

# **Substitution Effect through Fiscal Transfers?!**

## **Incidence of the Peruvian Property Tax**

Markus Rühling



# Substitution Effect through Fiscal Transfers?! Incidence of the Peruvian Property Tax

University of Potsdam, Germany  
Markus Rühling

Dissertation zur Verleihung des Doktorgrades der Wirtschafts- und  
Sozialwissenschaften (doctor rerum politicarum; Dr. rer. pol.) an der  
Universität Potsdam

Thesis advisor:	Prof. Dr. Harald Fuhr
Co-advisor:	Prof. Dr. Christoph Reichard
Co-advisor:	Prof. Dr. Paul Bernd Spahn

February 2008

Published online at the  
Institutional Repository of the University of Potsdam:  
URL <http://opus.kobv.de/ubp/volltexte/2010/4210/>  
URN <urn:nbn:de:kobv:517-opus-42100>  
<http://nbn-resolving.org/urn:nbn:de:kobv:517-opus-42100>

## Contents

1.	Introduction .....	11
1.1	General Introduction into the Research Subject .....	11
1.2	Elaboration of the Research Design .....	17
1.3	Methodology .....	20
2.	Theoretical Context .....	24
2.1	Theoretical Background of Fiscal Decentralization and Local Public Finances .....	24
2.2	Substitution of Municipal Revenues Through Intergovernmental Transfers .....	44
2.3	Theories on Decision Making .....	50
3.	Economic Framework Conditions and Analysis of the Peruvian Budget .....	59
3.1	Revenues of the Central State .....	61
3.2	Public Expenditure .....	63
3.3	Debt .....	65
4.	The Decentralization Process in Peru .....	68
4.1	Historical Development of the Decentralization Process .....	72
4.2	Functions and Structures of Peruvian Local Governments .....	79
4.3	Typology of Local Government in Peru .....	84
5.	The Intergovernmental Fiscal Transfer System .....	90
6.	Analysis of the Financial System at the Local Government Level ...	104
6.1	Property Tax Evaluation .....	105
6.2	Substitution Effect .....	112
6.3	Conclusions .....	128
7.	Quantitative and Qualitative Analysis of a Set of Peruvian Municipalities Concerning their Fiscal Effort .....	132
7.1	Classification of Municipalities regarding Fiscal Revenues .....	135
7.1.1	Type 1: Well Advanced, Consolidated Metropolitan Municipalities .....	139
7.1.2	Type 2: Metropolitan Municipalities in Process of Consolidation .....	143
7.1.3	Type 3: Regional Centre, Modern Management Structures .....	146
7.1.4	Type 4: Municipalities with Adverse Identity Incentives which Result in Little or no Important Tax Pressure .....	151

7.1.5	Type 5: Municipalities with High Response Costs or Low Response Efficacy .....	154
7.1.6	Type 6: Big Fiscal Transfers .....	156
7.1.7	Type 7: Rural Municipalities .....	160
7.1.8	Type 8: Contested Municipalities .....	162
7.1.9	Lima and Callao as Separate Cases .....	165
7.1.10	Election Results and its Implication on Property Tax Management .....	168
7.1.11	Conclusion .....	170
7.2	Innovative Strategies .....	178
7.2.1	Semi-Autonomous Municipal Tax Agency as a Best Practice in Peruvian Municipalities .....	179
7.2.2	Performance orientated Management Contracts .....	185
8.	Synthesis .....	190
8.1	Examination/Comparison of the Main Research Hypothesis with Empirical Results .....	190
8.2	Results and Perspectives .....	198
9.	Bibliography .....	214
10.	Question Guide concerning Qualitative Interviews .....	224
11.	Annex: Tables, Figures and Graphs .....	231

I am grateful to Harald Fuhr, professor at the University of Potsdam, Germany for his valuable comments and guidance concerning this investigation. To friends and colleagues, who in one way or another were supportive to this research work, is dedicated a special thanks.





