Chapter 4.

Implementing effective decentralisation: Achievements and challenges in multi-level governance in Peru

This chapter examines multi-level governance in Peru. The chapter elaborates upon OECD tendencies in this area; however, empirical evidence and OECD analysis demonstrate that multi-level governance arrangements are country-specific. In Peru decentralisation is still an ongoing and unfinished process, and where important challenges have yet to be faced, which include clarifying mandates, better defining roles and objectives for regional governments, and improving intergovernmental communication. Additionally, this chapter also discusses specific issues related to human resource management and citizen participation at the local level.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
Introduction

This chapter examines multi-level governance in Peru. The OECD uses the term “multi-level governance”, also referred to as “intergovernmental relationships”, to characterise decision-making processes and policy cycle management arrangements adopted by public actors at different administrative levels to govern relations with each other in designing and delivering policy and services. Multi-level governance refers to the explicit or implicit sharing of policy and service design and delivery responsibility at different administrative levels in a country’s territorial jurisdictions. Thus, multi-level governance focuses on vertical interactions between orders of government at the local, regional, national and supranational levels, and horizontally between subnational administrative units in a given functional territory (for example a metropolitan region).

Empirical evidence and OECD analysis demonstrate that multi-level governance arrangements are country specific. There is no single optimal level of decentralisation or single recipe for vertical co-ordination, since sharing and applying competencies remain strongly context-dependent and evolve due to many internal and external factors, including the overall economic performance of the given country and the spatial disposition of populations, resources and assets in that country.

This is certainly the case of Peru, where decentralisation is still an ongoing and as yet unfinished process, and where important challenges have yet to be faced. International good practice and experience in OECD countries can provide guidance and can save time, resources and public funds related to designing, implementing and monitoring the performance of strategies, plans and institutional arrangements to complete the decentralisation of state responsibilities in Peru. Good practice from across the OECD can provide Peru with evidence of what works and what does not as it pursues strategies to achieve development and well-being results for the country and its citizens in a way that reduces acute and persistent regional disparities while ensuring that each region can contribute to national development and competitiveness.

Peru launched its decentralisation process in 2002; significant efforts have been made by the central government to implement the Constitution’s amendments and new regulations regarding regional and local governments and their interaction with the central administration. In examining the government of Peru’s decentralisation agenda, this chapter assesses the main challenges it faces in multi-level governance and provides policy advice based on good practice in OECD countries. This chapter also discusses specific issues related to human-resource management and citizen participation at the local level.

The territorial organisation of Peru

The amended Constitution defines Peru as a unitary and decentralised state with three levels of government: national, regional and local (municipalities):

- The regional level currently consists of the 24 departments (departamentos). The Department of Lima includes the regional government of Lima and all provinces in the department except for the Province of Lima, which has special status. The Constitutional Province of Callao (where Lima’s port and airport, the most important in the country, are located) also has the status of a department that includes the regional government of Callao and a provincial municipality of Callao.
The local level has two sub-levels: 196 provincial municipalities (municipalidades provinciales) and 1,671 district municipalities (municipalidades distritales). The Metropolitan Municipality of Lima has a special regime, which is defined as a local provincial for the city of Lima with additional powers of a regional government for this territory. The process of transferring powers and functions to the Metropolitan Municipality of Lima began in 2011.

Subnational governments are elected for a period of four years under an electoral system that mechanically hands a governing majority at the local level to the political party that elects the greatest number of representatives in the subnational assembly. In the case of the region, a run-off election between the two candidates with the highest number of votes is held within 30 days of election day if no candidate has obtained 30% of the votes cast. Both regional and local governments enjoy political and administrative autonomy over matters within their jurisdiction.

Box 4.1 presents statistics on levels of subnational government structures in OECD countries. This box shows that Peru is at first glance not a particularly fragmented country at the subnational level. That said, the OECD Territorial Review of Peru carried out under the Country Programme with Peru (OECD, 2016a) shows that the main challenges facing the country’s national development stem from persistent, acute regional disparities and the over-concentration of economic activity in key territories, especially Lima, coupled with the physical isolation of other, remote regions in the south and east of the country.

Decentralisation in Peru: A work-in-progress

An ambitious political and administrative decentralisation

Decentralisation has long been on the political agenda in Peru. Over the past three decades, the regional framework has undergone three transitions between centralised and decentralised governments. In aiming to promote the country’s development, the stated goals of decentralisation in Peru focus on improving citizens’ living conditions and reducing inequality, enhancing the quality of public services, and reducing the acute and persistent regional disparities across the territory. This approach to decentralisation, including constitutional reforms, was welcomed by Peru’s National Agreement Forum (Acuerdo Nacional), the country’s national, non-partisan advisory body on initiatives to improve Peru’s democracy and its strategic approaches to growth and development (see Chapter 2).

The 1979 Constitutional Act moved Peru from military dictatorship to democracy. This act launched the decentralisation process by giving Peruvian municipalities resource management responsibilities. In 1980, the first political cycle of local elections was carried out. In 1987, a first attempt at creating regions took place.

During the 1990s, President Alberto Fujimori drove a process that recentralised the management of the economy along with government structures and mandates. The regional governments elected in 1989 and 1990 were abolished (Contreras, 2004).
Box 4.1. Subnational government structure in OECD countries

The multi-level governance structure of countries varies considerably across the OECD, with 9 federal states and 25 unitary states. Among OECD member countries, only eight have three subnational government tiers: the regional/federated level, the intermediary level and the municipal level. Eighteen countries have the same structure as the Netherlands with two subnational tiers (regions and municipalities) and eight countries have only one subnational tier.

Table 4.1. Number of subnational governments\(^1\) in the OECD in 2015 with figures on Peru

<table>
<thead>
<tr>
<th>Federations and quasi-federations</th>
<th>Municipal level</th>
<th>Intermediary level</th>
<th>Regional or state level</th>
<th>Total number of subnational governments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>565</td>
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<td>573</td>
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<tr>
<td>Austria</td>
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<td>2 111</td>
<td></td>
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<td></td>
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<tr>
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<td></td>
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<tr>
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<td>32</td>
<td>2 477</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
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<td>8 184</td>
<td></td>
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<tr>
<td>Switzerland</td>
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<td>2 350</td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>35 879</td>
<td>3 031</td>
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<table>
<thead>
<tr>
<th>Unitary countries</th>
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<tr>
<td>Chile</td>
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<tr>
<td>Czech Republic</td>
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</tr>
<tr>
<td>Denmark</td>
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<td>5</td>
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<td>Estonia</td>
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</tr>
<tr>
<td>Finland</td>
<td>317</td>
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<td>318</td>
</tr>
<tr>
<td>France</td>
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<td>101</td>
<td>36 809</td>
</tr>
<tr>
<td>Greece</td>
<td>325</td>
<td>13</td>
<td>338</td>
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<td>Hungary</td>
<td>3 177</td>
<td>19</td>
<td>3 196</td>
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<td>Iceland</td>
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<tr>
<td>Italy</td>
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<td>Japan</td>
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<td>1 765</td>
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<tr>
<td>Korea</td>
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<td>17</td>
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<tr>
<td>Luxembourg</td>
<td>105</td>
<td></td>
<td>105</td>
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<tr>
<td>Netherlands(^2)</td>
<td>393</td>
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<tr>
<td>New Zealand</td>
<td>67</td>
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<td>Norway</td>
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<tr>
<td>Poland</td>
<td>2 478</td>
<td>380</td>
<td>2 674</td>
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<tr>
<td>Portugal(^3)</td>
<td>308</td>
<td>2</td>
<td>310</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>2 927</td>
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<td>Sweden</td>
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<td>Turkey</td>
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<td>United Kingdom</td>
<td>389</td>
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<tr>
<td>OECD34</td>
<td>133 900</td>
<td>4 111</td>
<td>138 538</td>
</tr>
<tr>
<td>Peru</td>
<td>1 671</td>
<td>196</td>
<td>1 892</td>
</tr>
</tbody>
</table>

**Notes:** 1. Includes only subnational government with general competencies. 2. Netherlands: 403 municipalities as of 1 January 2014. 3. The regional level in Portugal includes only two overseas regions: Madeira and Azores.

After the collapse of President Fujimori’s regime (see Chapter 1), President Paniagua’s transitional government called general elections in 2001. Decentralisation was already an important priority on the national political agenda. In particular, the winning presidential candidate, Alejandro Toledo, ran a strong campaign favouring decentralisation, one of the main planks in his platform that distinguished him from Alberto Fujimori. As a result, in 2002, Congress approved significant amendments to the Constitution to frame the move to greater decentralisation: 12 articles of the Constitution were amended with the support of all political parties in the Peruvian parliament. Notably, Law No. 27680 amended Chapter XIV, Title IV of the Peruvian Constitution to state that “Decentralisation is a form of democratic organisation and is a mandatory permanent government policy with the main objective of promoting the development of the country”. President Toledo’s administration implemented through enabling legislation substantial legal reforms laying down the institutional framework for decentralisation.

Parallel to the decentralisation reform initiated in 2002, Law No. 28274 establishing incentives for integration and creation of regions was also approved in 2004. Based on this law, in October 2005 a referendum was held for the creation of five regions: the Cusco-Apurimac Region; the South Andean Region (incorporating the departments of Arequipa, Puno and Tacna); the Ica-Ayacucho-Huancavelica Region; the North-Eastern Central Region (integrating the departments of Ancash, Huanuco, Junin, Pasco and Lima); and the Northern Region (proposed by the departments of Lambayeque, Piura and Tumbes). However, the referendum failed and so far, no departments have merged to form bigger regions. The old deconcentrated administrations in the territory have been consolidated at the regional level, setting aside this debate for the moment.

Since the beginning of the decentralisation process, public discussion of decentralisation in Peru was couched in terms of reducing regional disparities and improving the potential of citizens in remote and isolated territories to participate in the national democratic life of the country, notably by improving public service delivery (Casas, 2009). For example, an early and influential assessment of the decentralisation process emphasised how the process of transferring functions had as its “principal goal, to improve the services provided to the citizenry” (Casas, 2009). That said, decentralisation has been pursued gradually and in different stages, requiring new allocations of competencies, transfers of resources, delimitation of territories, elections and accountability measures. As in other countries with a heavy legal tradition, such as France, Italy or Spain, Peru has approved a comprehensive, if complex and lengthy, reform of the regulatory framework on decentralisation. This heavy legal tradition appears to have led to a consistent, but at times unclear and duplicative, set of laws on decentralisation. This in turn appears to hinder clarity and effectiveness in implementing decentralisation. The distribution of competencies is described in a very general way in the initial legislation; since the first pieces of legislation were passed, clarification has been required through subsequent rule-making.

