

LAD CASE STUDY

Administrative Decentralization in Peru

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LAD

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The Leadership Academy for Development (LAD) trains government officials and business leaders from developing countries to help the private sector be a constructive force for economic growth and development. It teaches carefully selected participants how to be effective reform leaders, promoting sound public policies in complex and contentious settings. LAD is a project of the Center on Democracy, Development and the Rule of Law, part of Stanford University's Freeman Spogli Institute for International Studies, and is conducted in partnership with the Johns Hopkins School of Advanced International Studies. LAD gratefully acknowledges support from the Omidyar Network.

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Introduction: Why Decentralize?

After championing decentralization reforms during his 2001 campaign, Alejandro Toledo said in his first speech as president of Peru, “I am from the provinces and am a rebel *with* a cause against centralism.”ⁱ Toledo was the first indigenous candidate to win a presidential election in Peru, and his election symbolized increased political participation to people who were also “from the provinces” or the rural countryside. Immediately following the 2001 election, his administration issued a constitutional reform that gave sub-state authorities more power in public decision-making. Regional elections were scheduled for November 2002, and the newly elected Regional Presidents (*Presidentes Regionales*) and Regional Councils (*Consejos Regionales*) assumed office on January 1, 2003.

Toledo advocated decentralization for two reasons: to make government more accountable to citizens by inviting citizen participation and giving them power to influence the allocation of funds, and to revive the moribund Peruvian economy and make it more responsive to local needs. He argued that decentralization would give regional leaders better mechanisms to develop and strengthen the prominent industries in their region, stimulating sub-state economic growth and reducing dependence on the wealthy capital city, Lima. Multilateral institutions, including the World Bank and Inter-American Development Bank, supported his position.

There are various types of decentralization. Peru’s political decentralization, the transfer of power from the national government to the regional and provincial leaders, is the election of sub-national leaders. This process was moving along quickly, with the January 1, 2003 inauguration of the newly elected officials. Administrative decentralization, on the other hand, had not yet begun. Administrative decentralization is the “transfer of responsibility for the planning, financing and management of certain public functions from the central government.”ⁱⁱ Without administrative decentralization, newly empowered leaders would have the political power to allocate resources, but no resources to allocate.

Nelson Shack, Peru’s national director of the public budget, has only a few months before the end of 2003 to finalize plans to execute administrative decentralization policies. Shack believes that administrative decentralization is essential to the overall decentralization process. However, he has concerns about the ability of regional presidents and councils to manage resources, especially in Peru’s poorer and rural regions. The current public infrastructure in some areas is so weak that it is hard for Shack to imagine local governments will know how to write and approve an entire budget or distribute scarce resources, much less create some governmental institutions from scratch.

Do these leaders have the leadership and administrative skills to run a government? How can we make sure they spend their money on productive infrastructure or social programs instead of

Jessie Bullock conducted interviews and prepared this case under the supervision of Francis Fukuyama of Stanford University. This case was developed solely as a basis for class discussion. It is not intended to serve as a historical record, a source of primary data, or an illustration of effective or ineffective management.

political favors and corruption? And what is the best way to distribute the central government's revenues among the regions? These were all questions Shack is considering now that administrative decentralization was becoming a reality.

Shack and his team at the Ministry of Economics and Finance (MEF) controlled the central government's budget, fiscal policy, and public sector investment, among other economic tasks. They were responsible for designing and implementing administrative decentralization. How should Shack decentralize the public budget? How could they decentralize funds so that officials can revive their regions' economy? Should they attempt administrative decentralization alongside political decentralization, or only begin once political power has fully been transferred?

Regionalization in Peru

Peru is naturally divided into three geographic zones: the coast, the mountains, and the rainforest. The climate, altitude, and natural resources organically dictate these three divisions, shown in Figure I in Appendix II. Peru's coastal zone has become the most densely populated and wealthiest, due to the economic benefits from its industrialized port cities and fertile coastal farmland. The mountainous zone includes the rugged Andes mountain range and a robust mining sector, including commodities such as gold, silver, and copper. Yet this region is scarcely populated compared to the coastal zone and has far less developed institutions, including regional and local government. Poverty in the mountainous zone is the most severe in Peru. The final zone, the rainforest, comprises nearly 60 percent of the country yet contains only 11 percent of Peru's population. It includes the Amazon River basin and rural, jungle settlements. This zone has the least developed infrastructure and is home to many indigenous people who do not speak native Spanish. It often takes residents days to travel short distances in the rainforest due to the lack of paved roads and poor transportation infrastructure. Principal economic activities in the rainforest include logging, oil extraction, and mining.

As Peru grew during the late 20th century, the economies of the different zones grew increasingly dissimilar from each other. The economic and social needs of the people living in the Amazonian basin had little in common with the economic and social needs of the urban poor living in the outskirts of Lima.

When Toledo's administration implemented the first decentralization reforms in 2002, they created 25 sub-state governments: 24 regions and the Callao Province, encompassing the area immediately surrounding capital city of Lima (Figure II).ⁱⁱⁱ These administrative boundaries (except that of Lima Province and the neighboring Callao Province) had first been defined in the 1980s for an earlier effort at decentralization, which was not fully implemented. The varied income, natural resources, and poverty levels of these 24 regions reflect the diversity of Peru's three climatic zones. See Tables I – III for intraregional economic and demographic comparisons.

2002 Decentralization Reforms

The Need to Decentralize

During his 2001 presidential campaign, Alejandro Toledo included decentralization as a key component of his platform. “Decentralization,” he said, “is one of the reforms that everyone agrees is necessary to do but that no one does.”^{iv} He argued that both political and administrative decentralization would strengthen Peru’s democracy and increase opportunities for participation at the regional and municipal level. It was one of the only ways to address the imbalance of power and financial resources held by Lima vis-à-vis the rest of the country and to increase the economic autonomy and strength of the regions.

These reforms came at a time when Peru desperately needed to strengthen its democracy and increase government accountability. Toledo assumed the presidency after the authoritarian leader, Alberto Fujimori, resigned and fled the country in November 2000 following widespread calls for his ouster over revelations of his involvement in a large-scale bribery of congressmen from opposition parties. This tumultuous political change, coupled with stagnating economic growth and a lack of international confidence in Peru, caused Peru’s economy to grow only 0.2 percent in 2001.

The post-Fujimori government inherited a nation disillusioned with democracy, suspicious of corruption, with broken sub-national institutions, and entering recession. Fujimori had concentrated power in the executive, leaving the country’s regional governments and civil society organizations weak. During the 1990s, he had stripped the 12 regional governments of any substantive responsibilities and appointed governing authorities in place of the democratically elected officials. Fujimori also recentralized nearly all of local taxing authorities and created the Municipal Compensation Fund, or FONCOMUN (*Fondo de Compensación Municipal*), which essentially distributed patronage under the ruse of a government transfer program. These transfers were supposed to leapfrog regional governments and go directly to local governments according to rural poverty level, but the amount of transfers was so small (especially in the latter years during the recession) that they barely covered local administrative costs. This process severely decreased political participation and grassroots involvement, especially in poorer regions.

Structure of the Reform

Toledo’s 2002 reforms established four levels of government for Peru: central, regional, provincial, and district, in descending order of size.^v The country was divided into the 24 regional governments shown in Figure II. The constitutional reforms that Toledo and Congress approved in 2002 called for the election of regional presidents (executive branch) and councils (legislative branch). In November 2002, each region elected their first president and council composed of representatives of each region’s provinces, all of which have voting power. The president is responsible for approving the regional budget, and with regional officials, executing major plans and investments. The regional council approves the budget, proposed projects, and supervises other officials.

Each region is further divided into multiple provinces—195 in all of Peru, including the independently governed provinces of Lima and Callao. Each is governed by a mayor and a

council. Following regional decentralization, Toledo's administration has plans to improve provincial infrastructure and increase provincial administrative autonomy.

Lastly, the 2002 reforms established district governments, governed by a mayor and council. The Toledo administration also has plans to improve district infrastructure and increase district administrative autonomy. Each Peruvian province has multiple districts, depending on population size, with 1,838 districts nationwide. For example, although the Callao Province is small geographically, it includes seven districts because it encompasses Lima's densely populated outskirts.