## Acronyms and Abbreviations

AFPs	Private Pension Funds ( <i>Administradoras de Fondos de Pensiones</i> )
APRA	Alianza Popular Revolucionaria Americana
BCRP	Central Reserve Bank of Peru ( <i>Banco Central de Reserva del Perú</i> )
CAMA	Computer assisted mass appraisal
CANON	A territorial fiscal tax in Peru
CAP	Organigram for Assignment of personnel ( <i>Cuadro de Asignacion de Personal</i> )
CAR	Performance based Management Contracts ( <i>Convenios de Administracion por Resultados</i> )
CCL	Local Coordination Council ( <i>Consejo de Coordinación Local</i> )
CMACs	Local Saving Banks ( <i>Cajas Municipales de Ahorro y Credito</i> )
CND	National Decentralization Council ( <i>Consejo Nacional de Descentralización</i> )
COFOPRI	State entity for the Formalization of Informal Property ( <i>Organismo de Formalización de la Propiedad Informal</i> )
CONATA	National Agency for Property Valuation ( <i>Consejo Nacional de Tasaciones</i> )
CPI	Corruption Perceptions Index
CTARs	Transitory Council for Regional Administration ( <i>Consejos Transitorios de Administración Regional</i> )
DECSAL	Decentralization and Competitiveness Structural Adjustment Loan
DNPP	National Office of Public Budgeting ( <i>Dirección Nacional de Presupuesto Público</i> )
DNTDT	National Technical Office for Territory Limitations ( <i>Dirección Nacional Técnica de Demarcación Territorial</i> )
EMUSAP	Municipality owned Water and Sewage Enterprise ( <i>Empresa Municipal de Servicios de Agua Potable y Alcantarillado</i> )
EPS	Municipality owned Sanitation Enterprise ( <i>Empresa Prestadora de Servicios de Saneamiento</i> )
ESSALUD	Social Health Security ( <i>Seguro Social de Salud</i> )
FAISM	Fund for Municipal Social Infrastructure ( <i>Fondo de Aportaciones para la Infraestructura Social Municipal</i> )
FIDE	Intergovernmental Fund for Decentralization ( <i>Fondo Intergubernamental para la Descentralización</i> )
FOCAM	Development Fund for Camisea ( <i>Fondo de Desarrollo de Camisea</i> )
FONCODES	National Compensation and Development Fund ( <i>Fondo Nacional de Compensación y Desarrollo Social</i> )
FONCOMUN	Municipal Compensation Fund ( <i>Fondo de Compensación Municipal</i> )
FONCOR	Regional Compensation Fund ( <i>Fondo de Compensación Regional</i> )
FONIPREL	Regional and Local Public Investment Fund ( <i>Fondo de Promoción a la Inversión Pública Regional y Local</i> )
FTA	Free Trade Agreement
GDP	Gross Domestic Product
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund

INADE	National Development Institute ( <i>Instituto Nacional de Desarrollo</i> )
INEI	National Institute of Statistics ( <i>Instituto Nacional de Estadística e Informática</i> )
ISC	Excise tax ( <i>Impuesto Selectivo al Consumo</i> )
KfW	German Development Bank ( <i>Kreditanstalt für Wiederaufbau</i> )
LAC	Latin American Countries
LBD	Decentralization Framework Law ( <i>Ley de Bases de la Descentralización</i> )
LDF	Fiscal Decentralization Law ( <i>Ley de Descentralización Fiscal</i> )
LIICR	Regional Integration Incentive Law ( <i>Ley de Incentivos a la Integración y Conformación de Regiones</i> )
LOM	Constitutional Law of Municipalities ( <i>Ley Orgánica de Municipalidades</i> )
LPSA	Local Public Service Agreements
LRTF	Law of Fiscal Responsibility and Transparency ( <i>Ley de Responsabilidad y Transparencia Fiscal</i> )
MEF	Ministry of Economy and Finance ( <i>Ministerio de Economía y Finanzas</i> )
MMM	Multiannual Macroeconomic Framework ( <i>Marco Macroeconómico Multianual</i> )
MOF	Manual of Organization and Functions ( <i>Manual de Organización y Funciones</i> )
NIE	New Institutional Economics
ONP	State Pension System ( <i>Oficina de Normalización Previsional</i> )
PCM	Council of Minister ( <i>Presidencia del Consejo de Ministros</i> )
PETT	Special Project of Land Titleing and Rural Cadastre ( <i>Proyecto Especial de Titulación de Tierras y Catastro Rural</i> )
PMT	Protection Motivation Theory
PPP	Public-private partnership
PREBAM	Program of Basic Local Equipment ( <i>Programa de Equipamiento Básico Municipal</i> )
PROVIAS	Special Transport Infrastructure Project ( <i>Proyecto Especial de Infraestructura de Transporte Nacional</i> )
PRONAA	National Programm of Basic Nutrition Asistance ( <i>Programa Nacional de Asistencia Alimentaria</i> )
ROF	Regulation concerning Organization and Function ( <i>Reglamento de Organizacion y Funciones</i> )
RUS	Simplified Tax Regime ( <i>Régimen Único Simplificado</i> )
SIAF	Integrated Financial Management System ( <i>Sistema Integral de Administración Financiera</i> )
SIAF GL	Integrated Financial Management System for Local Governments ( <i>Sistema Integral de Administración Financiera Gobierno Local</i> )
SNIP	National Public Investment System ( <i>Sistema Nacional de Inversión Pública</i> )
SUNAT	National Tax Agency ( <i>Superintendencia Nacional de Administración Tributaria</i> )
SUNARP	National Agency of the Property Register ( <i>Superintendencia Nacional de los Registros Públicos</i> )
UIT	Tax Unit Measure (Unidad Impositiva Tributaria)
VAT	Valued-added Tax