The decentralisation law of 2002 established the need for a clear division of responsibilities based on the principle of subsidiarity. It established a distinction between three types of competencies: exclusive, shared and delegated. It also stated that decentralisation was to be pursued gradually, and be fiscally neutral and fully funded. The organic laws of the executive, regional and local governments provided more detail on the organisation and competencies of the local governments.
But in fact, the original order in which rules were to be approved was not followed. The Organic Law of the Executive Branch, a major law that adapted the organisational structure of the executive branch to the new unitary and decentralised model of the Peruvian state outlined in the Constitution, was only approved in 2007, five years after the beginning of decentralisation. Political pressure from subnational governments and weak leadership in the national government in this area created initial confusion that prevented setting the necessary institutions from the beginning (Propuesta Ciudadana, 2006). The National Council for Decentralization initially took over the transfer of competences to the regional and local levels. It was only in 2007 when the Decentralisation Secretariat was created within the Presidency of the Council of Minister (PCM) that the central government took the lead through the “shock decentralizador” (see below).

Deficiencies in the decentralisation process persist. Despite efforts, the central government is still refining the delimitation of competencies between the different levels of administration:

- Decentralisation legislation provided for the establishment of an “accreditation system” to assess whether regional and local governments meet minimum capacity standards to qualify for the transfer of functions and corresponding resources; yet this system has proved to be more of a formality than an efficient mechanism to identify real capacity gaps in the regions and municipalities.3
- Ministries did not develop a comprehensive plan for ongoing capacity building in the regions to deliver the services that were once delivered from the central administration. At the time, capacity building was understood only as a training plan that was never made permanent. As a result, the workload, tasks and responsibilities of subnational governments suddenly increased tremendously without sufficient resources or adequate capacity for timely, effective and efficient service delivery.4

A set of competencies to be clarified at the subnational level

Peru’s commitment through the constitutional amendments to a decentralised model in the context of a unitary state was an important step forward in the democratisation process. However, the implementation of the decentralisation process in its administrative dimension, namely the effective transfer of competencies to the regional and local levels, has faced difficulties in practice. The process of transferring functions from the national government to the regional governments thus merits particular attention as it was initiated by the National Council for Decentralisation (Consejo Nacional para la Descentralización, NCD), in charge of day-to-day direction and policy implementation until 2007 when the Decentralisation Secretariat was created in the PCM (see Chapter 2).

The NCD was created by law as an independent and decentralised agency attached to the Presidency of the Council of Ministers. Chaired by a representative of the President of the Republic, it also gathered representation from regional and local governments.

Grounded in the 2004 Law on Accreditation and Competency Transfer, the transfer of responsibilities aimed to move decision-making capacity to decentralised governmental bodies in the regions. As mentioned above, the core objective was the transfer of social programmes to local governments, high-profile projects to regional governments, and devolution of functions and competencies to both levels of governments (Prodes, 2009a).
The first functions transferred to regional governments were social and infrastructure programmes, followed by other sector-based functions, such as trade, agriculture, mines and tourism, and finally the transfer of education and healthcare.

In 2006, new regulations were issued to accelerate the reform under the so-called “Shock descentralizador”. By 2015, according to the latest data provided by the Peruvian government, 92.8% of the identified functions had been transferred, which represents 4,466 functions out of a total of 4,810 (PCM, 2012). The Decentralisation Secretariat in the PCM is only now beginning to conduct the first assessment of the outcomes of the decentralisation process, the “Monitoring and Evaluation Plan of the Sectorial Competences transferred to Regional and Local Governments, with a Focus on Decentralised Management of Public Utilities”. This assessment focusses on single-sector competencies and functions transferred to regional and local governments to provide better service delivery to citizens.

The evaluation is being carried out in basic sectors, such as education (pre-school to high school), primary healthcare, land registries for peasant farmers (campesinos) and native communities, the sustainable use of forest resources, and the promotion of local artisanal fisheries, among others. But the Decentralisation Secretariat has already acknowledged the lack of indicators and protocols needed to establish the level of each administration’s responsibility for co-ordinating the specific services they are to deliver (PCM, 2014).

That said, efforts are being made to clarify competences and enhance co-ordination though a matrix methodology elaborated by the PCM’s Public Management Secretariat (Secretaría de Gestión Pública, SGP; see Chapter 2) together with the Decentralisation Secretariat on the distribution of competencies in the areas of employment, transport and women. Under this initiative, intergovernmental commissions (see below) will play a key role in reaching a consensus with subnational governments on implementing decentralisation in these areas.

**Fiscal arrangements also need clarification**

Together with political and administrative autonomy, decentralisation has to include a fiscal dimension. In fact, financial responsibility is a core component of decentralisation. If subnational governments are to carry out decentralised functions effectively, they need an adequate level of revenues – raised locally and transferred from the central government – as well as the authority to take decisions about expenditures. Fiscal decentralisation can take many forms, but it particularly addresses three interrelated issues:

1. The first is the division of spending responsibilities and revenue sources between levels of government (national, regional and local): resources should match the competencies assigned to regional and local governments so that they have the capacity to carry them out.

2. The second is the amount of discretion given to regional and local governments to determine their expenditures and revenues (both in aggregate and detail), so that they can take decisions that effectively reflect policy priorities and citizens’ needs on the ground (OECD, 2013).

3. Perhaps most importantly, the third speaks to the overarching constitutional objective of broadening and deepening democracy through decentralisation: local fiscal autonomy in setting certain taxation rates and in taking spending decisions involving locally generated revenues significantly enhances regional and local
governments’ accountability to citizens. Regional and local governments can become more accountable to their citizens if they need to justify taxation rates and spending decisions to their residents: this inevitably leads to more transparency, which in turn can lead to greater sustainability in retaining citizens’ trust in the local and regional institutions of the state. This degree of local/regional democratic accountability is less prominent in a fiscal regime where local and regional government revenues flow entirely or principally from transfers from the national authorities.

Fiscal federalism, the sharing of fiscal capacity between levels of government, ought therefore to be an essential component of the decentralisation process: Peru should thus seek to enhance the financial autonomy of decentralised governments as it seeks to improve their capacity to fulfil their responsibilities under the country’s decentralisation agenda. However, Peru’s fiscal decentralisation is currently limited to spending through intergovernmental funding transfers. According to the Law on Fiscal Decentralisation, the transfer of resources to regional governments is to be implemented gradually, in two stages: the first, related to resource transfers from the national level, and the second, the allocation of a certain percentage of national taxes and resources to subnational governments conditional on the creation of regions according to Article 190 of the Constitution.

Furthermore, the process of fiscal decentralisation is currently stalled; as a result, subnational governments have yet to develop their own tax systems. Currently, responsibilities transferred to subnational governments are mostly financed by national government transfers. To finance their responsibilities, regional and local governments have revenues from the following sources: natural resource revenue (the canon funds), which must be spent on capital investment; transfers from the national government; compensatory funds for regional governments (FONCOR) and municipal governments (FONCOMUN); and, to a far lesser extent, their own tax revenue-raising capacity for the municipal level.

On the spending side, subnational governments have assumed important responsibilities, especially in public investments and in the delivery of such essential public services as health and education. As mentioned above, these are the main competences assigned to subnational governments.

- The main trend to date is that subnational governments are receiving an increasing proportion of the total amounts to be transferred from the national government. Between 2003 and 2006 their share rose from 29% to 35% (Prodes, 2009a). Between 2005 and 2012, the budget managed by regional governments increased by 143%. Local governments handled 183% more financial resources in 2012 than in 2007 (Ministry of Economy and Finance, 2016).

- In these 13 years, the decentralisation of expenditures has deepened not only because a greater number of responsibilities have been assigned to subnational governments, but mainly as a result of increased transfers from canon and regalías (royalties from natural resource extraction). This is a significantly uneven distribution as mainly subnational governments whose regions have natural resources that are being extracted can benefit from the royalty revenue source. The decentralisation of revenue sources remains, however, quite insignificant:
  - In 2002, the share of own revenues over total expenditures for subnational governments was 11%. 

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In 2008, this share rose to only 12.3%, with the local governments collecting most of these revenues.

Such a low share of own revenues implies a great reliance on intergovernmental transfers. This dimension is further developed in the OECD Territorial Review of Peru (OECD, 2016a).

• A significant concern is how to distribute resources from mining royalties (*canon* and to a minor extent *regalías*):
  
  - Mining royalties increased almost 305% in the period 2000-05 (Prodes, 2009b). Mining royalties are distributed according to a constitutional mandate. These resources are meant to stay in the regions where the minerals are exploited.
  
  - Under Law 27506 and Decree 005-2002-EF, the MEF establishes the distribution indexes of mining royalties. The distribution criteria inside the regions where the minerals are exploited are based on population density and the Unsatisfied Basic Needs Index.
  
  - As the National Territorial Review develops in more detail, major challenges for fiscal decentralisation include the limited fiscal autonomy, the need for a property tax as well as challenges on the current system of intergovernmental transfers.
  
  - The inequity in the distribution of *canon* and mining royalties: under the existing formula, in 2005, regions such as Moquegua received a per capita transfer of USD 127, while Lambayeque received USD 4, regardless of the specific needs in each region. Strengthening equalisation transfers is extremely necessary to cope with this problem.
  
  - This inequity in distribution, whose formula appears not to take into account need, is exacerbated by the fact that some regional and local governments simply lack the capacity to absorb the large amount of resources available while others lack fiscal resources for very basic investments (Prodes, 2009a).
  
  - In addition to the inequity in distribution, another important challenge is that subnational governments are exposed to high volatility due to the *canon* fluctuations. The 51% decrease between 2012 and 2016 has generated substantial problems for subnational finances that has resulted in the suspension or postponement of investment projects. It also generates low predictability for subnational governments’ budgets.

In 2014, the national government carried out investments amounting to PEN 11.7 billion. The decentralised government executed more than PEN 21 billion, representing 64% of total investments. In particular, local governments executed investments of PEN 14.3 billion, while regional governments implemented PEN 6.5 billion worth of public investments.
Fiscal transfers to subnational governments have been increased through two key components: the Municipal Compensation Fund (Fondo de Compensación Municipal, FONCOMUN) and commodities revenues.

- FONCOMUN and FONCOR (compensatory funds for regional governments) transfer resources based on compensatory mechanisms defined by socio-economic and demographic criteria. The main revenues obtained from commodity exploitation are canon and royalties.\(^7\)

- In line with some OECD countries, royalties are based on companies’ profits and canon make up 50% of the corporate tax from mining companies (the other half is retained by the central government). Ordinary transfers from the central government to subnational governments have also increased in the last years (Table 4.2).

- From a public governance perspective, there appear to be two main issues with the current canon and royalty transfer regime:
  - First, the formula itself appears not to be designed to address specific needs on the ground in each region, whether for basic infrastructure, service quality and standards, the individual needs of residents, or business needs to create jobs and contribute to the region’s development and that of the country.
  - Second, current transfers from royalty revenues appear to be made outside of any kind of intergovernmental agreement or contractual arrangement that defines the policy objectives to be pursued with the transferred resources and outcomes to be achieved with these public investments:
    - Subnational governments can only use the resources from mining royalties on public investment projects related to infrastructure; they do not appear to be linked to the local or regional development plans that subnational authorities are required to design and implement under the National Strategic Development Plan (PEDN, see Chapter 3).
    - In addition, rules governing these transfers do not mention whether they can be combined with other sector-specific transfer streams to improve public service quality or enhance the impact of infrastructure investments, or simply build capacity in the regional or local administration to manage public investments more effectively and efficiently.
The *canon* should be used to finance public investment projects, up to 20% for maintenance activities (in 2015 it was exceptionally increased to 40%) and up to 5% for studies and investment profiles.