Implementation of provincial and district governments was set to follow implementation of regional governments. This means that the 2002 elections was for the 24 regional presidents and councils only, and the elections for provincial and district leadership would be set at a later date. The hierarchy of local governments is shown in Figure III.

One of the unique aspects of Peru's decentralization reform was the incorporation of regional coordination councils (*Consejos de Coordinación Regional*) into the sub-state governments. The 2002 constitutional reform provided for the formation of these coordination councils, which would be composed of elected officials and civil society members. Each regional coordination council (CCR) is charged with "consulting and coordinating" with the regional president and council on a broad range of issues, including the budget. Unlike the regional councils, however, the role of the CCRs is solely consultative in nature and no formal vote on government affairs. Their inclusion in sub-state governments is a product of the desire by Toledo and his advisors for vibrant civil society participation and local government accountability. CCRs are to have the following structure:

- Each CCR is to be composed of 60 percent provincial mayors, 40 percent civil society members. This means the size of the CCR varies depending on the number of provinces in each region: all the provincial mayors automatically make up 60 percent of the council, and the remaining 40 percent are filled by civil society. This division resulted from insistence from opposition legislators that the provincial mayors make up more than 50 percent of the council because they are elected by all the people, not just those active in civil society groups. In order to win passage of the enabling legislation, Toledo and members of his *Perú Posible* party had to agree on the 40 percent ceiling for civil society representatives.
- In order to nominate CCR representatives, civil society organizations are to legally register with the regional government and must have been in operation for at least three years. Organizations that may participate include business and agriculture groups, labor unions, and those representing women, youth, indigenous peoples, universities, and churches, among others.
- All legally registered civil society organizations may vote for civil society representatives to CCR; elections for these positions are to be held every two years.
- Civil society representatives serve in a voluntary, unpaid capacity. Unlike full-time elected representatives, the civil society members are only obligated to attend the CCR meetings, which should occur at least twice a year.

- One of their most important roles is to approve or suggest modifications to the proposed regional budget. However, since they have no formal vote in the process, the regional council and regional president may accept or reject their suggestions.

The first major reform in 2002, the Constitutional Reform, mandated that regional officials and civil society organizations help create a development plan, or PDDC (*Planes Departamentales de Desarrollo Concertado*). These were mandated in order to increase civilian oversight and citizen participation in political processes, as well as to encourage regions to develop project management skills and set short, medium, and long-term goals. Even though this initiative came from Lima, the change represents a major victory in shifting the country's decision-making power away from the central government. The advent of the PDDCs meant that regional leaders had more control over their 5- and 10-year development priorities instead of simply receiving a directive from Lima. PDDCs were supposed to be created by the councils and president and subsequently approved or modified by civil society members through the CCR.

Although the PDDCs represented a new paradigm of greater participation and oversight, they had no teeth unless the central government followed through with administrative decentralization. The regions had no money to implement their projects. Before the reforms, nearly all revenues earned from taxes, publicly owned companies, and raw material royalties went directly to the central government. The PDDCs would remain symbolic if the regional governments did not control government funds to pursue their selected projects.

Political Difficulties

In May of 2002, Toledo considered postponing implementation of political decentralization (the regional elections set for that November) by a year. He wanted time to focus on strengthening the leadership capacity of local administrators and to run a pilot public administration program in one or two regions. He hesitated because he had seen abuses of political power in his own region, and he didn't want this to happen across the country. He believed that two conditions needed to be in place to prevent these abuses.

Firstly, political decentralization was not likely to succeed if it was not accompanied by fiscal decentralization but Peru's current economy did not allow for much decentralization. Due to the centralization of the economy during the Fujimori years, nearly all taxes (both national and sub-national) went straight to the national government's coffers. Although GDP growth had increased since Toledo entered office, from the sluggish 0.2 percent in 2001 to 5 percent in 2002, much of the public budget was already earmarked for domestic and international debt repayments and recurring categories, such as Social Security, and for operating costs (including salaries) for the public sector workforce. Table IV shows that, capital spending, the budgetary category in Peru for investments and new projects, represents an average of just 13 percent of total public spending. Some of these funds are already earmarked for ongoing investment projects that began in past years. In most years, only 6 to 8 percent of these funds were available for new priorities and for regional governments to administer. Six to 8 percent of the capital spending budget amounted to, at most, 1 percent of the total budget. Since regional and local government received paltry amounts from local taxes and FONCOMUN, transfers from the central government were their main sources of revenue. This means that, without fiscal decentralization, just one percent of Peru's budget would be the only funding available to the

regions, an amount so small that it threatened to undermine the central government's commitment to reform.

Secondly, Toledo was concerned that many officials in rural areas were inexperienced with project management, task delegation, and especially managing a public budget. The central government still ran regional social and educational programs, such as the youth nutrition program, "A Glass of Milk" (*Vaso de Leche*). Previously, regions were in charge of smaller, concrete tasks, such as building schools, improving highways and roads, and promoting tourism in their region. The proposed political decentralization reforms would give these officials much more power, allowing them, through the PDDC, to have a major influence on their region's future development—for example, which programs and areas they should focus on, and how they should invest in health, education, or transportation. This was a great responsibility, and one that Toledo was not sure that they knew how to handle. Toledo explained his concern as follows,

In our country, we don't have a National School of Public Administration like that in France, that practically prepares professionals and skilled workers to work for the State from the day they enter their universities and academic institutions. The step-by-step learning where employees gain knowledge gradually about how to lead a country, beginning at the local level to later assume positions of greater regional responsibility and finally national responsibility is a career path that we need in Peru, mainly because regional governments as well as local governments will need experience with the growing financial resources and budgetary responsibilities.^{vi}

Toledo's proposal to defer the elections was supported by Shack, other key officials in the Ministry of Economics and Finance (MEF), and other cabinet-level officials and advisors in the executive branch. To press his concerns, he called a meeting in August 2002 with former presidents and party leaders from all points on the ideological spectrum. The list included present and former government ministers; businessmen and NGO leaders; Valentín Paniagua, interim president during the transition to democracy; and Alan García, former president during the 1980s and Toledo's bitter opponent in the 2001 election. All present agreed that a one-year training period would be beneficial for regional leaders. However, upon leaving the meeting, García went straight to the press and told a different story:

I want to warn the country that President Toledo is considering postponing the regional elections for one more year. This would be negative for the country since he would be breaking a promise he gave ...

Following this announcement, public support for Toledo plummeted and Toledo was left with only one solution. The press began questioning him and he did not want to weaken the already low levels of public confidence in the fledgling democracy so despite his hesitations, Toledo gave the go-ahead for elections in November 2002 as promised. García's party, the center-left American Popular Revolutionary Alliance (APRA) won 12 of the 25 regional presidential elections, Toledo's party Perú Posible (PP) won one, and a smattering of small regional, independent parties won the remaining 12.^{vii}

García was not the only one anxious for the decentralization reforms to begin. The World Bank, the United States Agency for International Development (USAID), and other powerful multilateral organizations strongly supported decentralization reforms, both because they promised greater accountability and the potential for economic growth in poorer, rural areas. Toledo is currently^{viii} negotiating a loan of at least US\$100 million with the World Bank to help implement decentralized local projects and to build capacity among local leaders; if Peru performs well, then potentially hundreds of millions of dollars could follow in the next few years. The World Bank and USAID have been interested in investing in decentralized transport and industry, capacity building, and social services in Peru, including decentralized health and education services.^{ix} Their motives seem both profit-based and altruistic: Toledo knows the eventual goal of decentralized transport and industry services is to privatize them, especially the country's massive state-owned enterprises, but doing so could arguably make them more efficient and be a net benefit for all so long as the government can appropriately redistribute resources. At the same time, the World Bank, like Toledo, advocated for a gradual approach to decentralization in order to build human capital and institutional capacity in the regional and local governments.