## Summary

Whether the results of fiscal transfers have positive or negative implications depends upon the incentives that transfer systems create for both central and local governments. The complexity and ambiguity of the relationship between fiscal transfers and tax revenues of local governments is one of the main causes why research projects, even in the same country, come to different results. This investigation is seriously questioning the often stated substitution effect based only on an analysis of aggregated data and finally rejects in the qualitative part of this research (using survey techniques) a substitution effect in the majority of the assessed municipalities.

While most theories are modeling governments as tax-maximizers (Leviathan) or as being prone to fiscal laziness, this investigation shows that mayors react to a whole set of incentives. Most mayors react rational and rather pragmatically in respect to the incentives and constraints which are established by the particular context of a municipality, the central government and their own personality/identity/interests. While the yield on property tax in Peru is low, there are no signs that increases in transfers have had, on average, a negative impact on their revenue generation. On an individual basis there exist mayors who are revenue maximizers, others who are substituting revenues and others who show apathy. Many engage in property tax.

While rural or small municipalities have limited potential, property taxes are the main revenue sources for the Peruvian urban municipalities, rising on average 10 % during the last five years. The property tax in Peru accounts for less than 0.2 % of GDP, which compared to the Latin American average, is extremely low. In 2002, property tax was collecting nationwide about 10 % of the overall budget of local governments. In 2006, the share was closer to 6 % due to windfall transfers. The property tax can enhance accountability at the local level and has important impacts on urban spatial development. It is also important considering that most charges or transfers are earmarked such that property tax yields can cover discretionary finances. The intergovernmental fiscal transfers can be described as a patchwork of political liabilities of the past rather than connected with thorough compensation or service improvement functions. The fiscal base of

local governments in Peru remains small for the municipalities and the incentive structure to enhance property tax revenues is far from optimal. The central government and sector institutions, which are in the Peruvian institutional design of the property tax responsible for the enablement environment, can reinforce local tax efforts. In the past the central government permanently changed the rules of the game, giving municipalities reduced predictability of policy choices. There are no relevant signs that a stronger property tax is captured by Peruvian interest groups.

Since the central government has responsibility for tax regulation and partly valuation there has been little debate about financial issues on the local political agenda. Most council members are therefore not familiar with tax issues. If the central government did not set the tax rate and valuation then there would probably be a more vigorous public debate and an electorate that was better informed about local politics. Elected mayors (as political and administrative leaders) are not counterbalanced and held in check by an active council and/or by vigorous local political parties. Local politics are concentrated on the mayor, electoral rules, the institutional design and political culture – all of which are not helpful in increasing the degree of influence that citizens and associations have upon collective decision-making at the local level. The many alternations between democracy and autocracy have not been helpful in building strong institutions at the local level.

Property tax revenues react slowly and the institutional context matters because an effective tax system as a public good can only be created if actors have long time horizons. The property tax has a substantial revenue potential, however, since municipalities are going through a transfer bonanza, it is especially difficult to make a plea for increasing their own revenue base. Local governments should be the proponents of property tax reform, but they have, in Peru, little policy clout because the municipal associations are dispersed and there exists little relevant information concerning important local policy issues.