<table>
<thead>
<tr>
<th>Year</th>
<th>Regional governments</th>
<th>Local governments</th>
<th>Total subnational</th>
</tr>
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<tr>
<td>2006</td>
<td>9 885</td>
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<tr>
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<td>2014</td>
<td>23 395</td>
<td>17 893</td>
<td>41 288</td>
</tr>
</tbody>
</table>

**Note:** Includes all transfers from the national level.

**Source:** Ministry of Economy and Finance.

This approach does not reflect OECD governance standards. Transferring significant resources to regional and local authorities that have little, if any, capacity to manage the scale and scope of such investments, or to monitor the impact of such investments on the achievement of expected results for people and businesses, can be a recipe for corruption and unaccountable decision making. The following sections present several examples of good practice in effective multi-level governance arrangements that can be adapted by Peru to address these issues.

OECD experience suggests that fiscal equalisation to subnational governments can cushion the fiscal imbalances generated by the disparities in strengths, assets and resources across territories. Designing equalisation transfers requires not only taking into account the fiscal needs of subnational governments, but their capacity to manage these transfers as well.

### Institutional arrangements supporting decentralisation in Peru

**The Decentralisation Secretariat in the Presidency of the Council of Ministers**

The creation of the Decentralisation Secretariat responded to the political will of the executive branch to strengthen the Presidency of the Council of Ministers (PCM) as an organ of consultation and generate consensus on the direction among intergovernmental and civil society actors involved in the decentralisation process. It also sought to launch bilateral relations between the executive and subnational governments (USAID, 2011).

Within the PCM, the Decentralisation Secretariat operates within a silo, distinct from CEPLAN and the Public Management Secretariat, responsible for the PEDN and the strategy on the modernisation of public management reform respectively, both of which involve the decentralisation of the state. Regional and local governments are also part of this exercise, yet evidence suggests that there is no link between the SGP and the Decentralisation Secretariat on the roll-out of the reform strategy and the decentralisation agenda.
Peru’s horizontal co-ordination mechanisms at the central level

The following institutional arrangements define Peru’s horizontal co-ordination arrangements:

- **Cabinet:** the Council of Ministers is appointed by the President of the Republic according to the Peruvian Political Constitution and is chaired by the Prime Minister. Its main functions are to co-ordinate and evaluate overall government policy, as well as national and sectorial and cross-sectorial policies (Articles 15 and 16 of the Organic Law of the Executive Branch [LOPE]).

- **Inter-ministerial commissions** are forums for co-ordination and policy discussion within Cabinet on specific strategic policy themes. They are made up of ministers and are supported by a Technical Bureau. Two ministerial commissions were created by the LOPE; they are responsible for overseeing Financial and Social and Economic Affairs, respectively.

- **Undersecretaries Co-ordination Commission:** for the co-ordination of sectorial issues, Article 26 of the LOPE sets out that the 35 vice-ministers and the Secretary General of the PCM come together in this body to discuss technical and strategic issues on agenda items proposed for discussion by the Cabinet Office as well as on multi-sectoral and strategic initiatives and projects.

- **Multi-sector commissions** can also be created to follow up on policy proposals or report issuing functions, which should form the basis for decisions of other entities. These commissions can be of a temporary or a permanent nature. On the same basis, working groups are often created for setting courses of action that will contribute to the proper implementation of multi-sector public policies.

*Source:* Prodes.
Decentralised Cabinet meetings have been used in recent years to interact with subnational bodies, both for co-ordination between levels of government (vertical) and for co-ordination between sectors (horizontal), to allow interaction between the President of the Republic and ministers and regional and local representatives (who do not have voting rights in the meetings). These meetings, which are not institutionalised formally and are not independent from the Council of Ministers, allow players to establish an agenda of resolutions for the development of the region in which they occur. The current government has organised at least 19 decentralised Cabinet meetings in the different regions.

Vertical co-ordination: Intergovernmental Co-ordination Council and intergovernmental commissions

The Intergovernmental Co-ordination Council

The Intergovernmental Co-ordination Council (Consejo de Coordinación Intergubernamental, ICC) is the highest co-ordinating forum between the three administrative levels, in particular regarding the development of planning at the national, regional and local levels. As stated above, although decentralisation was launched in 2002, the ICC was only created in 2007 through the LOPE). Its Rules of Procedures were adopted in 2009 after pressure from regional and local governments as well as from the Ombudsman (Defensoría del Pueblo); its launch remains complicated and controversial.

The ICC is a co-ordinating body attached to the PCM and aims to co-ordinate and promote recommendations on policies, strategies and actions for the development of the decentralisation process. It is a large committee of 72 members convening representatives of the 3 levels of government: 25 regional presidents, Mayors of Metropolitan Lima and Callao’s Constitutional Province, 19 ministries, the President of CEPLAN and the Decentralisation Secretariat. Regarding the 24 representatives of local governments (12 provincial and 12 district), it was decided they would be elected through lists of candidates, with no criteria to ensure a fair representation of each department, or to ensure a balanced representation of urban and rural mayors (USAID, 2011).

This complex system chosen by the Decentralisation Secretariat to designate local governments’ representatives has yet to reach a full consensus. The Association of Municipalities of Peru (AMPE) and REMURPE (the Peruvian associations of municipal governments, urban and rural, see below) are particularly critical of the current situation. The Rules of Procedure adopted by the Decentralisation Secretariat did not include a previously agreed issue: that decisions taken in the forum would be binding. The ICC was launched on 27 May 2011 but remains inactive due to this situation.

Intergovernmental commissions

In Peru, intergovernmental commissions have been established to contribute to strengthening the leading role of line ministries in sharing competencies with subnational governments in managing decentralisation (Supreme Decree No. 047-2009-PCM). They have assumed a major responsibility in the development of the alignment of the decentralised management sector and are a strategic space to validate the remaining matrices of competencies and functions.

At the end of 2015, 14 intergovernmental sector-based commissions had been constituted on key topics such as: Work and Employment Promotion, Energy and Mines,

These commissions are headed by the corresponding line ministry and local and regional governments are full members along with other central state bodies that may be concerned by the topic. Progress remains rather uneven and only one-third of these commissions are considered by the Decentralisation Secretariat to be active: Health, Labour and Education.

As an example, the Intergovernmental Commission of Health (Comisión Intergubernamental de Salud, CIGS) was created in 2009 and is headed by the Minister of Health. It consists of 15 representatives of the Ministry of Health, 25 representatives of the regional governments, 1 from the Metropolitan Municipality of Lima, 1 from the National Assembly of Regional Governments (Asamblea Nacional de Gobiernos Regionales, ANGR) and one from each of the two main associations of municipalities (the AMPE and the REMURPE).

The General Assembly of the Intergovernmental Commission of Health relies on an Executive Secretariat to support it in fulfilling its functions, provide it with administrative and technical support, follow-up on decisions, and prepare its implementation.

This organisation has allowed, among other things, the approval of the 2010-2014 Concerted Decentralised Sector Plan for Capacity Building in Health (PLANSALUD), the road map for the draft Law on Healthcare Career as well as a first delimitation of competencies between the national and regional levels (matrices de competencias y funciones sectoriales de salud).

As discussed in Chapters 2 and 3, the central government has the competency to establish general strategic directions for the country’s development. But as far as the central government’s competencies on co-ordination are concerned, there is no instrument to guarantee that regional or local development plans are in line with national development plans.

Indeed, many regions do not have an approved regional development plan. Amongst those regions, Arequipa, the second most important region in the country, has not had a plan for the past three years, for example.

As mentioned in the previous section, on the one hand, subnational spending also does not have any formal linkages with the approved development plans. The only sectors where the MEF exercises a tight control, especially through the Budgeting for Results system – and ties transfers and spending to an approved plan – are in health, education and social transfers, whose budgets are partially earmarked.

On the other hand, some efforts have been made at the central level by CEPLAN to help regional governments formulate their development plans and align them with national public policies and the PEDN. The Budgeting for Results system can only contribute to the alignment of regional policies with national ones but does not enable actual policy design.

Intergovernmental co-ordination at the subnational level

This section presents the tools used to promote vertical and horizontal co-ordination at the regional and local levels in Peru. The regulation on decentralisation stipulates that
the relationship between the central government and the subnational levels is to be one of co-operation and co-ordination that respects subnational autonomy in the exercise of subnational competencies. Under this regulation, regional governments cannot intervene in the sphere of competencies of local governments. Nonetheless, the law on decentralisation encourages subnational levels to sign co-operation agreements or contracts in their mutual interest.

Regional and local co-ordination councils

The main subnational co-ordinating bodies are the regional and local co-ordination councils, consultative bodies made up of the President of the region and provincial mayors of the region (60% of the council), and representatives of civil society (40% of the council). In the case of the regional co-ordination councils, there is the additional requirement that at least 30% of civil society representatives come from business organisations. Local and regional governments are encouraged to ensure proper gender representation, the inclusion of indigenous groups where relevant and/or the inclusion of other marginalised groups.

The strong presence of the state in these co-ordination councils is one of the compromises adopted in response to fears expressed by stakeholders concerned with protecting representative democracy. The results, however, are still difficult to determine, since competencies of the co-ordination councils vis-à-vis the regional or municipal councils are not clearly defined and no mechanisms have been established to ensure complementarity and avoid overlap and duplication.

The task of monitoring the implementation of regional and local co-ordination councils’ agreements is assigned to an oversight committee (Comité de vigilancia). According to the internal rules of procedure, the committees’ tasks are more preventive than punitive, as there are no sanctions for non-compliance with any of the provisions of the law. In fact, the do not have any financial resources nor sufficient information and technical assistance to exercise their role as defined in law. Councils are considered more of an early-warning system in that they tend to complain to the media or authorities to elicit reaction.

Regional co-ordination councils have been set up in the 24 regions, but only 8 are operating with the participation of civil society (Infogob, 2008). The case of local co-ordination councils is even worse; in 2009 only 73 provincial municipalities had created councils. Even when they have been created, meetings are irregular. One of the reasons for this that was evoked during interviews in the regions is the overlap of instruments. These bodies must agree on annual plans and participatory budgeting and regional development and local plans, which are also debated by regional and local councils.

The regional and local co-ordination councils are only advisory bodies that ordinarily meet twice a year. On a few occasions these instances have become spaces of negotiation of collective projects between local and regional authorities and civil society (Grompone, 2007).

In light of this situation, the Decentralisation Secretariat is preparing a Plan for Monitoring Regional and Local Co-ordination Councils, based on the evidence concerning the functioning of these bodies and citizen participation.