Despite the promise of large grants and an economic boost, Toledo still fears that regional and provincial leaders would use their increased autonomy to finance and implement poor spending choices. He is concerned that a lack of public administration training will make it more likely for these officials to be co-opted or “bought” instead of helping to grow the regional economies. Ultimately though, it is Shack, not Toledo, who has to create a detailed plan answering such questions as which groups get certain amounts of money, for which projects, and so on.

Decentralized Budget Beginnings

Since the interim Paniagua government in 2001,^x Minister of Economics and Finance Javier Silva Ruete and National Director of the Public Budget Nelson Shack had been working together in the MEF. After the debilitating Fujimori regime, they were looking for ways to increase fiscal transparency and accountability and agreed that gradual administrative decentralization would be an important means to these ends. They decided to focus on two types of administrative decentralization: 1) gradually increasing the size of transfers from the central government to regional governments; and 2) experimenting with a participative model of budget formulation.

Creating a More Decentralized Budget

In 2002, Shack and MEF officials made changes to Peru's Public Budget Law for the 2003 fiscal year (January through December, following the calendar year). Their priority was to give regional and eventually local governments control over a greater percentage of public funds. According to 2002 records, local and regional governments administered 16.8 percent of the public budget (Table V). A complete table of central government spending in 2002 is shown in Table VI, divided by region. Shack and his team decided to redistribute a greater percentage of funding to regional governments, but had to decide how much more to redistribute and how to divide the central funding equitably between the regions.

Their first goal was to increase the proportion of public funds under control of regional leaders in the 2003 fiscal year. As noted above, regional and local officials controlled 16.8 percent (S\$6,278 million) of the public budget in 2002; national leaders administered the rest from Lima

(Table V). However, much of the 16.8 percent of resources was destined for Lima's municipal and regional governments with little to nothing making its way to the rural parts of the country. As of 2002, the regional and municipal governments of Lima received 48.7 percent of total fund transfers from the central government (Column III of Table VI).

In Shack's ambitious plan for 2003, the MEF would increase the amount of transfers and allocate the transfers among regions *according to poverty level*. This was a big decision because for the first time ever, Peru would distribute regional investments and capital expenditures by explicit criteria and according to a distinct methodology. Shack and his colleagues used a poverty severity index determined by the National Institute of Statistics and Information (INEI), an organization that conducts large-scale surveys including the National Census and the annual National Survey of Homes (ENAHO) (Table VII).^{xi}

Increasing Participation in the Budget Process

Decentralizing the budget and transferring more resources was only the beginning. Shack and officials at the Public Budget office knew that decentralization also aimed at "empowering the people," which meant more than simply passing the decision-making power from the political class in Lima to the political class in the regions. Shack and his team were aware that other cities, regions, and even countries had experimented with a "participatory budget program," often with favorable results. A participatory budget program means that community members would administer a certain portion of the region's funding, giving civil society actors input on some investment decisions. In other words, Peru would go one step beyond decentralization to regional leaders, giving teachers, church leaders, or community organizers a voice in the administration of public funds (See Figure IV).

Shack, along with a grassroots anti-poverty activism group, the Roundtable for the Fight Against Poverty (*Mesa de Concertación para la Lucha Contra la Pobreza*) or MCLCP, spearheaded the creation of a pilot regional participatory budget program that launched in May 2002. If it went well, Shack would try to specify that a percentage of regional transfers should be participative in all future budgets. In the MEF Directorial Resolution on May 8, 2002, Shack wrote,

This change is a very important innovation to the traditional budget-making process, which consisted of formulation, approval, execution, and evaluation for many years...

This [pilot] process encompasses the first regional experience of combining participative and representative democracy mechanisms, in a unitary country, to create the nation's public budget.

The MEF issued a call for participation in the program, 22 regions submitted their PDDC along with their proposed budgets, and in June 2002, nine were chosen to participate in the pilot program. These were the regions of Amazonas, Huánaco, Huancavelica, Junín, Moquegua, Pasco, Puno, San Martín, and Tacna. Shack, his team, and some colleagues at the MCLCP chose to fund select investment projects from the nine regions based on three criteria:

- 1) The region's development plan was written and agreed upon by both government and civil society actors, especially the region's Regional Coordination Council (CCR);

- 2) The proposed investment was registered and complied with all the rules of Peru's National System for Public Investment (*Sistema Nacional de Inversión Pública*) or SNIP, the entity that monitored all investment projects;
- 3) The region was able to begin working on the investment in August 2002, when the first disbursement of funds was scheduled.

The nine participating regions are to implement their investment projects and follow through with all participatory budget processes outlined in the MEF methodology during 2003 fiscal year. In the May 2002 Directorial Resolution, Shack outlined the methodology as a 6-step process, shown in Figure V. The first two steps are intended to involve the regional governments and civil society members, as they create their PDDC and formulate their strategies for investment. The third step depends on the MEF's approval of their proposed investment projects. The fourth and fifth steps depend on the execution and MEF oversight of the projects, and the sixth step evaluates the entire process and their successes and failures. The process is depicted as iterative because every year, regions are supposed learn from their previous year's experience.

Shack and his team were anxious to see how investment projects in the nine pilot regions turned out. They selected these regions specifically because their PDDCs included enough detailed and citizen-sourced information. For example, the state Amazonas's plan was particularly inclusive, demonstrating significant grassroots involvement. As part of the drafting process, Amazonas' officials hosted a forum in March 2002, drawing more than 100 civil society leaders from all seven provinces in the region to discuss problems, potential solutions, and potential investments. This was no small feat since Amazonas has few paved roads and it is difficult and time-consuming to travel within the region, something they noted in their PDDC. Elected officials and a technical committee finalized the details in June, the Amazonas CCR approved the final version, and they submitted the PDDC to the MEF for consideration. Amazonas was ultimately selected to participate in the pilot (Steps 1 – 3 of Figure V).

Shack and his team agreed to a ceiling of S\$433 million for the pilot program, and Congress approved S\$118 million for disbursement in August 2002 when they reviewed the 2003 fiscal year budget. The remaining S\$315 million of funding that had not yet been authorized was accessible to the nine regions until December 2002, only if their projects needed more funding and provided that they complied with all of the MEF processes. Recently, Shack was pleased as he analyzed the numbers from the 2003 fiscal year: they had authorized S\$408 million to pilot investments in all nine the regions, below the ceiling he had originally set. This was a positive signal to him because it indicated that the regions were cognizant of the amounts they were spending.

Three Regions, Three Results

The results from both major changes to the public budget process, although they are still in progress, are mixed and underscore Toledo's concerns about the regions' administrative capacity. The pilot has achieved its goal of increasing citizen participation in most regions. If adopted for the entire nation, decentralization could strengthen sub-state governments and create better public administrators. However, in two pilot regions, the implementation of their proposed PDDC projects has had varied results and some regional leaders have been unclear about how the 6-step process worked. A third region provides a cautionary tale of what could happen if the

wrong regional leaders administered funds. Below are their experiences with the public budget process from mid-2002 to early 2003.

Chachapoyas Province, Amazonas Region

Chachapoyas Province is one of seven provinces in the Amazonas region, with a population of about 50,345 citizens. Chachapoyas is the regional capital city with the same name. It is the highest altitude of the entire region at 2,335 meters (7,660 feet) above sea level, has the highest concentration of roads in the region and the lowest concentration of arable land, only 6 percent of the province. It is not one of the Amazonas provinces classified as “extreme poverty” although there are high levels of poverty, especially in the rural communities. Its principal economic sectors are fishing, potato and rice cultivation, bovine cattle farming, tourism, and scattered factories that produce soft drinks.

Chachapoyas hosted the civil society meetings to formulate and revise Amazonas’ PDDC and its proposal for the pilot program. That plan emphasizes education as one of the “Strategic Areas” and specifies a long list of classrooms to build, modernize, or stock with educational resources. Participants agreed that intangible goals like reducing illiteracy and improving teacher training were also important outcomes but were more difficult to measure than building classrooms. PDDC writers were not sure which investments to make to achieve these goals or how to classify them according to the MEF methodology.

An educational project in Chachapoyas was one of the first projects funded through the pilot program, focusing on modernizing a school and building a better, sturdier roof. Chachapoyas received its first disbursement of funds in August 2002 to begin upgrading the school.