*“L’art de lever l’impôt, consiste à plumer l’oie  
de façon à obtenir le plus grand nombre de plumes,  
avec le moins de criaillements possible”*

Jean-Baptiste Colbert (1619–1683)<sup>1</sup>

## 1 Introduction

### 1.1 General Introduction into the Research Subject

Throughout history, cities have been synonymous with modernization, economic development, social progress and cultural innovation. Rapid urbanization seriously challenges the viability and productivity of cities, especially in developing countries. The biggest challenge to municipal governments in Peru and elsewhere is the development and maintenance of urban infrastructure and the provision of urban services.<sup>2</sup> Local governments across the world are struggling to raise the revenue to supply these services and to undertake the necessary infrastructure development. The fiscal gap between financial resources and municipal expenditure needs is widening as urban populations expand (Lohse 2003: 4).

While enhancing local financial management capacity is a cornerstone of any effective decentralization process, it is often assumed that intermediate and local governments do a poor job of managing the few resources they control. It is argued that property tax (as the main local tax) is under-exploited and that local administration lacks managerial capacity. Furthermore, user charges are set at levels which are not sufficient to cover costs. These arguments are not as compelling as they may first appear – or at least they need to be disaggregated and seen in more detail – as this research work tries to show.

- 1 This remarkable metaphor translated means: “The art of taxation consists of plucking the goose so as to obtain the most feathers with the least hissing.” Under the contemporary paradigm of tax policy, Colbert’s geese should barely hiss at all, cf. Johnston, 2002.
- 2 These services differ from country to country and from one local authority to the other but they can be broadly categorized into water provision, solid waste disposal, local security, planning, physical infrastructure provision and maintenance (roads, drainage), sewage, health facilities, education, etc.

Throughout the centuries, land and real property taxation has taken many forms. Land has been taxed on the basis of area, foot frontage, and agricultural rent generated. Real property has been taxed on the basis of the number of windows, chimneys, balconies, property rents, and estimated property values among other things. In the history of this tax, different forms of distortions arose: most famously the construction of long, narrow lots to elude tax paid on foot frontage and building with windows being bricked up or subsequently built with a small number of large windows as to avoid taxing a greater number of windows (cf. Arnott & Petrova, 2006: 2). The property tax can be differentiated from other taxes by virtue of its visibility. Visibility acts as a constraint on the ability to raise the tax; in contrast to income tax, for instance, the property tax is not withheld at source so taxpayers tend to be more aware of how much they pay (cf. Slack 2001: 269).

The property tax is the single most important local tax in developing countries. Internationally, over 130 countries have some form of tax on property, albeit the relative importance varies substantial across countries (Bell 1999: 2). Property taxes are normally used to charge for the generalized benefits of public services provided by local authorities. Unlike the transfers that to some extent dominate municipal revenues, property tax may promote broader objectives of local accountability and of efficiency, linking the provision of municipal services more closely to their financing (function as a benefit tax).

Dillinger (1991: 35) notes that the underlying rationale for property tax is to confront taxpayers with the cost of municipal services they consume in the pursuit of the efficiency objective. Others have argued, however, that the property tax is a distortionary tax on capital, borne primarily by owners of capital.

Property tax is regarded as a relatively stable revenue source, especially when compared to other potential local tax sources like wage or turnover taxes. Moreover, property tax is the only direct tax which is paid by a broad sector of the population (even part of the informal sector). Because the tax base is immobile, local governments can easily predict revenue yields from year to year. Small jurisdictions face potentially higher administrative costs per unit of revenue raised than large ones. Therefore, the local tax system as a whole is constrained by the ability of the small jurisdictions to administer taxes (cf. Spahn, 1995: 8). From a public policy point of view, the property

tax is such an interesting subject for scholarly research because of the inherent tension local governments face: having property taxes being, on one hand, an essential source of local finance and, on the other hand, having to balance frequently competing and complex policy issues related to the tax.

Internationally it seems as the move to fiscal decentralization drives the intensity of use of the property tax (Bahl, 2007: 8). Peru has joined this move and is embarking on an ambitious decentralization process. The experience of other Latin American countries that have pursued rapid decentralization is showing that haste, without an appropriate intergovernmental transfer framework and institutional development, can lead to a waste of resources, a worsening of the provision of public services and increased macro-economic instability. The challenge is to provide the right incentives while maintaining fiscal discipline. Although there are now many decentralized and decentralizing developing countries, the average expenditure share of sub-national governments in total government spending is considerably less than in developed countries.