Evidence thus suggests that alignment between local and regional planning is still weak. CEPLAN has recently started to give technical capacity-building assistance to regional governments in planning alignment but more work needs to be done. Local
elected officials interviewed in Cusco and Arequipa also consider regional governments
to be too focused on their own needs and that insufficient attention is being paid by
regional governments to local needs, demands and interests. There are precious few
eamples of fluent, dynamic and institutionalised co-operation between regional and local
authorities in the same territory and it is often the same between provincial authorities
and municipal ones. An illustration of the challenges and need for robust multi-level
governance can be demonstrated with an emblematic example, the Panamericana road
(Box 4.2).

**Box 4.2. The Panamericana road**

The idea to unite the Americas from north to south via a grand road can be traced back to as early as 1880. In
that year, the US Congress passed a bill to extend the commercial ties to the Republics of South America. In the
early 1930s, after various inter-American conferences, engineers from most Central American countries met in
order to discuss the co-operation. At the Inter-American Conference for the Consolidation of Peace in Buenos
Aires in 1936, ten countries, including Peru and the United States, signed a convention in which all countries
committed to collaborate in the construction of the road. They also agreed that all vehicles shall be granted
permission of transit. One of the greatest infrastructure projects in the Americas was born.

Yet co-operation among the different levels of government was far from being achieved. In addition to the
supranational treaties, Peru’s Principle Highway, better known as *Carretera Panamericana*, also provides for a
sound example of not only the divide between the east and the west of the country in terms of population density,
但它也产生重要见解关于多级治理结构。*Panamericana* 沿着秘鲁的海岸线在西部延伸，并横跨秘鲁的十个*departamentos*. 北部利马地区通常被称为*Panamericana Norte*, 而*Panamericana Sur* 将首都连接到南部邻国智利。

Peru’s Constitution of 2002 aims at decentralising the state and transferring more and more competencies
and resources from the national to the regional and local governments (Article 188). Moreover, it leaves room for
manoeuvre and collaboration between the regional and local governments in the realm of infrastructure and
transportation management. Peru’s regions are obliged to “promote regional development and economy;
encourage investments, activities, and public services within their jurisdiction, in harmony with national and
local development plans and policies”, according to Article 192 of the Constitution. Like in the provision for the
regional governments, the local counterparts share these obligations (Article 195). Maintaining and governing
the *Carretera Panamericana* thus falls under jurisdiction of both the regional and the local levels of government.
More specifically, the aforementioned articles lay down to “encourage competitiveness, investments, and
financing for the development of infrastructure projects and works at the regional level” (Article 193.8). Since
the *Carretera* has not only a regional, yet also a tremendous local impact, the local governments are obliged to
“Develop and regulate activities in the area of education […] public transportation, circulation and traffic […]”
(Article 195.8).

Given the important expenditures needed to maintain Peru’s most important highway, the country also relies
on private investments, which the Constitution also enabled in Article 58. In 2013, 36% (USD 216 million) of
the municipality of Lima’s spending was invested in road works. Hence, the municipality agreed to grant
concessions of up to 30 years to a private company, which invested in USD 590 million in maintenance and
expansion of the famous highway. The *Carretera Panamericana* illustrates that co-operation among the different
levels of government – supranational, national, regional and local – as well as private companies, remains
inevitable even today to ensure the free passage of vehicles, as inherited by the idea from as early as 1880.

*Source: OECD’s work based on data from INEI and Ministry of Transports and Communications of Peru.*
Interregional co-ordination boards

Interregional co-ordination boards (Junta de Coordinación Interregional), created as a result of the Incentives Law for Integration and Creation of Regions, are forums for the co-ordination of projects, plans and joint actions between two or more regional governments to consolidate economic corridors and develop macro region spaces. The Decentralisation Secretariat still has a key role promoting and supporting technical secretariats. Four boards have been created that gather together 21 regional governments: INTERNOR (Ancash, Cajamarca, La Libertad, Lambayeque, Piura and Tumbes), CIAM (Amazonas, Loreto, Madre de Dios, San Martín and Ucayali), CENSUR (Ayacucho, Huánuco, Huancavelica, Ica, Junín and Pasco), MACROSUR (Arequipa, Cusco, Moquegua and Tacna) and Litoral central (Lima and Callao).

Despite this mechanism, the co-ordination and implementation of interregional co-ordination boards is still weak: regional governments still tend to focus on projects strictly limited to their own territory. Arequipa’s regional government acknowledged that its board was not even operational. This limits the impact of public investment on results and the capacity to promote interregional development.

Associations of subnational governments

The Associations of Decentralised Governments include the ANGR, the AMPE, the REMURPE, and the Peruvian Association of Municipal Networks (MUNIRE). These associations reflect the shared common interests of regional and local governments. They also constitute potential national forums for sharing good practices.

These associations are members of the main co-ordinating bodies described above, such as the Intergovernmental Co-ordination Council and the sector commissions. Both associations of local governments offer important support to their membership, especially to small municipalities. That said, Peru does not have any specific horizontal institutional co-ordination mechanism at the subnational level. There is little experience in the development of common investment projects or the provision of services involving two or more regions.

Peru has different initiatives and mechanisms for vertical co-ordination, mainly through concrete instruments such as incentives to promote the articulation of policies. This is the case for sectoral policies such as education (management commitments) and social inclusion as well as for the comprehensive mechanisms established by the MEF for the implementation and good performance of budget programmes.

In some OECD countries, central state co-ordination with local governments is organised without the intermediation or participation of regional governments. Box 4.3 describes some examples.

Inter-municipal and interregional co-operation: The case of the mancomunidades

The optimal size of a municipality most often assessed in the literature tends to be defined on the basis of the overall cost of public services per capita. This can be, however, a crude measure of efficiency as numerous reasons may explain differences in spending across municipalities of a similar size, including the age and socio-economic structure of the population, density, remoteness, morbidity, financial resources, the quality of public services and the efficiency with which they are delivered (OECD, 2014a).
Box 4.3. Integrating lower levels of government in consultation procedures: The cases of Spain, Sweden and Switzerland

In Spain, the National Commission for Local Administrations (CNAL) is the standing body for collaboration between the central and local governments. It is composed of an equal number of representatives of central and local governments and is chaired by the Ministry of Finances and Public Administration. In the case of local governments, these representatives are designated by the “National Association of Local Governments” mostly present throughout the national territory, and are locally elected. The CNAL issues a report in the case of state draft laws and regulations regarding local governments and their administration. The other body of co-operation between central, regional and local governments is the Sectoral Conference for Local Affairs.

In Sweden, the process that precedes the development and passage of a new law includes setting up committees of inquiry. The terms of reference of such committees are stipulated by the government and its members, the latter being special advisers and experts appointed by the lead minister concerned. Experts are often recruited from local and regional authorities and from the Swedish Association of Local Authorities and Regions. Committees normally hold public meetings, and their results are extensively circulated for comment. Although there are only limited formal consultation mechanisms, groups and citizens present their views through the normal work of local municipal councils and committees in the course of their normal public business. Informal consultation mechanisms also involve contacts with local enterprises and business organisations, municipalities, the Swedish Association of Local Authorities and Regions, or other state agencies.

In Switzerland, extensive consultation procedures are used at cantonal level, and to integrate cantonal views at the federal level according to Article 45 of the federal Constitution. Since cantons are in charge of the implementation of federal laws, the Confederation informs them in advance and in detail about future projects, and is obliged to involve them in the consultation procedure. The participation of the Association of Cantons in the consultation is an important, but not the only, way of participating. Cantons can also raise their voice through representatives in mixed working groups or institutionalised meetings. The commissions of the Council of States consult with cantons on the applicability of laws.


One way to lower administrative costs and build economies of scale in the design and delivery of public services can be to amalgamate or merge municipalities. Municipal mergers often aim at increasing economies of scale to design and deliver services more efficiently and effectively (Box 4.4). However, efficiency improvements are more difficult to measure than costs, explaining at least in part the focus of studies on the latter. In smaller cities, citizens’ expectations regarding public services may be lower than in bigger cities, leading to lower spending. Insofar as public services are funded through local taxes or user fees, the willingness of residents to pay for services also influences spending. Hence, estimates of optimal size need to be taken with caution. Perhaps more importantly, optimal size varies with the functions undertaken by local governments (de Vries and Sobis, 2013).

A second way to achieve better economies of scale to design and deliver higher quality services at lower cost per capita is reinforcing inter-municipal co-operation (Box 4.5). When municipalities are endowed with a large number of competences, when
they are free to organise the delivery of services to citizens and to fulfil administrative responsibilities, there are many occasions when co-operation with other municipalities can bring significant advantages. In the case of a fragmented country at the local level like France, inter-municipal co-operation has been seen as the only way for small municipalities to deliver many services effectively. At the same time, in recent years there has been an increase in the number of municipalities created in Peru (36 in 2015).

Box 4.4. Municipal mergers in OECD countries

Municipal mergers have taken place in many OECD countries, driven by various objectives, including improving co-ordination within a metropolitan area, enhancing strategic planning, promoting development, and achieving economies of scale and efficiency gains in public administration and the provision of public services. Early cases include the United States (notably Philadelphia and New York), Japan and Portugal, dating to the second half of the 19th century. Large-scale consolidation, generally compulsory and often reducing the number of municipalities by more than half, took place from the 1950s to the 1970s in Austria, Belgium, Canada, Denmark, Germany, Japan, the Netherlands, Norway, Sweden and the United Kingdom. Amalgamation was also achieved in New Zealand’s 1989 local government reform and in Australia since the early 1990s, on a compulsory or voluntary basis depending on states.

Few municipal mergers have occurred over the past 50 years in the United States, where co-operation through special purpose entities has been privileged and consolidation mainly concerned school districts (Fox and Gurley, 2006).

Municipal mergers within the Toronto and Montreal metropolitan areas were imposed by the provincial governments of Ontario in 1998 and Quebec in 2002 despite strong local opposition, but seem to have achieved neither significant cost savings nor improvements in regional co-ordination (Slack and Bird, 2012; Smith, 2007). In Montreal, following local referendums, 15 of the 27 merged municipalities regained independence in 2006. The co-operation approach followed by British Columbia seems to have been more successful than amalgamation strategies followed by other provinces at creating flexible and efficient public management structures (McLean et al., 2006).

Eastern European countries have followed diverging paths after returning to democracy. The Czech Republic, Estonia, Hungary and Poland have favoured the co-operation approach, while Latvia and Lithuania have embarked on large-scale consolidation, with mixed results.

Luxembourg launched a project in 2008 to reduce the number of municipalities from 116 to 71 by 2017 and there was a cut to 106 in January 2012. In Greece, the “Kallikratis reform” reduced the number of municipalities from 1 033 to 325 in 2010. The “Capodistrias plan” had already reduced the number of Greek municipalities from 5 825 to 1 033 in 1997. Reforms are underway in other countries, including Ireland and the Netherlands.

