on the development of the process, some being very critical of the
disorder and lack of leadership plaguing it, leaning toward the idea of a Frankenstein being
born; others are strikingly optimistic. On the one hand, as Tanaka critically states,

Unfortunately, after very little time it was possible to verify that the ongoing
decentralization does not respond to any plan, and for that, ended up being
very disorganized; also, it establishes a series of incentives for the relative
reactivation of regional actors with little representation and without articulate
proposals, that express themselves with pressures and strong protests toward a
government without a more responsive capacity and with every time less
popular support. For this, if rightly the process may be an opportunity to
democratize the political system, as well it is a serious challenge to its
governance, possibly deepening even more the fragmentation of social actors
and politicians, and deteriorating more the precarious bases that sustain
president Toledo (Tanaka 2002: 5-6).\textsuperscript{87}

On the other hand, arguments that regional governments relieve pressure from the central
government and that popular participation is increasing paint a different picture of the process.
A combination of a few strengths and many weaknesses paints a grim picture for the future of
decentralization in Peru. However, the halt of the decentralization process is seen as
improbable by a small plurality of interviewees (36 versus 31), unless an authoritarian president
came to power.

Now, I turn to the outcomes of reforms for subnational populations, considering centre-
local relations. The presence of strong caudillo-style leaders (the appellation of local bosses in

\textsuperscript{86} Interview with an NGO member on June 12, 2002, in Lima.
\textsuperscript{87} "Lamentablemente, después de muy corto tiempo se pudo comprobar que la descentralización en curso no
responde a ninguna planificación, por lo que ha terminado siendo muy desordenada; además, establece un conjunto
de incentivos para la reactivación relativa de actores regionales poco representativos y sin propuestas muy
articuladas, que se expresan en presiones y protestas frente a un gobierno sin mayor capacidad de respuesta y con
cada vez menor respaldo ciudadano. Por ello este proceso, si bien puede ser una oportunidad para democratizar el
sistema político, también es un serio desafío a la gobernabilidad del mismo, pudiendo ahondar aún más la
fragmentación de los actores sociales y políticos, y deteriorar más las precarias bases sobre las que se sostiene el
presidente Toledo."
Latin America), operating in clientelistic relations, may impede reforms from actually reaching the people for which they were designed. Hutchcroft points to the negative role caudillos may play in appropriating power intended for local and regional levels for self-gratifying purposes. He stresses the need to be acutely aware of existing centre-local power dynamics prior to attempting an alteration of these power relations. He is concerned with potential damaging effects of decentralization reforms for a country’s democratic regime if authority is devolved to local caudillos (Hutchcroft 2001: 33). Moreover, the far-ranging extent of decentralization reforms calls for examination of political and administrative issues, regional and local distribution of economic activity, ethnic identities and cultural ties, as well as relations among diverse ethnic groups (Hutchcroft 2001: 24-25). In a country as culturally and ethnically heterogeneous as Peru, this argument acquires utmost resonance.

In Peru, local caudillos have seen their authority shaken during urbanization, but generally they have retained some control over their territory. When regionalization is realized, the process may strengthen their power base, but would increase popular involvement in government, counterbalancing the negative effects of stronger caudillos. Endemic corruption is one of the prominent causes of state inefficiency. For example, in 2000, an immense corruption network was uncovered triggering ex-president Fujimori’s downfall. As a tiny example of this wide web of corruption, close to 1,900 million US dollars were used in the fraudulent acquisition of arms (Ortiz de Zevallo and Pierina Pollarolo 2002). This example was orchestrated by the central government, but replicas on a smaller scale occur between caudillos and their clients. The presence of both local strongmen and entrenched corruption practices often impacts the behaviour of individuals involved in the decentralization processes to the detriment of democracy and accountability.
4.4. Civil Society Participation

The provisions for citizens' participation in their local and regional governments are far-reaching. These include the elaboration of concerted development plans and participatory budgetary priorities as well as the participation in Local and Regional Coordination Committees (Follegatti 2002). These mechanisms are particularly necessary, as they will ensure the formation of new leadership at the local and regional levels. The remaining concern is whether these mechanisms are effective in giving a voice to the marginalized and ensuring a higher level of responsiveness to the population's needs. Oftentimes, a lack of adequate information, in local capacities and a reticence to share power from local authorities lead to nonparticipatory development plans and budgets. This instance has proved so acute that numerous municipalities, and the functionaries of the regional governments, hired consultants to design both plans and budgets for them. Once the plans are sent to the CND, an arduous and time-consuming accreditation process begins. Most often, the plans are rejected the first time and the community is told which adjustments to make. Once the plan is approved by the CND, the members of this institution are in charge of 'actualizing it,' improving a report of inputs from every district of a province, and every province of a region. In the end, civil society participation often proves to be minimal.