In December 2002, a regional official from the Amazonas Office of Programming and Investments (a proxy for a MEF official) conducted a site visit to observe progress. He visited once on December 11th, made some corrections, visited again on the 16th and 17th, and subsequently approved the project. The most recent report on the investment, written by this official, is included in Appendix III. He included constructive comments about the parts of the investment that needed improvement, and left blank all of the sections that he was unsure about. Civil society actors in the Amazonas Region considered this project a success. In less than a year, their team had agreed on certain investments in education, complied with MEF procedures, and now mid-2003, the school modernization project is nearing completion.

Moquegua Region

Moquegua is a small region on the southern coast of Peru with a population of 156,750. It is divided into three provinces; the capital is the landlocked city of Moquegua but the commercial and cultural hub is the port city of Ilo. Principal industries in the region of Moquegua are mining, manufacturing, and agriculture, specifically olives, avocados, citrus fruits, and peaches. Approximately 37.2 percent of citizens in the region live in poverty.

Moquegua was the only region chosen for the pilot program that had prior experience with participatory budgeting. The city of Ilo had experimented with civil society involvement in local decision-making since the 1980s, including open town hall meetings and, in 1999, with participatory budgeting. In fact, Shack drew on Ilo’s experience when he drafted the guidelines

for the pilot budget program. Unfortunately, the current mayor of Ilo, elected in 2002, is unsupportive of the participatory budget, making the future of civil society involvement unclear. Residents claim that the legal framework still supports civil society participation but it no longer functions as smoothly as it did in the past.

Despite the obstacles in Ilo, the regional council and CCR still prepared a detailed and participatory plan that convinced the MEF to include them in the pilot program. Civil society organizations from Ilo and laborer's rights organizations from the countryside were active in the PDDC process. CCR members and regional government officials were confused about how to fill out the lengthy SNIP forms and make sure their project complied with MEF guidelines. Although they detailed their priorities for Moquegua in their PDDC, they had difficulties moving past the "Approving" step of the MEF process and getting funds disbursed from SNIP (See Figure V for phases of the MEF process). By December 2002, because their PDDC lacked specificity, Moquegua's council ended up leaving a lot of money on the table and MEF officials repeatedly requested additional information. As a result none of their proposed projects received funding.

Regional leaders hope to not make the same mistake again. Moquegua's regional president elected in November 2002, María Constantinides, is from the center-right *Somos Perú* party and supports the regional participatory budget process. The regional council also elected in November is composed of five members from her party and two independent members. Also supportive of participatory government, they have plans to overhaul the project formulation process, so as to not leave funds behind again.

Tambopata Province, Madre de Dios Region

Madre de Dios Region, in the rainforest zone, shares a border with Brazil and Bolivia and is divided into three provinces; the regional capital is located in Tambopata Province. The region is very poor and many residents live in isolated communities, still speak indigenous languages and practice traditional customs. Its principal sectors are logging and agriculture, specifically cacao, rice, coffee, and Brazil nuts. Puerto Maldonado, the capital city, is the commercial center of the region and has a population of approximately 50,000 people.

Madre de Dios is one of the 15 regions that did not receive specific funding for the participatory budget pilot program, but they did receive their annual share of decentralized funds that the regional leaders disbursed from FONCOMUN. Since universal reforms had not yet been implemented in 2002, FONCOMUN funds were not subject to the MEF's 6-step monitoring and evaluation procedures (Figure V). On September 26, 2002, the Provincial Council of the Tambopata Province approved the construction of an obelisk in the city of Tambopata for US\$1.9 million to increase regional tourism and pay homage to the Amazon's biodiversity (Figure VI). Provincial leaders did not have to wait for approval from the MEF to begin construction or be registered with the SNIP database. Regional leaders wrote in their PDDC about the "deficient touristic infrastructure" and their title as "Biodiversity Capital of Peru" but never once mentioned the construction of the obelisk.

Next Steps

As Shack analyzed the experiences from these three regions, he thought that the pilot showed promise for the future, but needed to be changed. The experiences in both Amazonas and Moquegua show how the participatory budget process can include civil society and better reflect a region's priorities than predefined priorities decided by officials in Lima. The school project in Amazonas shows that regional officials are capable of using the MEF's 6-step methodology and can make their projects more accountable and transparent to oversight committees at the regional and central level. Although the projects they chose focused on physical infrastructure and not the more pernicious problems of sustained economic growth or development of human capital, it was a promising start. What was troubling, though, was the miscommunication and lack of understanding between the MEF and the regional government of Moquegua. How could he clarify their procedures so that regions would be able to pursue productive investments? Can Shack ensure that regional presidents and councils (and provincial mayors and councils) understand what constitutes an appropriate use of public funds? Also, are there additional incentives that Shack could add to push regional leaders to invest in projects that affect long-term development, such as literacy?

Shack's worries increased when he learned of Tambopata's decision to build the obelisk. Given that 64 percent of the local population does not have access to safe drinking water, increasing tourism hardly seemed the most pressing priority. Surely the people of Madre de Dios and Tambopata would benefit more from infrastructure development or better quality social programs than an expensive obelisk. How should Shack ensure that regional funds would be spent to benefit the most people, regardless of the wishes of civil society groups? How could Shack ensure that regional presidents and the regional councils (and provincial mayors and councils) understood what constitutes an appropriate use of public funds?

While designing the final version of the decentralized budget law, Shack looked to the experience of other countries that had embarked on budget decentralization and found lessons for Peru.

- **Consider bypassing regional governments:** Bolivia has implemented broad decentralization reforms during the 1990s and made many of the changes that Peru is trying to make. Some key differences between their policies were that Bolivia had bypassed regional decentralization and went straight to local (municipal-level) decentralization. The reforms were top-down, as in Peru, but they immediately decentralized to the local level because they national leaders feared that regional elites already had too much power and wanted to ensure that funds reached rural municipalities where they could help the poor.
- **Loosen central government restrictions:** Decentralization reforms in Bolivia and in Mexico in the late 1990s also included varying degrees of central government oversight. Bolivia decentralized very rapidly, even creating some municipal governments from the ground-up. They were not as concerned about building capacity before they decentralized, and they only employed two fiscal restrictions on their fund transfers from the central government to the municipalities: 1) transfers were proportional to population, and 2) 90 percent of the fund transfers had to be spent on development projects such as transport, education, energy, or public works projects.

- **Incorporate veto power:** Decentralization reforms in Mexico during the 1990s made wide use of the veto. The central government was less transparent about how funds were distributed to municipalities and regions. In many cases, funding for local projects was contingent on the region's governor's approval of the project or the approval of a federal agency bureaucrat. This appeared to be both a benefit and a detriment; skilled administrators could veto local projects that were clearly corrupt or inappropriate, but the same higher-level administrators could be prone to favoritism and bias funding towards municipalities in their region or leaders from their party.
- **Build better incentives for the private sector:** If the private sector is incentivized to develop, then the Peruvian government will not be alone in this endeavor. The type of incentives differ from country to country and region to region, but involving the private sector means that they are invested in the outcome of the projects and more broadly, regional decentralization itself.

Clearly Peru's initial foray into decentralization needs improvement. The current state of the public budget is not perfect and some regional leaders may try to take advantage of the system if the National Office of the Public Budget made no changes. However, if the guidelines become so complicated that they unintentionally exclude leaders with little administrative experience, the reforms will fail to accomplish their base goal of improving service delivery and infrastructure to Peru's poorest citizens. How should Shack proceed with fiscal decentralization? Which of the above changes should he incorporate into the decentralized budget law, if any? Are there any changes he should make that he has not considered yet?