Successive waves of mergers have reduced drastically the number of municipalities in Nordic countries. The number of municipalities in Sweden was brought down from about 2 500 to around 1 000 in 1952 and to 278 in 1974. A few subsequent splits raised their number to 290. The number of Norwegian municipalities was cut from about 750 to around 450 in the early 1960s and 428 in 2013. Denmark went from more than 1 000 municipalities in the 1960s to about 275 in 1970 and 98 in 2007. The number of municipalities in Iceland, where mergers are mainly voluntary, shrank from 229 in 1950 to 170 in 1995, 124 in 2000 and 74 in 2013. In Finland, although there has been no large amalgamation plan, voluntary mergers reduced the number of municipalities from 560 in 1945 to 460 in 1990 and 320 today (Borge and Rattsø, 2012).

Box 4.5. Intermunicipal co-operation: France and the intercommunalité

Municipal co-operation: The case of France and EPCIs

France is characterised by voluntary co-operation at the local level. It has more than 36,000 communes (the basic unit of local governance). Although France has resisted municipal mergers, the need for local co-operation is clear. As such, the communes are united by approximately 19,000 inter-communal structures (which includes 2,525 public establishments for inter-communal co-operation [établissements publics de coopération intercommunale, EPCI] and other forms of syndicates) aimed specifically at facilitating horizontal co-operation.

The current system of inter-communal structures was first established in 1992 and reformed in 1999 such that there are now three main types of supra-communal structures: communities of communes (groupings of small rural communes), “agglomeration” communities (groups of 50,000 inhabitants subject to a single business tax) and the urban communities (groupings of 500,000 inhabitants or more). “Single purpose inter-communal associations” (“syndicates”) first established in 1890, and multi-purpose syndicates, which date back to 1959, are also still in existence. Each grouping of communes constitutes an EPCI. The EPCIs assume limited, specialised and exclusive powers transferred to them by member communes. Unlike the communes themselves, the EPCI is not governed by elected officials but by delegates of municipal councils. This essentially shifts power away from elected officials to civil servants in the areas of competence ceded by the municipalities. Although the EPCIs are created by the communes directly, there are two notable roles for the central government. First, EPCIs must be approved by the state in order to exist legally. Second, to encourage municipalities to form an EPCI, the central government provides a basic grant plus an “inter-communality grant” to those communes that accept a single business tax, which is established to preclude competition on tax rates among participating municipalities in order to attract business. EPCIs draw on two sources of financial resources: budgetary contributions from member communes (for the syndicates) and/or their own tax revenues (for the EPCIs).

There are some indications that inter-communal co-operation has produced efficiency gains. On the one hand, some outdated governance structures disappeared after the 1999 reforms and communes tend to collaborate in areas such as public works, which are likely to exhibit economies of scale. On the other hand, growth in inter-communal spending has not been accompanied by a decline in communal spending, transfers of personnel from communes to communities are associated with a rise in payroll costs and local tax increases, and the presence of communal and inter-communal governance structures results in overlaps and extra costs. Overall, however, measuring the efficiency and effectiveness of municipal co-operation is difficult in France, as there is no culture or institutional structure for evaluating public policies in this regard.1


With 1,671 municipalities and 196 provincial municipalities, many of them located in rural areas, the need of co-operation appears to be a priority to assure better delivery of services across all the territory. Since 2007, two or more district municipalities are allowed to enter into a voluntary agreement to become a joint “mancomunidad” in order to provide services and promote local development jointly. As a result, the new regulation (Law on Municipal Mancomunidades, Reglamento de la Ley de la Mancomunidad...
**Municipal**) aims at enhancing co-operation among these local decision makers in order to promote local integration and joint efforts to provide services to the population. The regulation was amended in 2009 and its rules of procedure, which provided the legal basis for associations or assemblies of local governments, were approved in 2010 (PCM, 2015).

Five years later, it is still premature for a real assessment on the impact of those *mancomunidades* in enhancing and improving co-ordination and service delivery. The information available shows that as a result as this new legislation, more than 170 *mancomunidades* were formed with the participation of 871 municipalities to provide services and implement priority projects to meet local needs. In practice, only 26 are functioning and their spending represents 0.08% of local expenditure (according to data from the MEF)

In the context of acute and persistent regional disparities, *mancomunidades* have the potential to provide very efficient means of communication to overcome the obstacles to multi-level governance in Peru. The central government’s support to promote and assure the proper functioning is crucial in that sense. Their contribution to more efficient public governance can be summarised as implementing projects, promoting local development, empowering initiatives for citizen participation and improving the quality of services delivered to the population. In this manner, various other initiatives of a similar character have proven fruitful in numerous Latin American countries such as Bolivia, Ecuador and Guatemala (PCM, 2015).

That said, initiatives similar to the *mancomunidades* are slowly developing at the regional level in Peru as well. Regional *mancomunidades* were created in 2011 (PCM, 2015). In contrast to their mushrooming municipal counterparts, co-operation among regions is developing rather slowly in Peru and there are not many success stories. To date, the regions of Apurímac-Ayacucho-Huancavelica joined efforts in 2013, as did the regions of Qhapaq Ñan Nor Amazónico in the same year. Further co-operation among different regions in Peru could contribute to the economic well-being of the country as a whole, including in rural regions.

**Local democracy: The status of mayors and regional governors**

The decentralisation process initiated in 2002 also aimed at bringing accountability closer to citizens. The judicial system has not enabled this to occur at the local level: Peru is lagging behind other countries in the region in strengthening the rule of law at the subnational level. Corruption cases persist at the local level and in administrations that interact directly with citizens. Around 65% of corruption happens at the level of regional governments (Arbizu, 2014). A survey published in 2012 by the Peruvian NGO Proética also pointed out that the perception of corruption in subnational governments remains high (Proética, 2012).

As outlined at the beginning of this chapter, mayors and regional governors are the highest authorities within their jurisdiction and are directly elected for a period of four years. Their mandate ends at the end of each term and there is no immediate re-election. Following at least one term out of office, individuals having served in office may run again. These term limits were instituted recently with an amendment in 2015 of Articles 191 and 194 of the Peruvian Constitution specifically to respond to cases of irregularity and corruption that have occurred over the past years in regional governments and municipalities. Thus, term limits were instituted to reduce cases of corruption under the assumption that longer terms in office would encourage corruption.
Many of the regional and local representatives interviewed for this review acknowledged the need for the state to send a strong and symbolic message against corruption as well as the need to apply the same measure on term limits instituted for the President of the Republic to subnational counterparts. But this new rule generates limitations in the capacity to implement a medium-term strategic vision for a region’s development and for sustaining operating relationships between the national government and the decentralised governments across electoral cycles. Intergovernmental co-operation mechanisms and technical assistance are difficult to sustain over time; in Peru they now need to be constantly renegotiated or new ones signed because every four years new actors are elected and relations need to be rebuilt, sometimes from scratch.

In addition, and perhaps most importantly, the cause-and-effect relationship between lack of term limits and increased corruption at the local level has yet to be proven, especially in the absence of robust transparency, integrity and accountability frameworks, and the administrative and judicial capacity to sustain their application at the local level. Indeed, no evidence exists that proves that term limits are effective in fighting corruption at the subnational level. Since the law on term limits changed in 2015, more time is needed to conduct a proper assessment on the causal relationship between local corruption and term limits (see OECD, forthcoming).

**Human resources management and citizens’ participation at the local level**

Human resources management and workforce planning in subnational administrations, notably to attract and retain a critical mass of well-trained, highly competent civil servants in regional and local administrations, are key to improving integrity and transparency in the regional and local public sector as well as being a strategic driver for job creation and economic growth regionally and nationally (see Chapter 5). They are also tools to improve service design and delivery, to attract and stimulate private investment, and to facilitate co-ordination between private and public investment actors.

In Peru, as in OECD countries, building sufficient capacity and professionalism in local administrations is central to ensuring that they are able to meet their responsibilities and contribute to national economic growth. Subnational governments promote economic growth within their own geographic areas, and compete for employment-generating investments. The functions and services provided by subnational governments may affect such variables as growth and employment within their own territory, but subnational governments cannot normally be held accountable for how these affect national developments, except by their own electors.

The incomplete decentralisation process is also reflected in the weak institutional capacity and organisation in many of its regions and municipalities. As pointed out in Chapter 5, in general, Peru’s challenges in human resources are magnified at the regional and local levels. Peru’s subnational governments appear to be facing, to a large extent, similar challenges and opportunities to enhance the capacity and capability of their internal workforce. Over 46% of Peruvian public sector employees are located at the subnational level (22% at the regional level and 36% at the municipal level) and approximately 42% at the national level.

With every change in political mandate following elections, Peru experiences an extensive turnover in its public administrations. This is also the case of regional and local administrative bodies, as there is no organised civil service at the subnational level. The replacement of the political head is associated with significant changes in the local bureaucracy. The discretion to recruit and dismiss local staff without the approval of the
central government is a practice that gives local governments increased independence. Yet, as the forthcoming OECD Integrity Review points out, when effective controls and safeguards are not in place, this can create opportunities for corrupt employment practices. Providing more professional and well-prepared staff at the subnational level can also be a guarantee of a minimum degree of administrative stability for those who argue in favour of limiting the election of governors and mayors to a single term. This could contribute to ensuring a good transition and that administrative procedures and management are stable and sustainable beyond a single electoral mandate.

The National Skills Development Plan for Public Management and Good Governance of Regional and Local Governments approved in 2010 (Supreme Decree No. 004-2010-PCM) contained the guiding principles and instruments for training policy for the subnational levels of government. However, no progress has been made in its implementation. A distinct proposal has been drafted for a National Plan of Institutional Capacity Building for 2015-21 – Decentralised Management. This proposal is in addition to the plans on the development of individual civil servants. There is also a need to identify and develop policies, procedures, protocols and forums to encourage intergovernmental co-ordination, and to build models of decentralised management for public utilities.

SERVIR, the PCM’s agency for managing the civil service modernisation strategy (see Chapter 5), has started working on this matter with an assessment of civil service knowledge at all levels, paying particular attention to the subnational level to identify the training and capacity-building needs (Diagnósticos de Conocimientos in Spanish). As Figure 4.3 shows, a serious gap exists between Lima and the rest of the regions and particularly with the more isolated regions, the Oriente, where the state is less present.

In this context, SERVIR and the Decentralisation and Public Management Secretariats will have to continue playing a key role not only in supporting capacity building for recruitment procedures, but also for the training of subnational public employees. SERVIR is also developing specific training through the National Public Administration School and by strengthening human resources offices (SERVIR, 2014). The MEF provides specific training and capacity building on the ground to support local governments in the elaboration of budgetary planning and measurement (Ministry of Finance and Economy, 2013). This is also an illustration of the strong need of able, competent and well-prepared officials at the subnational level.

The 2002 decentralisation process and subsequent regulations have enhanced local participation and local responsibility for expenditure. Several mechanisms have been put in place to ensure citizen participation (see Chapter 7). For instance, the National Office for Dialogue and Sustainability (Oficina Nacional de Diálogo y Sostenibilidad) is a deconcentrated body that also provides an effective instrument at the regional level to promote citizens’ consultation and participation and in the promotion of a culture of transparency, openness and accountability. Participatory budgeting is the main tool that regional and local governments use to promote citizens’ participation. Box 4.6 outlines the different phases where public consultation and citizens’ participation are provided at the regional and local level.