The political process of decentralization is until now an often neglected research issue and has yet to be explored sufficiently in academic literature thus far produced. The countries embracing and adapting decentralization processes have had diverse motives and followed even more diverse approaches. The reasons for rethinking fiscal arrangements are manifold and the importance of each factor is country specific (see Shah, 2004: 3; cf. Table N° 1 in the Annex: Motives for Decentralization). Shah argues that the quest for right balance, i.e. appropriate division of powers among different levels of government, is not always the primary reason for implementing decentralization. Instead various political and economic events have often triggered such an interest.

Shah (2004: 4–5) following Eaton (2001: 101–127) suggests the following possible political motivations for decentralization:

1. “Decentralization might be a voluntary choice of politicians – it can increase political stability and economic growth in a way that compensates politicians for any loss of power they may experience in the short run.”
2. “Decentralization may result from political pressures exerted by sub-national politicians. If sub-national politicians can influence the politi-

cal careers of their representatives in the national assembly, these legislators may be coerced into supporting decentralization (according to Willis et al, 1999). In Brazil, the return to democracy in the 1980s set the stage for fiscal decentralization when governors regained political influence.”

3. “Decentralization may reflect short-term gains for politicians, as politicians may discount future gains heavily. When the government is divided, the party in control of the legislature may promote decentralization as a way to constrain the executive branch. Experiences of Argentina and the Philippines suggest that political struggles over the control of revenues and expenditures may have less to do with substantive debates over development strategy than with short-term and highly dynamic political calculations.”

The idealized model of representative democracy in local government suggests that, through regular, free and competitive elections, citizens make known their needs and priorities. The mayors they elect then formulate strategies, make key decisions and prioritize expenditure choices through formal policy and budgetary processes, with officials (who are politically neutral) advising them and implementing the decisions. Mayors are held in check by the local council.

The reality is generally rather different. Whilst local elections in Peru are held regularly, and are generally free and fair, issues are highly aggregated, with candidates rarely presenting clear manifestos or choices. This means that local needs, priorities and choices are not identified through the electoral process in sufficient detail for the purposes of planning and budgeting. Peruvian local governments are generally acknowledged as a particularly weak administration level. With the exception of a short period between 1963–68, mayors have only been elected by their citizens since 1980; and in the past twenty years they have had to face major negative impacts, with the most serious examples being – the economic crisis under the APRA government (1985–1990) and then the hyper-centralism under the following president Fujimori (1990–2000). In general, local governments in Peru have in the past experienced a highly constrained fiscal environment.

Good local governance is an essential part of a functioning public sector, but underlying poor standards in Peru, however, are political liabilities from



the autocratic Fujimori regime (1990–2000). Having neglected municipalities or even having been more interested in poor governance on the local level, his government created parallel deconcentrated specialized agencies (FONCODES, PETT, COFOPRI, PROVIAS, PRONAA etc.) which were providing essential local services (partly with financing from international institutions). The central state government was increasingly taking over public services, traditionally provided and paid for by local governments.

Since 2002 property tax in Peru has reappeared on the political agenda, exemplified in the “Carta de Intención” to the IMF for the years 2002–2003 which addresses the need to strengthen the property tax system.<sup>3</sup> The then finance minister (which later on became Prime Minister) Pedro Pablo Kuczynski was well aware that the local revenue collection had to be improved.<sup>4</sup> The programmatic policy-based loans DECSAL and DECDPL (Decentralization and Competitiveness Loans) of the World Bank (co financed by the German Development Bank KfW) are also triggering increased property tax revenues for provincial municipalities.

Taking into account income levels and other relevant factors, Latin Americans pay less tax than one would expect on the basis of comparisons with other regions of the world (Lledo, Moore & Schneider, 2004: 1). While it is often assumed that tax policy in developing countries is dominated by powerful interest groups (eg. Boekh & Gonzales, 1999: 53–76), the Peruvian government has exhibited considerable capacity to initiate, design and implement tax reforms pressed by urgent financial needs. Recently, VAT was raised to 19 %, a tax on financial transactions was introduced (against the IMF technical opinion, the tax is now phasing out), a minimal tax on corporate assets was introduced and, most challenging of all, a new royalty on mining enterprises. The latter tax policy seems to counter the given argument, because the policy change challenges the most powerful Peruvian lobby – mining.