APPENDIX I: COMMONLY USED ABBREVIATIONS

APRA	American Popular Revolutionary Alliance
CCR	Regional Coordination Council
ENAHO	National Survey of Homes
FONCOMUN	Municipal Compensation Fund
INEI	National Institute of Statistics and Information
MCLCP	Roundtable for the Fight Against Poverty
MEF	Ministry of Economics and Finance
PDDC	Regional Development Plan
PP	Perú Posible
SNIP	National System for Public Investment
USAID	United States Agency for International Development

APPENDIX II: CHARTS AND TABLES

Figure I: Peru's Three Zones



Source: <http://www.inside-peru.com/peru-geography.html>

Figure II: Peru's 25 Sub-State Administrative Divisions



Source: <http://goperu.about.com/od/citiesandregions/ss/Regions-Of-Peru.htm>

**Table I: Total Regional GDP and GDP from Major Industries from 2001 – 2003,
in millions of current Peruvian Nuevo Soles**

Region		2002	% Of Total Output (Region)	% Of Total Output (National)
Amazonas	Total	989.22		
	Agriculture, Game, and Forestry	280.82	28.39	2.22
	Fishing	0.08	0.01	0.005
	Mining	3.14	0.32	0.03
	Manufacturing	105.84	10.70	0.37
Ancash	Total	7,534.78		
	Agriculture, Game, and Forestry	407.68	5.41	3.22
	Fishing	239.70	3.18	13.83
	Mining	2,291.92	30.42	20.91
	Manufacturing	1,041.68	13.82	3.60
Apurímac	Total	846.84		
	Agriculture, Game, and Forestry	147.75	17.45	1.17
	Fishing	0.96	0.11	0.06
	Mining	10.53	1.24	0.10
	Manufacturing	73.94	8.73	0.26
Arequipa	Total	9,599.92		
	Agriculture, Game, and Forestry	938.68	9.78	7.41
	Fishing	92.45	0.96	5.33
	Mining	535.73	5.58	4.89
	Manufacturing	1,828.90	19.05	6.32
Ayacucho	Total	1,567.05		
	Agriculture, Game, and Forestry	257.56	16.44	2.03
	Fishing	0.82	0.05	0.05
	Mining	77.01	4.91	0.70
	Manufacturing	193.74	12.36	0.67
Cajamarca	Total	5,570.16		
	Agriculture, Game, and Forestry	884.15	15.87	6.98
	Fishing	0.11	0.00	0.006
	Mining	1,687.29	30.29	0.70
	Manufacturing	545.91	9.80	0.67
Cusco	Total	4,015.94		
	Agriculture, Game, and Forestry	388.72	9.68	3.07
	Fishing	0.55	0.01	0.03
	Mining	13.17	0.33	0.12
	Manufacturing	514.56	12.81	1.78
Huancavelica	Total	1,787.11		
	Agriculture, Game, and Forestry	224.64	12.57	1.77
	Fishing	0.45	0.03	0.03
	Mining	79.14	4.43	0.72

	Manufacturing	52.41	2.93	0.18
Huánuco	Total	1,858.27		
	Agriculture, Game, and Forestry	442.62	23.82	3.49
	Fishing	0.80	0.04	0.05
	Mining	46.23	2.49	0.42
	Manufacturing	195.25	10.51	0.67
Ica	Total	4,561.56		
	Agriculture, Game, and Forestry	669.73	14.68	5.29
	Fishing	155.84	3.42	8.99
	Mining	198.56	4.35	1.81
	Manufacturing	981.26	21.51	3.39
Junín	Total	5,795.88		
	Agriculture, Game, and Forestry	481.46	8.31	3.80
	Fishing	10.73	0.19	0.62
	Mining	514.19	8.87	4.69
	Manufacturing	747.12	12.89	2.58
La Libertad	Total	8,307.02		
	Agriculture, Game, and Forestry	1,525.80	18.37	12.04
	Fishing	55.43	0.67	3.20
	Mining	439.47	5.29	4.01
	Manufacturing	1,598.50	19.24	5.52
Lambayeque	Total	5,287.04		
	Agriculture, Game, and Forestry	617.61	11.68	4.88
	Fishing	78.53	1.49	4.53
	Mining	56.03	1.06	0.51
	Manufacturing	658.48	12.45	2.27
Lima	Total	95,824.71		
	Agriculture, Game, and Forestry	2,698.36	2.82	21.30
	Fishing	235.97	0.25	13.61
	Mining	874.07	0.91	7.97
	Manufacturing	16,264.82	16.97	56.17
Loreto	Total	4,351.52		
	Agriculture, Game, and Forestry	400.09	9.19	3.16
	Fishing	47.06	1.08	2.72
	Mining	966.90	22.22	8.82
	Manufacturing	432.66	9.94	1.49
Madre de Dios	Total	649.09		
	Agriculture, Game, and Forestry	51.08	7.87	0.40
	Fishing	0.74	0.11	0.04
	Mining	233.92	36.04	2.13
	Manufacturing	32.65	5.03	0.11
Moquegua	Total	2,394.98		
	Agriculture, Game, and Forestry	54.85	2.29	0.43

	Fishing	90.85	3.79	5.24
	Mining	535.29	22.35	4.88
	Manufacturing	740.15	30.90	2.56
Pasco	Total	1,995.16		
	Agriculture, Game, and Forestry	149.37	7.49	1.18
	Fishing	0.69	0.03	0.04
	Mining	1,072.82	53.77	9.79
	Manufacturing	49.28	2.47	0.17
Piura	Total	8,105.86		
	Agriculture, Game, and Forestry	607.95	7.50	4.80
	Fishing	529.93	6.54	30.57
	Mining	526.32	6.49	4.80
	Manufacturing	1,620.47	19.99	5.60
Puno	Total	4,317.26		
	Agriculture, Game, and Forestry	588.34	13.63	4.64
	Fishing	15.67	0.36	0.90
	Mining	337.68	7.82	3.08
	Manufacturing	484.35	11.22	1.67
San Martín	Total	2,143.91		
	Agriculture, Game, and Forestry	442.83	20.66	3.50
	Fishing	1.08	0.05	0.06
	Mining	0.05	0.002	0.0005
	Manufacturing	259.59	12.11	0.90
Tacna	Total	2,425.15		
	Agriculture, Game, and Forestry	165.32	6.82	1.31
	Fishing	29.24	1.21	1.69
	Mining	364.94	15.05	3.33
	Manufacturing	208.17	8.58	0.72
Tumbes	Total	943.09		
	Agriculture, Game, and Forestry	50.26	5.33	0.40
	Fishing	125.17	13.27	7.22
	Mining	0.96	0.10	0.009
	Manufacturing	48.39	5.13	0.17
Ucayali	Total	1,890.68		
	Agriculture, Game, and Forestry	192.27	10.17	1.52
	Fishing	20.39	1.08	1.18
	Mining	96.06	5.08	0.88
	Manufacturing	275.96	14.60	0.95
Total (National)	Total	182,762.18		
	Agriculture, Game, and Forestry	12,667.93	6.93	
	Fishing	1,733.23	0.95	
	Mining	10,961.40	6.00	
	Manufacturing	28,954.10	15.84	

Source: INEI

Table II: Estimated Population by Region and by Gender in 2003

	Total	Men	Women
Perú (National)	27,103,457	13,597,121	13,506,336
Amazonas	394,959	207,679	187,280
Áncash	1,070,450	535,806	534,644
Apurímac	427,826	216,715	211,111
Arequipa	1,128,454	563,581	564,873
Ayacucho	594,733	298,817	295,916
Cajamarca	1,438,547	722,367	716,180
Callao (Province)	836,622	421,003	415,619
Cusco	1,207,423	613,704	593,719
Huancavelica	447,455	221,715	225,740
Huánuco	772,600	391,727	380,873
Ica	686,254	342,269	343,985
Junín	1,232,569	622,008	610,561
La Libertad	1,592,392	791,881	800,511
Lambayeque	1,126,116	550,099	576,017
Lima	8,199,172	4,025,118	4,174,054
Loreto	890,388	464,358	426,030
Madre De Dios	98,690	56,479	42,211
Moquegua	158,407	84,606	73,801
Pasco	274,919	142,590	132,329
Piura	1,662,570	835,014	827,556
Puno	1,266,832	632,614	634,218
San Martín	699,146	380,554	318,592
Tacna	286,166	148,850	137,316
Tumbes	196,063	106,305	89,758
Ucayali	414,704	221,262	193,442

Source: INEI

Table III: Infant Mortality Rate by Region in 2000;
Rate is per every 1000 live births