While local participatory budgeting is still being established, as mentioned in Chapter 3, the MEF is promoting results-based budgeting for regional governments, initially in five strategic programmes that have an impact on people’s development and quality of life. The intention is for this form of budgeting to be implemented gradually throughout the public sector, reaching local governments. This represents a significant
challenge, as it requires capacity building to enable local governments to begin identifying shortcomings in the provision and quality of local services that have a direct impact on people’s living conditions and quality of life, the results of which determine the quality of public spending and investment.

Figure 4.3. Assessment of the distribution of Peruvian civil service knowledge among regions

| Source: Diagnósticos de Conocimientos, SERVIR. |

At local level, the MEF has also put in place an instrument for budgeting for results, the incentive plan for the improvement of the management and municipal modernisation to promote reforms to achieve the sustainable development of the local economy.

There are different examples of citizen’s participation in assessing different manifestations of public administration performance. Examples include the Governance Barometer and the promotion of governance and capacity building in isolated regions described in Box 4.6.
Box 4.6. Examples of citizens’ evaluation of the decentralisation process

Some civil society organisations have been very active in the follow-up of the implementation of the decentralisation process in Peru. Two major initiatives can be mentioned.

The Governance Barometer (Barómetro de la Gobernabilidad) reinforces the leadership role of Peru’s municipal and regional governments in promoting local development. It also serves to strengthen the government of Peru’s administrative systems, harnessing technology and innovation to speed progress. The adoption of the barometer by the Comptroller General to provide key management information to municipal and regional authorities ensures its continued contribution to Peru’s development for years to come.

The Decentralisation Compass (Brújula de la Descentralización) is a “road map” elaborated by Prodes that identifies priorities to be addressed by stakeholders in charge of implementation and reinforcing the decentralisation process. It is made on the basis of systematic information on the map of decentralisation policies and standards, and by collecting the recommendations of representatives of the executive branch, Congress, civil society actors of regional governments, among others.


Assessment

**OECD experience in effective multi-level governance**

In light of the challenges described above in implementing effective multi-level governance arrangements, Peru could benefit from OECD experience of mechanisms that have been adopted by, and worked effectively in, member countries to pursue national multi-sector regional development policy co-ordination:

- Co-ordinating structures such as inter-ministerial committees and commissions. This is one of the simplest systems for horizontal governance, since it is based on the existing government structure. Examples include the Ministerial Committee for Regional Policy in Denmark, the Presidential Committee on Regional Development in Korea, and the Cabinet Subcommittee on Rural and Regional Policy in Norway.

- Fully-fledged regional development ministries with broad responsibilities and powers that encompass traditionally separate sectors. Some positive implications of the concentration of different responsibilities within the same authority include a more open and coherent perspective, a concentration of expertise and the possibility of a more integrated approach. Specific ministries for regional development have been created in Chile, the Czech Republic, Poland, the Slovak Republic and Slovenia.

- Vertically co-ordinated strategic planning and programming, including agreements, frameworks and instruments. The formulation and implementation of national regional policy programmes and/or spatial planning can provide the framework for greater central co-ordination and is widely used across OECD countries. Planning and programming have been recognised as policy tools for regional competitiveness policies. In many countries, spatial planning is gradually moving from land-use regulation frameworks towards long-term strategic documents, focusing on the co-ordination of diverse issues and interests across sectors as well as between levels of government. It often incorporates monitoring, feedback and revision mechanisms.
Examples include the National Strategic Reference Framework in EU countries, the National Spatial Strategy in Japan and the Comprehensive National Territorial Plan in Korea.

- Special units or regional development agencies that provide planning and advisory support to facilitate policy coherence across sectors at the central level. High-level “special units” or “regional development agencies” have been created in several countries to ensure consistency among sectors. The closer such units or co-ordinators are to a chief executive, the greater the incentives are for co-operation across line ministries. Examples include the French inter-ministerial Delegation for Spatial Planning and Regional Action (Délégation à l’Aménagement du Territoire et à l’Action Régionale, DATAR), which is linked to the Office of the Prime Minister; and the Austrian Conference on Spatial Planning under the auspices of the Federal Chancellery. In Peru, the PCM’s Decentralisation Secretariat plays (or has the potential of playing) this role. Special units within line ministries include, for example, the National and Regional Planning Bureau of the Ministry of Land, Infrastructure, Transport and Tourism in Japan and the Spatial Economic Policy Directorate of the Ministry of Economic Affairs in the Netherlands.

- Regional ministers. Ministers must take into consideration the territorial aspects of the programmes and policies of their portfolios. For example, Canada appoints “regional ministers” who have regional responsibilities and represent the interests of their respective regions. Ministers combine their regular (sector-based) portfolio duties with their regional political roles. Canada, France and the Netherlands, for instance, have appointed one or more ministers who represent the interest of the leading region in the country, i.e. the State Secretary for the Development of Île-de-France in France and the Minister for Randstad in the Netherlands.

- Territorial proofing mechanisms. Territorial proofing is a mechanism that monitors government policies to prevent them from having a negative impact on certain types of territories. Ideally, proofing should be implemented in the early stages of designing policy. In addition to the rural proofing system of Canada and the United Kingdom, Korea and Sweden introduced a rural proofing mechanism. In Sweden, the rural development strategy was created in 2009, and every ministry was tasked with looking at its own policy area and putting a rural perspective on it. In Finland, the Ministry of Employment and Economy has required sector-based policy makers to clarify their regional strategies and has assessed regional impacts (regional proofing) since 2004. Ten key sector ministries must define regional development plans in their field of responsibility, which fit into the Regional Development Act guidelines defined by law and the nine regional development targets adopted by the government in 2004.

- Combining financing and/or creating a consistent and comprehensive budget. The budgeting system is also a powerful tool for integrated policy making. Integrating financial tools and programmes can improve transparency and synergy across sectors and facilitate accountability and performance monitoring. Mexico grouped together ministerial budgets for rural policies into an official rural budget under the Special Concerted Rural Development Programme. Korea transformed many specific-purpose national grants into general grants, and established the Regional Development Special Account. A block grant was then adopted to give local municipalities the authority to autonomously design projects.
In addition, the OECD has recently adopted an instrument in this area in the form of the Recommendation of the Council on Effective Public Investment Across Levels of Government that could be useful in offering guidance to Peru on how to strengthen intergovernmental co-ordination to ensure that public resources are expended subnationally in a way that is transparent, accountable, and achieves measurable results for people and businesses that reflect their specific needs in each region of the country (Box 4.7). The OECD Territorial Review of Peru (2016a) also makes reference to this matter.

**Box 4.7. OECD Recommendation of the Council on Effective Public Investment Across Levels of Government**

The OECD Recommendation of the Council on Effective Public Investment Across Levels of Government groups 12 principles under 3 pillars: co-ordination, capacities and framework conditions.

- **Pillar 1: Co-ordinate across governments and policy areas**
  1. Invest using an integrated strategy tailored to different places.
  2. Adopt effective co-ordination instruments across levels of government.
  3. Co-ordinate across subnational governments to invest at the relevant scale.

- **Pillar 2: Strengthen capacities and promote policy learning across levels of government**
  5. Encourage stakeholder involvement throughout the investment cycle.
  6. Mobilise private actors and financing institutions.
  7. Reinforce the expertise of public officials and institutions.
  8. Focus on results and promote learning.

- **Pillar 3: Ensure sound framework conditions at all levels of government**
  9. Develop a fiscal framework adapted to the objectives pursued.
  10. Require sound, transparent financial management.
  11. Promote transparency and strategic use of procurement.
  12. Strive for quality and consistency in regulatory systems across levels of government.


Several OECD countries have developed specific multi-level governance co-ordination instruments. For example:

- Australia: Federal and subnational governments (through the Council of Australian Governments) have endorsed national guidelines on public-private partnerships (PPP), agreed to on a national port strategy, and concluded inter-governmental agreements on heavy vehicles, rail and maritime safety.
• Canada: The Gas Tax Agreement is a formal tri-partite contractual arrangement among federal, provincial, and local authorities for implementing policies and co-ordinating investments in sustainable municipal infrastructure.

• Finland: As part of the new regional development planning system, growth agreements between the state and major cities and define key actions for the development of city-regions. The thematic scope focuses on competitiveness and resilience.

• France: Since 1982, the state-region planning contracts (on which the Colombian contrato-plan is based, - see below) have been adopted as important tools in regional development policy for planning, governance and co-ordination. They are characterised by their broad thematic coverage and cross-sector nature, with a territorial approach being applied across diverse policy fields including investment, industrial, environmental, and rural issues.

• United Kingdom: Since late 2011, urban policy has been centred on “City Deals” that are being implemented in waves. City Deals are agreements between the government and a city that give the city control to: take charge and responsibility of decisions that affect their area, do what they think is best to help businesses grow, create economic growth and decide how public money should be spent.

Another example is the case of Poland, a country with a strong centralist tradition like those of other Central and Eastern European countries and that in the run-up to its accession to the European Union embarked on far-reaching decentralisation and regionalisation reforms which resulted in the establishment of the most decentralised territorial system among the “new” EU member countries. Poland has put a number of central level institutions in place, such as the Committee for Co-ordination of the National Development Strategy and the National Strategic Reference Framework, led by the Ministry of Regional Development, which is in charge of ensuring the co-ordination between levels of government and between sectors at the subnational level for regional development. These institutions can play a key role in the future in enhancing the effectiveness of the much-needed co-ordination mechanisms, not only vertically, but horizontally as well.

More specifically, contractual arrangements between the regions and the Polish central government mainly serve as the implementation tool of European Union Structural Funds, but it provides the basis for achieving enhanced co-ordination and coherence by broadening the existing mandate given to the voivodship (regions) to encompass the co-ordination of all spatial development plans and all supra-national, national and regional spatial programming being disbursed in the territory. National legislation implementing the National Strategy for Regional Development instituted a contractual arrangement between those voivodships and the central government called the Voivodship Contract, a civil law agreement with the voivodship self-government.

Last but not least, Spain has developed several tools and intergovernmental fora to manage relations between the central government and the autonomous regions (Box 4.8).
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Box 4.8. Multi-level co-ordination mechanisms in decentralised complex systems: The case of Spain

Different kinds of institutionalised governance mechanisms have been developed in Spain to facilitate the co-ordination and co-operation among the central state and the regional level, the autonomous communities (ACs):

**Sectoral conferences.** Sectoral conferences represent the most important multi-level governance arrangement in Spain. For a given policy area, they bring together regional ministers (consejeros regionales) with the equivalent central government ministry.

**Joint plans and programmes.** These plans are created at the initiative of the respective sectoral conference to achieve common objectives in areas where the central government and the ACs have shared competences.