The Peruvian state will have to cope in the coming years with a big deficit in infrastructure (the ratio public investment/public budget is at the moment at the bottom end); already high excise and value added taxes leave

3 [http://www.mef.gob.pe/propuesta/ESPEC/cartafmi/CI\\_FMI2002\\_2003.pdf](http://www.mef.gob.pe/propuesta/ESPEC/cartafmi/CI_FMI2002_2003.pdf) (30.1.2005).

4 Kuczynski, Pedro Pablo. Interview in RPP, Enfoque de los Sábados, 22.1.2005.

little room to increase more if not by formalization or economic growth. Moreover, Peru will have to address the fiscal impact of trade liberalization (an additional effort to raise revenue through domestic taxes as a means of offsetting tariff losses). Under these fiscal constraints the central government will be all too glad to have the local governments shoulder a part of the fiscal burden.

The regional governments have been until now, of little interest for scientific investigations due to their continually reduced responsibilities, reduced fiscal role and heavy dependence on fiscal transfer for which they mostly have no allocation choice.

Peru is a lower middle income country with 27 million inhabitants (in the first Peruvian census in 1940 there were 7 million). According to the latest statistics of the Instituto Nacional de Estadística e Informática--INEI (2006) half of the population is still living in poverty, and almost 20 % in extreme poverty. Peru is going through a rapid urbanisation process, in 2005 the (INEI) estimated that 72.7 % of the population lived in urban areas. Peru is a presidential republic with a 120-member unicameral legislature and a strong executive (unitary state). Throughout its history autocracy and democracy have frequently alternated. Morón (2006: 5) notes that “politics in Peru have always been a volatile undertaking, since gaining independence in 1821, the country has had 13 constitutions, at least 26 successful coups and 108 different governments, only 19 of which were elected and only nine completed their terms. While oligarchic power remained entrenched until well into the twentieth century, governance has often been tumultuous and the armed forces have repeatedly intervened to resolve elite disputes and quell social protest. During the last quarter of a century this volatility has continued, with two constitutions, three complete regime changes, at least four overhauls of the electoral rules and three sweeping turnovers in the party system and prevailing political leadership. Until well into the twentieth century, Peruvian politics was also an exclusive undertaking in which the majority of the public did not participate. The colonial legacy of violence and racism, combined with the erratic history of primary export-led development and a high concentration of wealth, reinforced patterns of economic inequality and social exclusion that were matched in the political sphere. Through the 1960s, large sectors of the population – especially the

rural and indigenous poor – were denied even basic citizenship rights. Democracy with universal suffrage was first introduced in 1980.” Parties are fragmented and often only build up on a short term pre-election period, then again falling into oblivion. Loosely formed movements and parties are increasingly mistrusted by the population, consequently an unprecedented number of independent candidates emerge in elections (cf. Economist Intelligence Unit, 2005).

In the following chapter the theoretical framework is elaborated on. Theories on local fiscal policy and decision making are discussed. The economic and political context is then analyzed in the following chapters. While this investigation directs its attention mainly to municipalities some insights are also made concerning the overall fiscal decentralization process.

This research combines quantitative and qualitative research instruments. The quantitative part consists of an assessment of the impacts of transfers on local revenues. In the academic literature, two main rival explanations stand out. The first one has its roots in the assumption that increases in transfers will have a negative impact on revenue generation at the local level and actually substitute local governments’ tax efforts. The second explanation suggests that tax collection is not reduced and increases in transfers are in fact giving local governments the incentive to raise expenditure beyond the pure amount of the given transfer (increases in transfers tend to stimulate revenue generating).

The qualitative part analyses how mayors make their decision concerning their handling of the property tax in their jurisdiction. Several competing models try to theorize local government behavior. The theoretical model to explain the “performance” of the property tax and the decision making process by local politicians is based on an adaptation of the Protection-Motivation-Theory (PMT).