The Local and Regional Coordination Committees, formed with members of the respective government level and elected members of various organizations, allow citizens to question the actions of their governments, holding them accountable to their constituency. However, civil society representatives form only 40% of the committee, a very small amount particularly in populous regions. Moreover, as a result of the short deadlines to submit a candidacy and the lack of information about the candidate institutions, many qualified professional organizations were not included in the Regional Committees, such as the flagrant omission of the Chamber of Industry and Commerce in Arequipa, or of the National University
of the Altiplano in Puno, both institutions involved in regional development. Associations of local producers, some barely complying with the three-year institutional affiliation requirement, won the elections in these cases. Although these are two isolated cases out of 25 regions, they represent the danger of marginalizing qualified people from an important consultative process. The committees are also limited in their roles as they meet only twice a year or under emergency situations and are strictly voluntary commitments from their members.

The Roundtables in the Fight Against Poverty are also a potentially important player in the decentralization process. When a network of roundtables was set up throughout Peru, the initial hope was that they could provide spaces for discussion, conflict resolution, and new proposals. Unfortunately, most often, only a few actors are present, thus converting the Mesas into mere coordination or planning instances between similar actors rather than fostering discussion between different actors, namely the state and civil society. Even though their initial role was transitory only for the duration of Paniagua’s government, the Mesas have remained and sought to rejuvenate their mandate, finding a new direction with the decentralization process. What exactly is their role? In numerous regions, they have joined local civil society actors and have led participatory processes for the elaboration of regional development plans. Yet, it appears that much of their initial credibility has now been lost due to their inefficiency in yielding concrete results in the application of the plans. Their lack of financial resources and their frequently conflictive relations with the local authorities impede their actions.

The criticisms directed here go beyond the Mesa and to the heart of deliberative democracy and participatory development. Although creating an interesting and innovative environment, instances of deliberative democracy may lead to endless debates without any practical relevance or action plan, while participatory development approaches with a narrow focus on the local community, may encounter resistance from the very “locals” they sought to
include.⁸⁸ Professional qualifications in highly technical projects are often necessary when deliberating, restraining the amount to which the general populace can provide an informed opinion. The importance of having access to adequate information is crucial in order to make informed decisions. The sheer level of poverty in Peru, pushing the peasants and their families to engage in a daily struggle for survival also tremendously impedes their capacity and time to participate in participatory workshops. However, the discussion of issues of national importance in the public realm remains crucial to raise popular interest and involvement.

4.5. Review of Sequences

Falleti’s theory is by far the most useful in guiding my analysis of decentralization reforms in Peru with its insights regarding the sequence of reforms and coalitions leading them. Political reforms, instated by a mixed coalition with prevailing subnational interests made up of the government’s party and subnational mayors and their association (AMPE) supported by a general popular demand, initiated the decentralization endeavour. A reactive mechanism triggered the formation of a national coalition between Perú Possible and the opposition parties to promote administrative reforms. The executive, the CND, the MEF and the MIMDES are involved in the transfers. Training workshops, public debates and technical support are offered by the CND, in addition to accreditation. This accreditation process exemplifies the centre’s reluctance to transfer resources to unqualified and unprepared persons, preempting the possibility of aggravating already high corruption levels. As a result, central government officials tend to favor administrative reforms over fiscal ones as the second step of decentralization.

⁸⁸ See Sanders 1997, and Vincent 2003, for respective critiques of deliberative democracy and participatory development approaches.
In terms of strict fiscal decentralization, funded administrative transfers are taking place while an increase in municipal budgets is planned for January 2004. Further reforms may be integrated as part of a national tax reform in the next few years, likely to be dominated by a national level coalition. The national regional presidents' and mayors' associations may yield some leverage in the negotiations as they solidify their positions. For instance, regional leaders have publicly denounced the lack of sincere commitment by the central government to the reform process. Should they be able to channel public discontent with the current president and present clear demands, their political pull could become significant in their negotiations with the central government and another reactive mechanism could be triggered, strengthening subnational actors' weight over the national coalition.