**Bilateral co-operation commissions** (*comisiones bilaterales de cooperación*). Similar to the sectoral conferences, they are established between the state and a single autonomous community. These commissions seek to solve co-ordination problems in a more focused and timely manner. Bilateral commissions have worked successfully in a number of areas, for example in the field of environmental policy.

**Co-operative covenants** (*convenios*). *Convenios* are typically used by the central government and the ACs to reach co-operative agreements on specific issues, with the main type of agreement used being the *convenio de colaboración*. A *convenio* is a kind of contract that specifies the duties of the parties in developing a concrete activity or programme. Both parties, the central government and the AC, are free to decide if they wish to engage in this kind of contractual relationship. Most *convenios* have a financial component, with the financial commitment of the national government, most of the time, in the form of intergovernmental transfers. As for similar legal arrangements in other OECD countries, the importance of *convenios* in Spain has been steadily increasing over time.

**The Conference of the Presidents of Autonomous Communities.** Created in 2004, this is the highest level institution for multi-level co-operation between the central government and the ACs. It is presided by the Prime Minister of Spain and composed of the presidents of the 17 autonomous communities and autonomous cities of Ceuta and Melilla. It has met five times: in 2004, 2005, 2007, 2009 and 2012.

**The Conference of the Governments of the Autonomous Communities.** While strictly speaking not multi-level, such a horizontal institution can nonetheless be important for multi-level co-operation. It can facilitate finding shared positions of the ACs in negotiations with the central government, and thus vertical co-ordination. It can also help as a forum for exchanging knowledge and best practices among regions, or to conduct shared projects or initiatives. Even though there have been some shared declarations and agreements, the activity of this conference has been fairly limited so far.


**Intergovernmental co-ordination in federal and unitary states in the OECD**

**A federal state: Canada**

Different models can be mentioned according to the model of state. In the case of Canada, a federal state, managing intergovernmental relations is an important aspect of effective public governance as most issues in public policy cross jurisdictional lines and in most areas the actions of one government affect those of other governments. Consequently, relations with other governments are a major concern for all Canadian jurisdictions, and governments have developed mechanisms to co-ordinate.
Intergovernmental relations in Canada focus on the relations among federal and provincial/territorial executives – first ministers, ministers and senior officials. These relationships serve a number of purposes. They provide forums for the exchange of information, for bargaining, negotiation and consensus-building. Given the importance of intergovernmental relations, overall responsibility for them is normally assumed by the Prime Minister at the federal level, and by premiers at the provincial/territorial level.

At the federal level, the Prime Minister is assisted by a Minister of Intergovernmental Affairs with specific responsibilities in the area, and supported by a Secretariat within the Privy Council Office.

Provinces and territories have a department, a secretariat or a co-ordination unit within the Executive Office responsible for intergovernmental relations. Their primary roles are strategic policy and communications, co-ordinating activities with other ministries, keeping up with developments in other jurisdictions, and day-to-day liaison with their counterparts elsewhere.

At the apex of the system, federal/provincial/territorial first ministers conferences or meetings bring together Canada’s most senior political leaders. They often provide the opportunity for governments to find common purposes and chart general policy directions. They provide a forum for the exchange of information and ideas, and for negotiation and persuasion. The frequency of meetings has varied considerably over time, depending on the political agenda, since there is no regular schedule for the holding of such meetings/conferences. They are called by the Prime Minister. There are no fixed procedures. The Prime Minister chairs and normally provinces speak in order of their entry into the Confederation. No votes are taken. Parts of conferences may be held in public, but most discussion takes place in camera. In addition to these meetings, there are many informal contacts between the Prime Minister and premiers, often taking place bilaterally.

The majority of the high-level intergovernmental conferences are served by the Canadian Intergovernmental Conference Secretariat (CICS). The CICS was created in 1973 by first ministers. It is an agency of the federal and provincial governments, funded by both levels of government; staff includes both federal and provincial/territorial public servants. As such, the secretariat acts as a neutral intergovernmental body. The primary objective of the CICS is to support the numerous logistic, technical and administrative tasks associated with the planning and conduct a federal-provincial-territorial and provincial-territorial meetings of first ministers, ministers and deputy ministers. Any federal, provincial or territorial government department proposing to convene an intergovernmental meeting of first ministers, ministers or deputy ministers can request the CICS’ services.

A unitary state: Italy

As part of a process of policy decentralisation to the regions that has been underway over the past 20 years in Italy, a statutory body has been formed to co-ordinate relations between the state and the regions called the State-Regional Conference (Conferenza Stato Regioni) (Ruggiu, 2011). Despite being a unitary state, Italy has a governance structure in which regions share important powers with the central government in areas such as economic development.
This principle is embedded in Article 117 of the Constitutional Law giving concurrent competences to the state and regions in a range of areas such as scientific and technological research, innovation support for productive sectors, and regional credit institutions. The State-Regional Conference is a forum in which regions give their opinions on national government legal and administrative decisions relevant to them. This structure is proving useful in setting programmes that are coherent among each other and, at the same time, tailored to the different development needs of regions. It has been limited to the framework in which EU funds operate and therefore has not included programmes which are not co-financed by the EU.

In addition to this structure, the regions (and the two autonomous provinces) have established a second voluntary body (the Conferenza delle Regioni e delle Province Autonome) which seeks to reinforce interregional co-ordination of policy. This conference attempts to find common positions for the regions, to represent their views to central government, and to act as a discussion forum for common issues and interregional problems. However, since it does not have a statutory nature, it has mainly acted as a forum for discussions, with the power remaining with the regions themselves. As a result, there is no possibility to come to decisions that are binding on all regions unless there is consensus.

The experience of Colombia

Beyond the OECD, experience in non-member countries could also be useful to Peru. Colombia’s main vertical co-ordination instrument for flowing royalty investments to departments and municipalities is the contrato plan (Box 4.9), modelled on the French contrat de plan État-région (CPER) and an OECD good practice. The contrato plan promotes co-ordination between the central government and one or more subnational entities.

The aim of these contracts is to implement and finance strategic development projects presented in Colombia’s National Development Plan, analogous to Peru’s National Strategic Development Plan (PEDN, see Chapter 3), in given territories, which involve one or more subnational entity. Contracts are based on the principles of co-ordination, subsidiarity. Contracts list projects, programmes and public policies based on national and subnational priorities such as peace consolidation, gender equity and sustained economic growth.

- Colombia’s contracts are signed between the central level – the National Planning Department – and local governments. The National Planning Department has the responsibility to provide subnational entities with technical assistance to help implement the agreed contract. The contracts programme also promotes co-operation between the different subnational governments involved in its implementation. For example, contracts create territorial associations to co-ordinate capacity and resources of the subnational governments to consolidate a shared vision of the development of a given territory.

- These contracts are thus a tool to carry out objectives under the National Development Plan: they seek to align national and regional development agendas, and to monitor and evaluate results. Co-operation between the central government and subnational entities starts by assessing the characteristics and the growth potential of a given territory. Based on this assessment, the central government and the subnational entities participating in the contract harmonise their development strategies. This co-ordination arrangement is formal and based on contractual guidelines lasting four years, the same period as the National Development Plan. Contracts are public and are the subject of
consultations with the local business community and citizens. Contracts also clarify policy objectives and allocated funds, thus simplifying monitoring and evaluation of policy interventions. Monitoring and evaluation activities are done by SINERGIA, Colombia’s national policy performance-monitoring system (see Chapter 3).

- Informal co-ordination also supports the implementation of these contracts. The alignment of the National Development Plan with territorial development plans depends on the capacity to create support at the local level for the general policy goals identified in the National Plan. This informal process is important to ensure that the development policy objectives identified in the contract are realistic and supported by local constituencies (business communities, citizen associations, etc.). The success of these informal co-ordination processes depends on the political capital of subnational governments: their capacity to involve key local actors and gain their support.

Box 4.9. Colombia’s contrato plan

Colombia’s contrato plan is a governance tool that helps align investment agendas at the national and local level, improving accountability and transparency and providing subnational authorities with capacity building. The contract is a binding agreement between the central government and a department, a group of departments or a group of municipalities. The parties commit to co-ordinate their investment agendas among sectors and across tiers of governments. In addition, they agree to deliver their interventions within a given timeline.

Colombia’s negotiated territorial development is part of a broader national strategy whose aim is to create institutions and capacity that can support development policies. Contracts were introduced in 2012 by the national Law on Land Use (Ley Orgánica de Ordenamiento Territorial, LOOT) and by the National Development Plan 2010-2014, “Prosperidad para Todos”. The LOOT is a key achievement for Colombia because it demonstrates that public authorities have regained control of the national territory after decades of conflict. Its intent is to improve Colombia’s multi-level governance, and provides public authorities with flexible governance instruments to deliver policy interventions where they are needed the most. The contrato plan was instituted as a result of the 2011 reform of royalty payments. This important reform distributes revenues generated by extractive activities to all departments in the country. Subnational authorities can use this additional revenue to co-finance interventions listed in the contracts. Finally, contracts also connect with innovative approaches to rural development that seek to improve service delivery to poor households in remote communities.

As of 2013, seven contrato plans had been signed in Colombia, for a total (anticipated) investment of USD 6.7 billion over five years. The policy affects almost 6 million citizens, most of whom live in rural/remote areas in nine departments. The contracts identify infrastructure, and in particular road connectivity, as their main objective. Basic services such as healthcare, education and water sanitation are also priorities. While these objectives are supported by national transfers earmarked by the central government to all departments and municipalities, the contracts add flexibility to the policy and allow subnational authorities to tailor action to their specific needs. In short, departments and municipalities have more funds, the possibility of co-ordinating different sources of investment from different levels of government (co-financing mechanisms), and improved capacity to promote development and fight poverty.

Contracts are not a panacea in the Colombian context, but they have generated some positive results. For instance, they have “reactivated” development planning at the department level. Department plans, in fact, identify measures to be taken within the contracts. Another key advantage is the opportunity for learning that the contracts provide departmental governments. They offer subnational authorities the possibility of working with national representatives as they execute the measures, including large infrastructure projects. In general, contracts are a first attempt in Colombia to connect spatial planning with development policy.

Recommendations

The OECD has through this experience identified certain “do’s” and “don’ts” when countries have developed these kinds of co-ordination instruments. For instance, countries have found that it is important to:

- develop integrated national strategies with clear long-term goals for public investment (at all levels)
- use contracts/formalised agreements between levels of government
- ensure co-financing arrangements between levels of government
- formalise consultation of subnational governments in the development of national plans
- establish platforms for regular intergovernmental dialogue
- institutionalise the dialogue of national representatives in regions with respective subnational authorities.

At the same time, countries have learned to avoid under-estimating co-ordination challenges, engaging in co-ordination with other levels of government too late in the investment decision-making process, multiplying co-ordination bodies without clear value added in the decision-making process, and creating a proliferation of intergovernmental contracts that are complicated to manage.