Amazonas	47
Áncash	50
Apurímac	71
Arequipa	40
Ayacucho	50
Cajamarca	51
Cusco	84
Huancavelica	71
Huánuco	63
Ica	21
Junín	43
La Libertad	45
Lambayeque	38
Lima	20
Loreto	53
Madre de Dios	28
Moquegua	28
Pasco	58
Piura	37
Puno	59
San Martín	49
Tacna	24
Tumbes	36
Ucayali	52

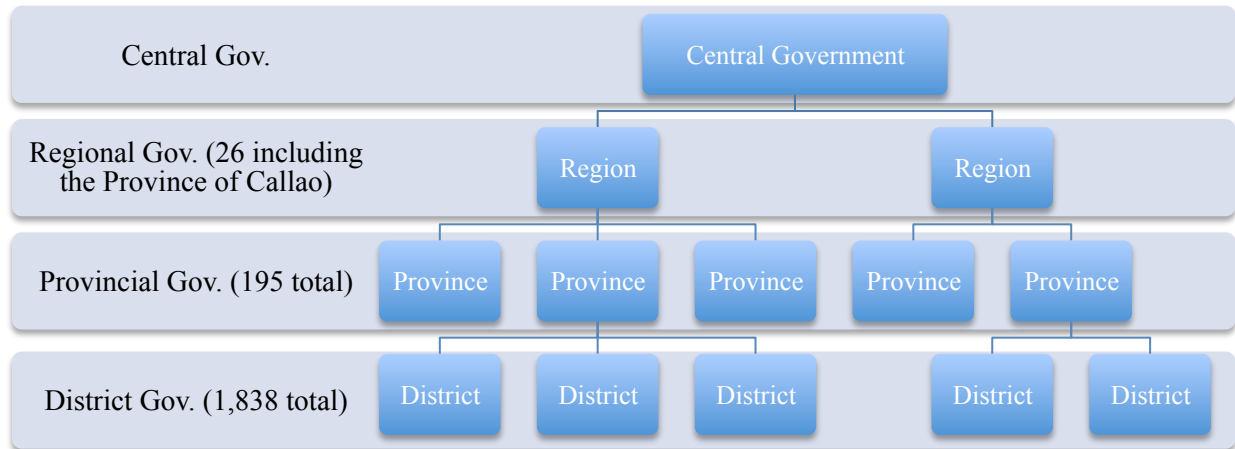
Source: INEI

Table IV: Poverty Severity Index, 2001

Location	Poverty Severity (%)	Extreme Poverty Severity (%)
National	10.7	3.7
Urban	5.7	1.0
Rural	20.0	8.9
Geographic Regions		
Coast	4.3	0.4
Mountain	18.8	8.2
Rainforest	13.9	4.7
Administrative Regions		
Amazonas	16.9	6.5
Ancash	11.3	3.6
Apurímac	18.1	6.4
Arequipa	6.3	1.2
Ayacucho	17.7	7.6
Cajamarca	19.6	8.3
Cusco	22.1	10.5
Huancavelica	33.5	19.5
Huánuco	27.2	14.5
Ica	4.6	0.5
Junín	9.2	2.5
La Libertad	8.8	2.7
Lambayeque	10.7	2.0
Lima	3.1	0.2
Loreto	15.5	5.4
Madre de Díos	3.9	0.8
Moquegua	2.9	0.2
Pasco	13.2	4.5
Piura	11.0	3.0
Puno	20.6	8.6
San Martín	12.3	3.5
Tacna	3.1	0.4
Tumbes	5.4	0.7
Ucayali	14.6	5.1

Source: INEI

Figure III: Structure of 2002 Government Decentralization



Source: AMPE, Author's elaboration

Table V: Composition of Public Spending

Year	Mandatory Recurring Spending	Capital Spending	Debt Service	Total Spending
2001	66.8%	13.0%	20.2%	100%
2002	67.9%	11.1%	21.0%	100%
2003 (projected)	62.4%	12.5%	25.1%	100%

Source: Ley de Presupuesto del Sector Público

Table VI: Destination of Funds in the Public Budget in 2002

	Amount (S\$, millions)	Percent (%)
National Government	37,367	83.2
Regional Government	4,671	12.5
Local Government	1,607	4.3
Total	37,367	100

Source: MEF Portal Transparencia, Toledo 2014

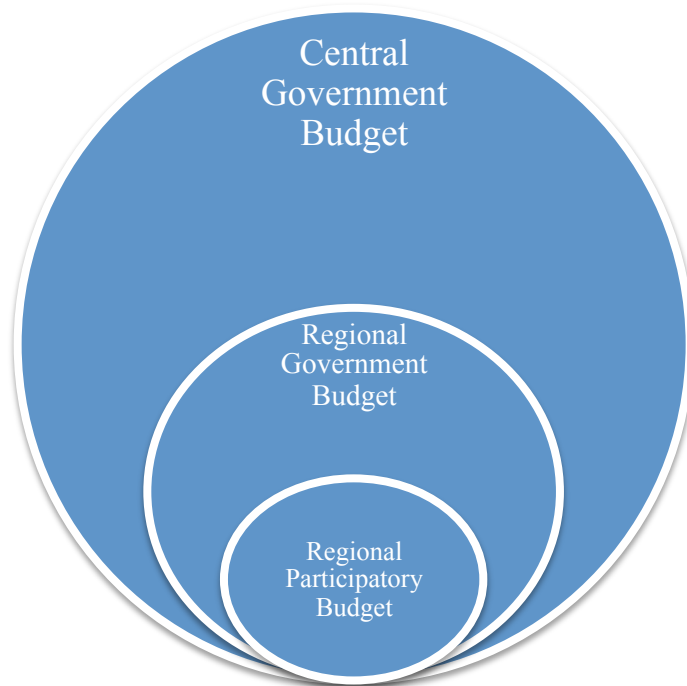
**Table VII: Public Sector Spending by Entity and Region for the 2002 Fiscal Year,
in millions of current Peruvian Nuevo Soles***

Region	I. Spending on Central Government; Administered by Central Government		II. Spending on Regional Government; Administered by Central Government		III. Spending on and Administered by Regional and Local Governments		IV. Spending on State-Owned Enterprises		Total Spending	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Amazonas	37.89	0.2	163.76	1.2	42.53	1	33.05	0.2	277.23	0.5
Ancash	89.25	0.4	584.61	4.2	149.45	3.4	237.28	1.4	1,060.59	1.9
Apurimac	247.48	1.2	215.17	1.6	50.05	1.1	25.54	0.2	538.24	1
Arequipa	93.01	0.4	780.86	5.6	156.92	3.5	535.38	3.2	1,566.16	2.8
Ayacucho	46.56	0.2	343.83	2.5	74.53	1.7	55.94	0.3	520.86	0.9
Cajamarca	83.17	0.4	514.95	3.7	124.34	2.8	77.30	0.5	799.76	1.4
Callao (Province)	251.89	1.2	210.84	1.5	124.18	2.8	611.26	3.7	1,198.17	2.1
Cusco	103.33	0.5	560.94	4	152.41	3.4	250.17	1.5	1,066.84	1.9
Huancavelica	33.80	0.2	217.60	1.6	79.31	1.8	450.73	2.7	781.44	1.4
Huanuco	48.73	0.2	285.96	2.1	65.19	1.5	56.46	0.3	456.33	0.8
Ica	46.89	0.2	462.48	3.3	54.97	1.2	160.16	1	724.50	1.3
Junin	107.79	0.5	611.34	4.4	148.85	3.3	184.44	1.1	1,052.43	1.9
La Libertad	78.35	0.4	763.08	5.5	135.41	3	378.03	2.3	1,354.87	2.4
Lambayeque	67.88	0.3	565.97	4.1	95.48	2.1	283.17	1.7	1,012.50	1.8
Lima	9,038.58	42.3	4,474.34	32	2,159.437	48.7	11,806.069	70.9	27,478.407	48.7
Loreto	32.99	0.2	555.76	4	133.31	3	149.65	0.9	871.71	1.5
Madre De Dios	9.78	<.01	77.06	0.5	11.31	0.3	25.11	0.2	123.27	0.2
Moquegua	10.67	<.01	128.23	0.9	47.55	1.1	52.65	0.3	239.10	0.4
Pasco	15.56	0.1	170.26	1.2	33.86	0.8	261.66	1.6	481.34	0.9
Piura	141.11	0.7	704.44	5.1	228.14	5.1	419.00	2.5	1,492.69	2.6