Overall, the decentralization process is somewhat disorganized, although dedicated individuals to carry it out abound, making a difference in their political and social environments. After close to a year, a long-term strategic vision as part of a national development plan was formulated by the CND. The new avenues for participation will incrementally increase citizens' representation in their local and regional governments. They should appease their demands as subnational politicians gain more power. The expected result would be higher popular acceptance of their governments, favouring democratization with the protection of political rights and freedoms of citizens. The Coordination Committees should also increase democratization even if only slightly by increasing the accountability of their political leaders.

Nonetheless, serious impending threats may challenge Peru's democracy. In fact, Cotler argues that,

...[T]he weakness of social organizations, the fragmentation and extreme doubtfulness of political parties and their extreme weakness, as well as state

---

privatization conspire against the expression and institutional canalization of these demands and of the capacity to attend them with some degree of efficiency. These results contribute to discredit democracy (Cotler 2003: 15). 90

Although the rounds of reforms have endogenous effects in the evolution of the decentralization process, contextual factors influence the interests of reform bargainers and may go as far as to truncate the sequence of reforms as did Fujimori. Relevant exogenous factors in Peru include first, the strong centralist tradition; second, the degree of political commitment by Toledo that will be brought to the test as opposition groups to decentralization arise; and third, the national political and economic contexts. The current economic context is relatively favourable to reform initiatives because of a period of economic growth with controlled inflation levels. Arguably, the resurgence of the APRA as a major political force in the elections’ aftermath is a good sign for Peruvian democracy. 91 The rebuilding of Peru’s political parties, essential to its democratic regime, is crucial and may slowly already be underway.

4.6. Conclusion

Despite the previous unsuccessful attempts, the current decentralization process gradually allowed for more autonomy at the municipal and regional government levels. Political decentralization augured well for the relative autonomy of subnational governments, granting them recognition as separate governmental entities. However, the slow transfers of both responsibilities, resources, and the complexity of the task bring about a plethora of criticisms. The sequence of political, administrative, and fiscal reforms allows for a low to medium level of change in the intergovernmental balance of power according to Falleti. Her

90 “Pero la debilidad de las organizaciones sociales, la fragmentación y la dudosa extrema de los partidos políticos y la extrema “debilidad”, sino la privatización del aparato estatal conspiran contra la expresión y canalización institucional de esas demandas y de la capacidad para atenderlas con algún grado de eficacia. Estos resultados contribuyen a desprestigiar la democracia.”

theory also outlined that when funded administrative reforms occurred in this sequence, a medium degree of change was likely to take place. In Peru, a low degree of change was produced by the reforms, because of the few administrative reforms transferred, even if these were funded.

But this low degree and slow change are significant. Gradually, a mature decentralization process, where the relative power of subnational governments has increased with regards to the national one, will emerge despite the contradictory forces. Assumptions that decentralization merely hands down power to local strongmen warrant further investigation at the local and regional levels. The presence of caudillos amidst a centralized system suggests their resilience in either case. The chaotic nature of some of the reforms and the obstacles such as the lack of leadership, the endemic corruption, the low levels of education and skills as well as the disregard for participation opportunities constitute some key elements potentially slowing the initiative.

Falleti’s theory proved remarkable in explaining the Peruvian decentralization process. This thesis is framed by Falleti’s model, and thus offers a measure of the degree of change in IBOP before and after decentralization reforms in Peru, outlining the coalitions at play throughout the sequences of reforms. I tested a sequence that Falleti’s cases did not address and uncovered a policy feedback mechanism, the reactive mechanism, which was not found in her sequences. I also proposed the following amendment to Falleti’s theory. When new stakeholders and political leaders are created through political reforms, should the subnational expertise in budgeting and administrative management be lacking, a transfer of administrative functions would be preferable to fiscal reforms. Even though fiscal reforms would introduce a higher level of change in IBOP, the learning process facilitated by a gradual administrative reform may be necessary to ensure the smooth transition of responsibilities and later on, of
resources. This was certainly the case in Peru where a strong clientelistic tradition impeded the allocation of fiscal resources without accountability mechanisms.