Despite the general level of support for the 2002 decentralisation process, Peru still faces enormous challenges to assure a coherent and co-ordinated approach to ensure effective service delivery to citizens at all levels. Thirteen years after initiating this process, the legal framework is fragmented, overly complex and difficult to implement, with overlapping, confusing and uncoordinated roles and responsibilities between subnational governments and between subnational and national authorities. Regional governments were created around department borders. But the organic laws of municipalities and regional governments did not establish full clarity on the exact division of responsibilities between different levels of government (national, regional, local). Indeed, this chapter has argued that decentralisation is not an objective in itself; rather its aim is to ensure better service delivery at the most appropriate level.

To address these issues, the Peruvian government could consider the following recommendations. In so doing, it could take into account the assessment and recommendations presented in the recently released *OECD Territorial Review of Peru*, whose advice should be considered in conjunction with the following recommendations.

1. **Reinforce institutional arrangements to deliver effective decentralised governance**

   - Strengthen capacity to implement decentralisation in the structures within the PCM by reinforcing the human and financial resources of the Decentralisation Secretariat to work closely with regional and local governments on designing and implementing decentralisation strategic policy and assessing and monitoring progress, and feed this information into CEPLAN and the MEF.
   - Strengthen the working relationships between the Decentralisation Secretariat, the Public Management Secretariat, CEPLAN and SERVIR so that all are working to achieve the same strategic decentralisation objectives, and all are working to mainstream decentralisation within the National Strategic Development Plan (PEDN).
As recommended in Chapter 2, these units could work together for a Vice Minister of National Strategy and Public Administration Reform, responsible for integrating all strands of national development strategy, including decentralisation and regional development, inclusive growth, and public administration reform at the subnational levels, into the PEDN.

- Strengthen the working relationship on decentralisation with the MEF, to ensure that performance budgeting is implemented at the subnational level and subnational expenditure performance information is fed back into PEDN planning.

- Over time, consider creating, separate from the Decentralisation Secretariat that would remain in the PCM and retain strategic policy responsibility for decentralisation, a Ministry for Regional Development with operational responsibility to work with regional and local governments to implement decentralisation effectively in all regions of the country, including managing intergovernmental arrangements (including contracts – see below) to deliver co-ordinated fiscal resources to subnational governments and help monitor expenditure performance against the achievement of results for regional development, regional-disparity reduction and improved outcomes for people in each region of Peru.

- Conduct a robust regulatory stock review of all laws, rules and regulations adopted to implement decentralisation since 2002 to eliminate overlap, duplication and dysfunctions to achieve greater clarity, transparency and accountability for decentralisation.

- Finalise the clarification of roles and responsibilities of national, regional and local governments. This could include the identification of services to be provided by each level of government, the active participation of line ministries, and the opinion of regional and local governments with which competencies are shared.

- Publish a comprehensive list of the distribution of competencies. As stated in Chapter 6, there is a clear need for more and better information addressed to citizens.
  
  - The Decentralisation Secretariat could publish user-friendly information regarding the decentralisation process and delimitation of powers and competencies among the different levels of the administration.
  
  - Go further than the current annual report on decentralisation by developing performance indicators on decentralisation and on the impact of decentralisation on improving the standards and quality of services delivered to citizens, on their impact in improving outcomes for people in each region, and on reducing regional disparities across the country.

2. Strengthen the fiscal autonomy of subnational governments and implement equalisation grants

- Formulate multi-level co-ordination instruments, including intergovernmental contracts, to deliver the canon resources – a contractual framework that includes purpose, objectives, results/outcomes sought, and a monitoring and evaluation framework, and, perhaps using Colombia as an example, make sure that the canon funding can be co-ordinated with sector-based national budget spending that is decentralised.

- Increase the integration of transfers and canon funds with strategic planning processes to achieve clear, defined policy outcomes that are specific to each region, have been
identified in full consultation with regional authorities (using existing institutional arrangements for this that were established for this purpose), and that are fully integrated into the local, regional and national development strategies.

- Promote a thorough needs assessment of the fiscal and administrative capacity of municipal governments with respect to fiscal management and collecting local taxes. The MEF, together with CEPLAN and regional governments should give support to strengthen municipal government fiscal capacity and administrative capacity to fiscal management and collecting local taxes. Local governments could also raise citizens’ awareness on paying taxes on time so as to deliver better basic public services.

- Encourage interregional associations of municipalities and other subnational entities to contribute more effectively to national strategy-setting and implementation, and achieve better economies of scale in designing and delivering better services for lower cost that improve outcomes for people, and monitor performance (see below).

3. Improve capacity to address co-ordination challenges between levels of government

- Institutionalise mechanisms for intergovernmental co-ordination of the decentralisation process by implementing a more flexible and adapted structure and ensuring it is fully supported by the structures in the PCM and on sector issues by line ministries. This could include strengthening the role and capacity of the Intergovernmental Co-ordination Council, which could reduce the number of participants, introduce a more flexible system for taking decisions (maybe through consensus and non-binding decisions or recommendations). One option could be to split the Intergovernmental Co-ordination Council into two sections: one dedicated to regional governments and the other to local governments, as in some OECD countries (see Box 4.3).

  - In the case of sector-based co-ordination bodies, the PCM should play a lead role by promoting the creation of dynamic sector-based commissions as well as ensuring a whole-of-government and integrated approach.

  - Ensure that regional and local councils can contribute substantially to national strategy-setting and implementation through effective multi-level governance.

  - Ensure that CEPLAN works together with the Decentralisation Secretariat and the Ministry of Economy and Finance to articulate common planning processes of national, regional and local governments (see Recommendation 1 above), and to design and implement a basic single framework for subnational management linked to performance-based management.

  - Implement an outcomes-based performance monitoring system for decentralisation and subnational management and administration. This system should be aligned to an integrated centre-of-government monitoring and evaluation system. As outlined in Chapter 3, budgetary programmes should be aligned at the three levels of government.

  - Strengthen municipal and regional government associations, including the National Assembly of Regional Governments, to achieve its goal of “driving, developing, deepening and defending the decentralisation process to solidify the leadership role of the country’s regional governments”.
• Reinforce central and regional co-ordination capacity by establishing institutional support in each region (for example, through a regional development agency in each region or supporting a cluster of regions), composed of civil servants from the national and regional governments, to facilitate a partnership-based approach to regional development and improve co-ordination at the regional level between the region and the national government:
  – Mandate these institutions to support the national and regional governments in addressing regional challenges by generating sound evidence on these challenges and by enabling more robust intergovernmental co-operation to address them; to design, implement and monitor strategies and key projects on the ground; and to engage in interregional co-operation and co-ordination on common projects and the sharing of experience across regions.
  – Mandate these institutions to report simultaneously to the PCM (CEPLAN, the Decentralisation Secretariat and the Co-ordination Secretariat, and the two vice-ministries) to the MEF, and to the regional government(s).

4. Strengthen interface capacity in regional governments to co-ordinate with other governments

• Just as the central government possesses centre-of-government institutional arrangements to lead cross-government and intergovernmental co-ordination of national strategic and fiscal policy setting and implementation, so too should regional governments possess their own “CoG” institution to act as a focal point to engage effectively with the other levels of government and lead implementation of policy, fiscal and administrative initiatives (from regional development plans and budget execution to co-ordinating regional investments, for example in infrastructure, health and education, and policies on human resources management, digital government, transparency, integrity and regulatory affairs) in the region.

• Consider reinforcing capacity in the administrative unit(s) supporting the governor to enable these functions to be carried out effectively in regional governments and to reinforce interface capacity in regional governments to engage effectively with local and national administrations.

5. Strengthen monitoring, evaluation and accountability tools in subnational governments

• Build on the “Monitoring and Evaluation Plan of the Sectorial Competences transferred to Regional and Local Governments, with a Focus on Decentralised Management of Public Utilities”, to launch a robust quantitative and qualitative assessment of the impact of decentralisation and transfers of competencies at regional and local level on improving outcomes for people and reducing inequality and regional disparities.

• In addition to the existing tools such as the Decentralisation Secretariat on the administrative dimension, the Integrated System of Financial Administration on the financial dimension and RESULTA on the performance financial dimension on budget programmes, there should be a joint effort between the national and regional level to publish performance information on decentralisation and effective service delivery regularly and in a “user-friendly format”.
• Strengthen transparency and accountability at the regional and local levels by, for example, ensuring that local external control institutions have sufficient capacity to carry out their duties, that human resources are appointed using the merit principle and that they can carry out their duties free from political interference.

• Bolster efforts in this area by the Decentralisation Secretariat as well as from control bodies such as the Comptroller General’s Office. Few accountability mechanisms for regional and local authorities have been institutionalised: hence, monitor decentralisation using the various existing control, supervision and oversight systems (including government agencies and civic groups).

• Strengthen how existing regional planning instruments (such as the concerted regional development plans) are operationalised by developing mechanisms to better link them with budgeting allocations and with national planning and policy development processes.

6. **Strengthen local democracy, capacity-building and human resources at subnational level**

• Implement effectively the national Law on Civil Service Reform at the regional and local levels.

• Reinforce capacity building and training at the subnational level to assure a well-prepared, competent and efficient civil service at the local level.

• Bridge the gap between the unequal level of training and knowledge at the local level by assuring the presence of the state in the most underprivileged areas of the country, including in the area of training.

• As developed in the forthcoming *OECD Integrity Review of Peru* and in order to effectively tackle corruption at subnational levels, Peru could consider working on ensuring that national integrity policies are implemented at these levels. This requires strengthening the overall institutional capacity at the local and regional levels, especially in the areas related to political finance and its oversight, public ethics and conflict of interest management, and internal control and risk management.
Notes


2. According to the Prodes programme. The ProDescentralización Programme – Prodes of the United States Agency for International Development was implemented between 2003 and 2007, and aimed to strengthen the decentralisation process in Peru. During this phase, the USAID-Prodes programme sought to strengthen democratic governance, promoting the institutionalisation of good governance practices and improving the capacity of relevant public institutions and civil society organisations to contribute effectively to the process of decentralisation.

3. See comments to the late publication of requirements for the accreditation system at: www.propuestaciudadana.org.pe/sites/default/files/publicaciones/archivos/publican_requisitos.pdf.


5. As of 15 November 2015.

6. Approved by Ministerial Resolution No. 335-2012-PCM.

7. In contrast, the special mining levy (gravamen especial a la minería) is a fiscal revenue of the central government and is a voluntary and temporary surcharge that mining companies pay by virtue of agreements they have made with the government. It is only applicable to firms with valid stability contracts signed before 2011 and those that agreed to the application of this levy with the Peruvian government (Korinek, 2015).


11. Job protection and safety; education, subject to the autonomy of educational institutions and with the exception of vocational education and training; professions; scientific and technological research and innovation support for productive sectors; health protection; nutrition; sports; disaster relief; land-use planning; civil ports and airports; major transport and navigation networks; communications; national production, transmission and distribution of energy; complementary and supplementary social security and harmonisation of public accounts.


Bibliography


4. IMPLEMENTING EFFECTIVE DECENTRALISATION: ACHIEVEMENTS AND CHALLENGES IN MULTI-LEVEL GOVERNANCE IN PERU