## **1.2 Elaboration of the Research Design**

Remmer & Wibbels (2000: 28) argue that “during the 1980s, scholarly research on Latin American politics revolved around two major topics: democratic transitions and the political economy of stabilization and adjust-

ment.” The projections of both these research concerns into the 1990s led to an explosion of literature on decentralization. “For those converging on the topic from the study of democratization, central emphasis has been placed on the expansion of democratic legitimacy and participation to sub national levels of government. Students of stabilization and adjustment, on the other hand, have been analyzing decentralization in relationship to the drive to shrink the state and increase economic efficiency. Both strands of research reflect the growing strength of state and local governments in Latin America”, (cf. Remmer & Wibbels, 2000: 28)

Specifically, this investigation seeks to show which role property tax is playing at the sub national level. It will be assessing if Peruvian municipalities show a substitution effect of their own tax revenues through fiscal transfers. By fiscal effort is meant the effectiveness of a given municipality in exploiting its sources of revenues relative to its expenditure level. Furthermore, it will be modeling how local leaders act concerning the given legal framework of property tax, and how local leaders make their decisions and which factors (incentives) are influencing their decision to tax or not to tax their citizens more heavily. Moreover, it will be analyzing to what extent a perceived and often stated public and political resistance toward property taxation are affecting the behavior/decision of mayors.

Besides taxes, Peruvian citizens are paying fees at the local level for public parks, local security (not in all municipalities), waste collection and water/sewage. In the past the fiscal transfers were earmarked for investment, so probably it is difficult for Peruvians to detect what they are actually financing with their property tax bill

The preliminary theoretical assertions were further elaborated and tested in qualitative interviews at the beginning of the investigation. The resulting research design was structured principally around the following hypotheses:

1. Even if academics and policy makers in Peru have a generalized suspicion that local governments react with fiscal laziness to the fiscal transfers, the hypothesis of this investigation is that these transfers did not have a direct negative impact on their revenue collection at the local level. It is often stated that mayors who are more devoted to populism than to long term goals might try to avoid the collection of taxes due to

the political costs involved, so that the poor fiscal performance might also reflect the local government's greater vulnerability to local political pressure – “a case of political responsiveness acting in the guise of technical incompetence” – as Dillinger (1991: 29) notes.

2. The full potential use of the property tax is constrained by various factors on different levels of government. Because political culture is favoring a top-down model of decision making without much built in feedback mechanism from municipalities, a given potential to enhance local revenues is wasted.
3. Mayors are making decisions concerning property tax mostly on their own. The investigation posits a model of local government which concentrates on the principal executive officer. While this investigation posits a local governance model highly concentrated on leadership, local performance can partly be attributed to specific contextual circumstances. It is argued that the election results do not play a dominant role in the performance of property tax.
4. Mayors are reacting in a specific manner concerning property tax to given incentives and deterrents. Mayors are not trying to avoid property tax collection but rather are reacting to inappropriate incentives.
5. It is assumed that only urban municipalities have a considerable tax base concerning property tax, and that this group of municipalities will show the best performance and innovative management measures to enhance revenues.
6. As a by-product the investigation contributes to the further development of decision and local public finance theory. It is argued that the Protection Motivation Theory, which was adapted for this purpose and slightly modified, can be usefully applied in behavior public policy analyses.

Concerning the politics, polity and policies of local governments in Peru, there exists a large research deficit: municipalities are only slowly evolving from a level of total scientific neglect to one becoming an important subject of investigations. The current academic literature focuses more on the central government. The same is true concerning the literature on fiscal federalism. This literature needs to explore further the political and institutional variables shaping the behavior of politicians and the interrelations between tiers of government.

Mayors are severely questioned for their handling of local issues. Normally, it is an on going argument that mayors do a bad administration job and relevant property taxes are widely inefficient, but no qualitative assessment has been made until know. The problem of collecting the data could indeed be responsible for this lack of assessment.

The theoretical implications of this investigation are of high importance outside the Peruvian context. Public policy literature has shown until now few investigations concerning empirical research projects on supposed substitution effect through fiscal transfers. The constraints on municipal tax collection are an important subject not normally dealt with. And, the results on how mayors function in developing countries and how and why they set their policies are important research goals.

This study does not assess the existence of a preference for better local service delivery inside the local citizenship or if the citizens would be ready to pay their share for increased or better public services.

### **1.3 Methodology**

In the first part, this investigation uses a quantitative assessment concerning the relationship between own fiscal revenues and transfers. A qualitative part is then used to specify the research results and to also focus further on particular research assertions.