In short, this thesis contributes to the literature on decentralization by illuminating a recent and ongoing case of decentralization and focusing on the political aspects underlying the dynamic sequences of reforms and the coalitions formed to promote them. Based on my extensive field research and more than 90 interviews, I reconstructed the coalitions and sequences driving the decentralization process in Peru. I analyzed the roles of key actors in the initiative, and provided unprecedented insiders' insights from Peruvian protagonists and observers of decentralization. By providing a better understanding of decentralization, I hope this study will offer guidance to politicians and other actors involved in the Peruvian decentralization process. Studying factors influencing decentralization is extremely relevant in Peru today due to the renewed efforts under President Toledo to shift the distribution of power toward subnational governments and in light of the global trend in this direction. Local and regional governments may thus slowly be able to better respond to the needs of their population, especially if the administrative and fiscal reforms allocate them higher levels of authority and a larger share of the national budget. This conjunction of reforms will likely promote regional development and increased quality of life. In the near future, it will be interesting to observe the direction taken by the ongoing decentralization process and to monitor the sorts of new coalitions formed and the effects reforms bring forth.

When conceptualizing decentralization processes in various countries, Falleti's theory is extremely useful to unpack the sequences and coalitions at play and to clearly identify the actors striving for power. Comparativists are often exhorted to expand the number of cases to show that theories can travel. I have extended Falleti's theory by adding a new case, highlighting the importance of her model for academics and practitioners alike. With her
framework, past decentralization attempts can be better understood, while the theory's probabilistic argument is valuable for ongoing processes, to anticipate the next type of reforms.

Although the model does not address the relationship between democracy and decentralization, the inclusion of civil society participation in decentralization processes alters conditions for democratic government in ways that are not fully captured. A global systematization of the normative implications of decentralization reforms would be an interesting project to pursue. I would suggest that when decentralization includes political reforms and mechanisms to allow for civil society participation, the representation of various groups in the political system is increased. Perhaps, as Diamond claims, by enhancing participation through political reforms, decentralization invariably "deepen[s] democracy" (Diamond 1998: 18).

The Peruvian case study also identifies other factors driving the outcome observed in the model. The existence of local caudillos and their influence in controlling resources is a major concern when analyzing the links between democracy and decentralization processes. Deeply entrenched clientelistic practices are highly likely to affect the reforms' impact on a democracy, as transferred resources and authority are captured by local caudillos. The concentration of power in local enclaves may be detrimental to both the central and subnational governments and the population as a whole. Furthermore, it may threaten a country's democracy as the powers of local lords are strengthened in opposition to the central government, while ignoring the population's needs.

My amendment to the theory concerning the fiscal management capacities at the subnational level implies that when new cases are tested, the subnational officials' knowledge and skills in fiscal management should be examined as a condition prior to fiscal reforms. If that knowledge were found absent or weak, as was the case in Peru, then reformers should implement administrative reforms before fiscal ones, allowing subnational officials to train and
learn to manage administrative tasks in the first place. The vital preeminence of social capital, in other words the "networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit," and its degree of concentration in a country, begs for investigation, including its role in decentralization processes (Putnam 1995: 67).

As a research agenda, it would be interesting to distinguish between types of administrative reforms to test if they produce different effects on IBOP. Comparative analyses of health or education sectors reforms are necessary and could provide a basis to distinguish types of administrative reforms. The development of privatization reforms and their impact on IBOP could offer an enlightening comparison with government’s public sector decentralization. Moreover, the impact of electoral contexts and time horizons on reformers as well as on the timing of the cycles of reforms, would be particularly telling in understanding decentralization processes, and more broadly, institutional change. The influence of institutional reforms on the nature of a regime, in nascent democracies versus well-established ones for instance, has yet to be further explored.
Bibliography


Consorcio de Investigación Económica y Social (CIES) website, on-line: http://www.consorcio.org


Municipal Elections Law, no. 26864, on-line http://www.onpe.gob.pe/infolegal/infole042d.php


Oficina nacional de procesos electorales, ONPE website, on-line. http://www.onpe.gob.pe


Presidente Toledo firma decreto que transfiere proyectos de Foncodes a 241 distritos, Foncodes website, on-line http://www.foncodes.gob.pe/noticias/146.asp

Programa Nacional de Asistencia Alimentaria, PRONAA website, on-line www.pronaa.gob.pe

PRONAA transfiere programas de complementación alimentaria a primeros 67 municipios provinciales On-line, http://www.pronaa.gob.pe/