Puno	111.52	0.5	602.93	4.3	145.44	3.3	206.61	1.2	1,066.5	1.9
San Martin	151.50	0.7	326.09	2.4	54.01	1.2	84.25	0.5	615.85	1.1
Tacna	22.85	0.1	209.72	1.5	84.76	1.9	192.52	1.2	509.86	0.9
Tumbes	23.65	0.1	172.73	1.2	25.73	0.6	41.10	0.2	263.21	0.5
Ucayali	18.86	0.1	227.72	1.6	60.68	1.4	73.37	0.4	380.63	0.7
Ministry Of Defense	2,948.5	13.	---		---		---		2,948.5	5.2
Debt Service	2	8							2	
Payments Ministry Of Foreign Affairs	7,216.9	33.	---		---		---		7,216.9	12.
	6	7							6	8
Ministry Of Foreign Affairs	304.10	1.4	2.69	< .01	---		---		306.79	0.5
Total	21,382.	10	13,933.	100	4,437.84	10	16,650.	10	56,404.	10
	66	0	36			0	88	0	73	0

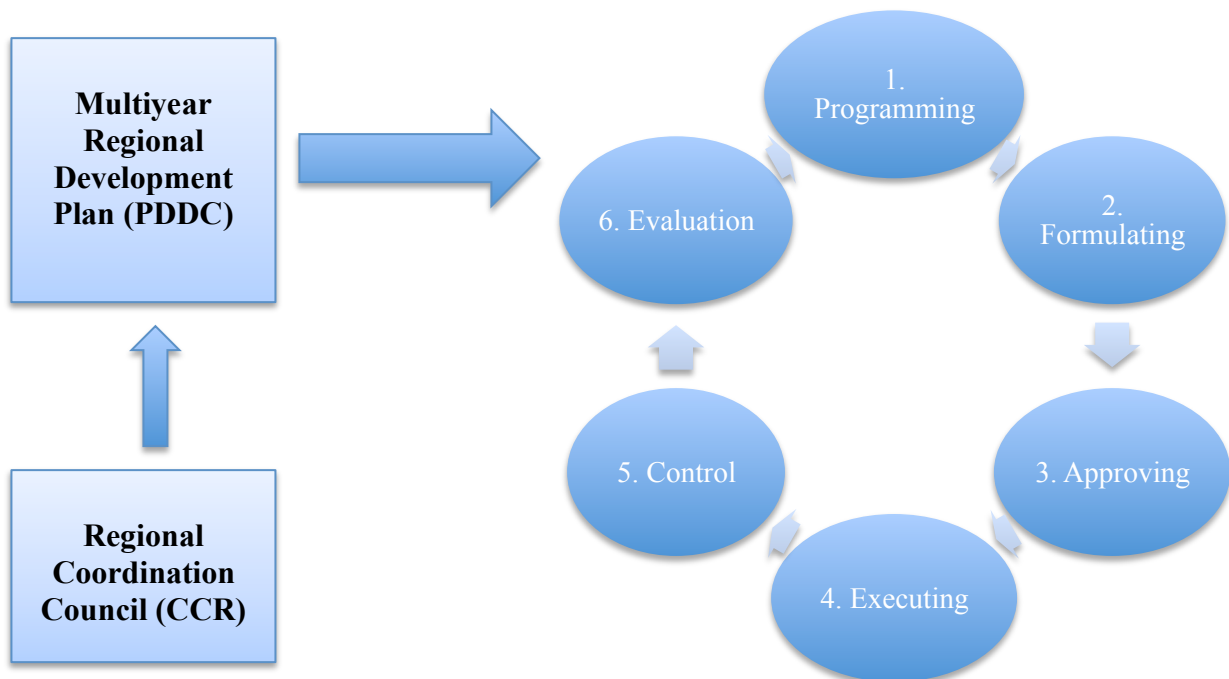
* The total spending in this table varies from the previously stated total of S\$37,367 million in Table V. This can be attributed to slightly different measuring techniques of public sector spending. This metric separates public sector spending by region and the entities that have decision-making authority. The previously stated total (S\$37,367) approximates the public sector spending financed by the central government in columns I, II, and III. Spending that falls under column I includes all public universities in the country, branches of central government present in different regions, debt service payments, as well as all central government activity in Lima and all central government salaries. Spending that falls under column II includes regional investments such as regional transportation networks, social programs, anti-poverty programs and Social Security, as well as regional administrative costs and regional salaries. Spending that falls under column III diverges from the first two categories. It includes spending where regional and municipal governments have decision-making authority, including smaller investment projects, such as urbanization projects or public works, and regional and municipal public organizations. Column III also does not distinguish public funds that were raised locally (through municipal taxes, for example) or those that were transferred from the central government. Spending that falls under column IV includes any spending that the large public companies do during the fiscal year. This category is not typically included in the public budget.

Figure IV: Administrative Control of the Public Budget



Source: Author's elaboration

**Figure V: Phases of the Public Budget Process for the Pilot Program
(Taken from MEF Resolutions)**



Source: Directorial Resolution N° 022-2002-EF/76.01, author's elaboration
Figure VI. The Obelisk in Tambopata



Source: Municipal Government of Tambopapa

APPENDIX III: AMAZONAS INVESTMENT REPORT

REGISTRATION FORM - PROJECT BANK



Date of the latest update: 17/12/2002

1. IDENTIFICATION

1.1 Code of the Public Investment Project: 3729

1.2 Name of the Public Investment Project: EXTENSION OF PUBLIC EDUCATION CENTER N° 18256 - SAULLAMUR - BALSAS

1.3 Functional Responsibility of the Public Investment Project:

Function	09 EDUCATION AND CULTURE
Program	061 EDUCATIONAL INFRASTRUCTURE
Subprogram	0174 SCHOOL BUILDINGS

1.4 This Public Investment Project is NOT part of an Investment Program

1.5 This Public Investment Project is NOT part of an Authorized Conglomerate

1.6 Geographic Location of the Public Investment Project:

Region	Province	District	Location
AMAZONAS	CHACHAPOYAS	BALSAS	SAULLAMAR

1.7 Formulating Unit of the Public Investment Project:

Sector:	REGIONAL GOVERNMENTS
Specification:	AMAZONAS REGIONAL GOVERNMENT
Name:	AMAZONAS REGION-HEADQUARTERS
Person Responsible for Formulation:	
Person in Charge of the Formulating Unit:	ECO. CARLOS POEMAPE OYANGUREN

1.8 Executing Unit of the Public Investment Project:

Sector:	REGIONAL GOVERNMENTS
Specification:	AMAZONAS REGIONAL GOVERNMENT
Name:	AMAZONAS REGION-HEADQUARTERS
Person in Charge of the Executing Unit:	ING, ANIBAL TAFUR BECERRA

2 STUDIES

2.1 Current Level of Study of the Public Investment Project:

Level	DATE	Author	Cost (Nuevos Soles)	Qualification Level
PROFILE	31/08/2002	ING. GUSTAVO CÁRDENAS YAYA	2,500	Approval

2.2 Level of Study Proposed by the Formulating Unit in Order to Declare Viable: Profile

3 JUSTIFICATION OF THE PUBLIC INVESTMENT PROJECT

3.1 Problem Statement:

THE MAIN PROBLEM FACING THE 32 STUDENTS AND TEACHERS AT PUBLIC EDUCATION CENTER N° 18356 IS THE LACK OF ADEQUATE, MODERN, EDUCATIONAL INFRASTRUCTURE. THIS HAS CAUSED OVERCROWDING, ABSENCE AND SCHOOL DROPOUT. FOR THAT REASON CONSTRUCTION WITH QUALITY MATERIALS TO IMPROVE THE EDUCATION LEVEL AND MEET SCHOOL DEMAND IS PROPOSED.