Proregiones website, on-line www.proregiones.org.pe


Public Sector Budget Law for the Fiscal Year 2003 no. 27879 (Ley de Presupuesto del Sector Público para el Año Fiscal 2003), Peru’s Congress website, on-line www.congreso.gob.pe

Regional Elections Law, ONPE website, section II, chapter 1, articles 5-8, on-line
http://www.onpe.gob.pe/infolegal/infole043a.php

http://www.portaldepartamental.gob.pe/proy/Ley_27867.pdf


Tranferencia del proyecto Majes-Siguas, CND website, August 21, 2003, On-line.
http://www.cnd.gob.pe/newpages/transMS150803.htm


Appendix I

Political Map of Peru

(Microsoft Encarta Encyclopedia 2002)
Appendix II

Variables Employed To Measure The Intergovernmental Balance of Power

To measure “the relative power of subnational executives [regional presidents and mayors] with regard to the national executive” (Falleti 2002: 3) or IBOP, I use variables developed by Falleti. The subnational share of expenditures, policy-making authority, subnational officials appointment and territorial representation in the national legislature represent the four indicators used to measure IBOP. This section explains Falleti’s variables as outlined in her dissertation (Falleti 2002: 345-349).

The subnational share of expenditures or SSE is the percentage of expenditures that regional and local governments administer. The data was taken from the Public Sector Budget Law for the Fiscal Year 2001 (Ley de Presupuesto del Sector Público Para el Año Fiscal 2001), decree no. 909, on the Ministry of Economics and Finance website, http://www.mef.gob.pe/dnpp/leyes/2001/dleg909_lpp2001.doc. The estimates for 2003 were based on the Public Sector Budget Law for the Fiscal Year 2003 no. 27879 (Ley de Presupuesto del Sector Público para el Año Fiscal 2003), on Peru’s Congress website, www.congreso.gob.pe. As Falleti outlines, “If the SSE score is between 0.0% and 19.9%, the value assigned for its aggregation in IBOP is “low.” If the SSE score is between 20.0% and 39.9% the value assigned is “medium”. If the SSE score is 40.0% or higher, the value assigned is “high”” (Falleti 2002: 346)

Policy-making authority or PMA is measured with two indicators, infrastructure projects and social programs. A national authority equals a “low” score, concurrent, a “medium” score, and subnational a “high” score. More specifically, national level responsibility is calculated as (N)= 0, concurrent responsibility as (C)=0.5 and subnational responsibility as (S)=1. “PMA change” is calculated by subtracting “PMA Before” from “PMA After”.

Subnational Officials Appointment or SOA measures if regional presidents and mayors are elected, appointed or elected/appointed. A “high” score is attributed to elected officials, a “medium” score when officials are elected/appointed (as in the case of non-competitive elections), and a “low” score when regional presidents and mayors are appointed.

Territorial representation of interests or TRI is the average of the ratio of the departments’ percentage share of seats (elected in multiple national districts) to the departments’ percentage share of the population. INEI 2002 Population Estimates were used (INEI 2002) in my calculations of TRI. A score of 1.00 shows that seats are allocated according to proportional representation, in other words, the proportion of population in a department. The value “low” is assigned to a score of 1.00, “medium” to a score of 2.00 and “high” to a score of 3.00.

Intergovernmental Balance of Power or IBOP is a cumulative measure of the four elements described above. Scores range on a scale of 1-3, or low to high. A “low” score means that a low degree of autonomy was achieved for subnational officials with regards to the national executive. A “high” score would indicate the large amount of autonomy held by subnational officials and a “medium” score would show the middle ground between “high” and “low” degrees. See Falleti’s Table A.1. for an application of these measures to the cases of Argentina, Colombia and Mexico (Falleti 2002: 11-12 and 345-349). In the Peruvian case, IBOP is “low” before the reforms and “medium” after the reforms because the average of the “low” to “high” rankings for the 4 indicators. The table below illustrates the “low’ to “high” rankings I attributed to the four indicators for the Peruvian case according to their values.
Table A. 1. Explanation for IBOP Measure

<table>
<thead>
<tr>
<th>Variable</th>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Subnational Share of</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditures</td>
<td>M</td>
<td>H</td>
</tr>
<tr>
<td><strong>Policy-Making Authority</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure Projects</td>
<td>L</td>
<td>H</td>
</tr>
<tr>
<td>Social Programs</td>
<td>L</td>
<td>M</td>
</tr>
<tr>
<td>Average PMA</td>
<td>L</td>
<td>M</td>
</tr>
<tr>
<td><strong>Subnational Officials</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appointment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional Presidents</td>
<td>L</td>
<td>H</td>
</tr>
<tr>
<td>Mayors</td>
<td>H</td>
<td>H</td>
</tr>
<tr>
<td>Average SOA</td>
<td>M</td>
<td>H</td>
</tr>
<tr>
<td><strong>Territorial Representation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of Interests</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Congress</td>
<td>L</td>
<td>L</td>
</tr>
<tr>
<td><strong>Intergovernmental</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance of Power</td>
<td>Low</td>
<td>Medium</td>
</tr>
</tbody>
</table>
Appendix III
Interview Questions

Decentralization Process

1) How would you briefly define decentralization?

2) What do you consider to be the key elements in the process of decentralization?

3) What motivated the central government to promote decentralization?

4) Which functions should be decentralized at each of the respective subnational governments (regional, provincial, and district levels)?

5) Which resources should be transferred to those levels?

6) Which taxes should be transferred to those levels?

7) Which are the main strengths of the current decentralization process in its political, administrative and economic aspects?

8) Which are the main weaknesses of the decentralization process in its political, administrative and economic aspects?

9) Could you please describe your organization's (and/or your own) political role? fiscal role? administrative role? (and your responsibilities, when applicable)

10) Have you been involved in other decentralization projects? If so, could you please explain your role in those project(s)?

11) What do you see as the next step in the decentralization process? Do you think it likely or not that there will be a movement against decentralization in the near future in favour of a more centralized government? Is the political will behind the initiative strong enough to maintain the momentum necessary for the decentralization process to occur?

Actors Guiding the Process

12) In Peru, who do you consider to be the most influential players in the implementation process? What are their interests? How are they displayed?

13) Do you think that there are other groups in Lima or in other region that share your viewpoint? Can you name them?

14) What are the principal divergences between the groups? What mechanisms exist for discussion and for conflict resolution?
15) Are there individuals you would recommend I interview? Who would you advise me to interview next?

16) Do you have any other comments that you would like to add?
Appendix IV

Professions and Geographical Location of Respondents

Total number of respondents: 93

Professions of respondents:

- 38 non governmental organization members
- 21 university professors and 1 university student
- 18 politicians and state functionaries
- 15 professionals

Geographical Location of Respondents
(And dates when the interviews were conducted in the summer of 2003)

- 31 Lima (May 28-June 13, June 20-June 26, July 31- August 18).
- 13 Huancayo (June 16-June 19).
- 19 Arequipa (July 1-9).
- 13 Puno (July 13-17).
- 17 Cusco (July 18-24).
Appendix V

Table A. 2. Perceptions of Peruvian Congressmen, 2001

(“Of the following characteristics, which is, in your opinion, the most relevant for the consolidation of democracy in Peru? And in second place?”)\textsuperscript{92}

Source: Tanaka, Martín. 2002: 27.

<table>
<thead>
<tr>
<th></th>
<th>1\textsuperscript{st} Place</th>
<th>2\textsuperscript{nd} Place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decentralization and regional democratization</td>
<td>29.9</td>
<td>22.1</td>
</tr>
<tr>
<td>Consensus on the constitution and basic institutions</td>
<td>27.6</td>
<td>21.1</td>
</tr>
<tr>
<td>Free and clean electoral processes</td>
<td>14.9</td>
<td>15.6</td>
</tr>
<tr>
<td>Democratic values of the citizenry</td>
<td>11.3</td>
<td>14.7</td>
</tr>
<tr>
<td>Civic control of the armed forces</td>
<td>6.6</td>
<td>6.3</td>
</tr>
<tr>
<td>Economic deals between the government, unions and businessmen</td>
<td>5.2</td>
<td>8.6</td>
</tr>
<tr>
<td>An independent Constitutional Tribunal that controls the constitutionality of the laws</td>
<td>4.5</td>
<td>9.2</td>
</tr>
<tr>
<td>The moderation of extremist leftist and right-wing parties</td>
<td>0</td>
<td>2.4</td>
</tr>
<tr>
<td>(N) [Total number of interviewees]</td>
<td>83</td>
<td>82</td>
</tr>
</tbody>
</table>

\textsuperscript{92} “The interviews to Peruvian congressmen were realized between August and October 2001, by the University of Lima and the Salamanca University.”