3.2 Area of Influence and Direct Beneficiaries:

Area of Influence of the Public Investment Project:

Region	Province	District	Location
AMAZONAS	CHACHAPOYAS	BALSAS	SAULLAMAR

Characteristics of the Direct Beneficiaries:

3.2.1 Number of Direct Beneficiaries: (N° of people)

3.2.2 Characteristics of the Beneficiaries:

- 30 STUDENTS
- 02 TEACHERS
- 104 RESIDENTS (DIRECTLY)

A LARGE MAJORITY OF THE BENEFICIARIES ARE IN THE INFORMAL SECTOR. 31% OF THE POPULATION ARE SUBSISTENCE FARMERS; THE POVERTY RATE IS 42% AND THE MALNUTRITION RATE IS 42.98%.

3.3 Objective of the Public Investment Project:

None has been registered

3.4 Supply and Demand Analysis:

Section	Length	Cost per Section
--	--	--

4 ALTERNATIVES OF THE PUBLIC INVESTMENT PROJECT (The three best alternatives)

4.1 Descriptions: (The first alternative is the most highly recommended)

Alternative 1 (Recommended)	CONSTRUCTION OF 01 CLASSROOM + RESTROOMS; FROM QUALITY CONSTRUCTION MATERIALS AND A ROOF FROM A CEMENT/ZINC MIXTURE
Alternative 2	CONSTRUCTION OF 01 CLASSROOM + RESTROOMS; FROM QUALITY CONSTRUCTION MATERIALS AND A ROOF FROM LIGHTWEIGHT MATERIALS
Alternative 3	NONE

4.2 Indicators:

		Alternative 1	Alternative 2	Alternative 3
Total Amount of Investment (Nuevos Soles)	Market Price	37,235	44,152	0
	Partner Price	37,235	44,152	0
Cost-Benefit (At the Partner Price)	Net Present Value (Nuevos Soles)			
	Internal Rate of Return (%)			
Costs / Effectiveness	Ratio C/E	825.19	697.25	0.00
	Measurement unit of C/E (Ex. beneficiaries, students, etc.)			

4.3 Sustainability Analysis of the Alternative Recommendation:

- THE MAINTENANCE AND CARE OF THE SCHOOL WILL BE THE OF

PERSONAL RESPONSIBILITY OF PERSONNEL, TEACHERS, STUDENTS, AND PROVINCIAL WORKERS

- THE SCHOOL WILL CONSTANTLY HAVE TEACHERS
- THE POPULATION WILL PARTICIPATE IN ORGANIZED ACTIVITIES

4.4 DISASTER RISK MANAGEMENT IN THE PLAN (IN THE RECOMMENDED SOLUTION'S ALTERNATIVE)

4.4.1 Identified risks in the plan:

Risk	Level
--	--

4.4.2 Measures to reduce disaster risk:

4.4.3 Investment costs associated with the measures to reduce disaster risk:

5 COMPONENTS OF THE PUBLIC INVESTMENT PROJECT (In the Alternative Recommendation)

5.1 Investment Timeline by Component:

COMPONENTS	Months (in Nuevos Soles)		
	1	2	Total by component
CONSTRUCTION OF 01 CLASSROOM + RESTROOMS.	22,070	22,070	44,140
Total per period	22,070	22,070	44,140

5.2 Physical Component Timeline:

COMPONENTS	Measurement Unit	Months		Total by component
		1	2	
CONSTRUCTION OF 01 CLASSROOM + RESTROOMS.	SQUARE METERS	83	83	166

5.3 Operation and Maintenance:

COSTS		Years (in Nuevos Soles)	
		1	
Without Investment Funding	Operation	0	
	Maintenance	0	
With Investment Funding	Operation	0	
	Maintenance	800,000	

5.4 Investment Replenishment:

None have been registered

6 ADDITIONAL ISSUES ABOUT THE FEASIBILITY OF THE PUBLIC INVESTMENT PROJECT

Technical Feasibility: AMAZONAS REGIONAL COUNCIL - AMAZONAS HAS QUALIFIED TECHNICIANS, THE STUDY CONFORMS TO THE STANDARDS OF CONSTRUCTION AND ESTABLISHED CONDITIONS SET FORTH BY THE MINISTRY OF EDUCATION.
Environmental Feasibility: - THERE IS A PREVIOUS SOIL ANALYSIS - NO DETERIORATION OF NATURAL VEGETATION - IT IS NOT LOCATED IN AN ECONOMICALLY FRAGILE AREA - DURING CONSTRUCTION HARMFUL OR TOXIC SUBSTANCES TO THE LOCAL ECOSYSTEM WILL NOT BE USED
Sociocultural Feasibility: - DIMINISH OVERCROWDING - PREVENTS SCHOOL DROPOUT AND DECREASES THE ILLITERACY RATE
Institutional Feasibility: AMAZONAS REGIONAL COUNCIL - AMAZONAS HAS QUALIFIED TECHNICIANS WITH CAPABILITIES, THERE IS AVAILABILITY IN THE BUDGET

7 OBSERVATIONS FROM THE FORMULATING UNIT

None have been registered

8 EVALUATIONS OF THE PUBLIC INVESTMENT PROJECT

Date of the evaluation	Study	Evaluation	Evaluating Unit	Notes
11/12/2002 18:53 Hrs.	PROFILE	OBSERVED	OFFICE OF PROGRAMMING AND INVESTMENTS OF THE AMAZONAS REGION	MODIFY EXPANSION CONSTRUCTION ACCORDING TO MEMO .009- REGION AMAZONAS/GRPPDI-SGP.
16/12/2002 12:51 Hrs.	PROFILE	OBSERVED	OFFICE OF PROGRAMMING AND INVESTMENTS OF THE AMAZONAS REGION	1.2 CORRECT THE NAME OF THE EDUCATION CENTER
17/12/2002 17:42 Hrs.	PROFILE	APPROVED	OFFICE OF PROGRAMMING AND INVESTMENTS OF THE AMAZONAS REGION	NO OBSERVATIONS

9 PHYSICAL DOCUMENTS

9.1 Evaluation Documents:

None have been registered

9.2 Complementary Documents:

None have been registered

10 DECLARATION OF FEASIBILITY DATA

N° Technical Report:

Specialist that Recommended Feasibility:

Supervisor of the Evaluating Unit that Declared Feasible:

Date of the Declaration of Feasibility: 17/12/2002

12 DECLARATION OF FEASIBILITY PRIOR DATA

12.1 Feasibility Verification:

Summary: According to job N° 136-2005-REGIONAL GOVERNMENT AMAZONAS/GRPPAT-SGPI, the Regional Government of Amazonas sent the technical report N° 048-2005-GOB.REG-AMAZ/GRPPAT-SGPI-JVCU, which approved the edited Public Investment Project, which has a final cost of S\$ 79,901 (estimated private value) and the value of the Cost/Effectiveness Ratio of the selected alternative equal to 1,866.

Verified Amount: S\$ 79,901.00

ⁱ McNulty 2011, 56.

ⁱⁱ World Bank 2008.

ⁱⁱⁱ There are 24 regions in Peru. Callao province does not belong to a region and is governed at the provincial level alone. The country's capital city of Lima – known as “Lima province” – is governed separately from the larger Region of Lima.

^{iv} Toledo 2014, 15 [translation].

^v These divisions are analogous to the US federal, state, county, and city or town governments.

^{vi} Toledo 2014, 103 [translation].

^{vii} Toledo's victory was in the province of Callao, which held elections in November 2002 in addition to the 24 regional elections.

^{viii} Although Toledo wanted to postpone elections for a year, he was always a supporter of decentralization and wanted access to the support and resources from the World Bank.

^{ix} World Bank, 2006.

^x Valentín Paniagua served as interim President of Peru after Fujimori resigned and before 2001 elections that Toledo won.

^{xi} “Poverty severity” is a composite index of the poverty rate, median poverty level of each region, and a measure of inequality between poor people in the regions, expressed as a percentage. It is intended to account for the possibility that rural poverty may be harsher than urban poverty; a higher number on the scale means that poverty is more severe in that area. For the 2003 fiscal year, Shack used the ENAHO index from the last trimester of 2001.

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