The quantitative assessment concerning property tax revenues uses data from the Peruvian Contaduria General de la Republica, the MEF and the CND which had to be processed to use it. Eventually, inconsistencies between the data managed by these three institutions had to be cleared. Disaggregated data of property taxes at the municipal level before 2001 is not available; therefore this investigation concentrates principally on the years after data was registered.

In the qualitative investigation, preliminary interviews were held with mayors and specialists selected at random. The results were used to sharpen and specify the research design.

In the selection of the sample for the qualitative analysis and subsequent interviews only municipalities with annual property tax revenues above 300,000 Soles (93,000 US \$) in the fiscal year 2005 were considered, this group

of 166 municipalities is together responsible for 430 Million Soles which represents 93.2 % of the national revenue of the property tax. The sample size in this study is considerable. In the quantitative part, 36 mayors participated; these municipalities represent about 20 % of the entire Peruvian population.

While municipalities with substantial property tax receipts are mainly urban settlements, from a theoretical point of view, it made sense to integrate into the investigation some rural municipalities even if those have a supposed low tax potential. Local governments of small rural districts, as were observable in the data and confirmed by selected interviews, have hardly any revenue out of property tax. In some rural districts the concept of property tax is not even accepted and confronts with more traditional ways of communal work; citizens of these communities would participate in public work but no money transfer would happen.

Three rural municipalities (La Matanza, Monsefú and Tucume), selected at random, with much lower property tax revenues were included into the sample to complement findings also for this type of municipality.

The selection was made by random. The only additional parameter used was the spatial concentration of the population (73 % at the coast, 22 % in the mountain region and 5 % in the Amazonas basin; cf. INEI 2005), the selection of the municipalities follows this distribution. Lima was not excluded from this investigation, which is in some ways a special case in itself (not considering Lima would then leave us with a population of roughly 18 million inhabitants for about 1,800 municipalities, meaning that the average Peruvian municipality has a population of about 10,000). Concerning the metropolitan province of Lima seven municipalities were selected, depending on their level of consolidation and population volume.

The metropolitan municipality is, in regards to our investigation, a special case because it administers the property tax for the older inner town district but has other important revenue sources different from other towns. During the time of the interviews a few selected municipalities were interchanged with others, mainly because of the availability of their authorities. The interviews were held during the first and second semester of 2006.

The last municipal administration period was of special interest to this investigation, which started in January 2003 and ended in December 2006, financial data of individual cities were compared with the years before.

Surveys in groups were attempted (used were gatherings of mayors) but this technique proved to be ineffective because of the inherent dynamic of these events (it was difficult for them to separate time for the questionnaire), also it seemed that the atmosphere in these events was not particularly helpful, which finally means that for the purpose of this investigation a personal displacing and interlocution, which was indeed a huge effort, was necessary.

The interviews were carefully prepared concerning the specific local context, budget allocation and revenue distribution (detailed fiscal information for the last five budget years were assessed prior to interviews, see Annex). Interviews were held in a private atmosphere without the presence of other municipal employees to reduce biased information. The Likert scale was experimentally used in the preliminary phase of the interviews, but then discarded mainly because mayors apparently felt uneasy with this instrument. It was evaluated if it would make sense to send mayors the semi-structured question guide prior to interviews so that they could prepare themselves for the discussion. This attempt was equally discarded for two reasons: a) because mayors did not normally find time to prepare themselves, and b) it could result in biased information.

The interviews were therefore semi-structured taking into account that it would have been a difficult task, or at least unsuitable to ask mayors to give responses concerning scales. The problem of biased information in the open interview technique was greatly reduced because the interviews were all held by the same person (no intermediation). Mayors were confronted with the structure of their local budgets and were asked to explain the involved logic and goals. It was especially assessed the property tax, transfers and user charges. In some municipalities the transfers they received from local savings banks were included.

Furthermore, using privileged access to information sources (the investigation was backed by the Instituto de Investigación y Capacitación Municipal, Peru & the Lincoln Institute of Land Policy, USA) a recurrent interview technique was feasible (mayors were asked several times about the same subject, if necessary). The results were then cross-checked with other municipal finance officers and experts (triangulation).

The municipalities were pooled for the sample in regards to their property tax bill and with comparable indices of urbanization grade and economic development.



The interview responses of the mayors were modeled on typical patterns of decision taking. The results were found to match the predictions of the research hypothesis. And, the results systematically improve theoretical insights into the inherent incentive structure of local public finance and decision making in developing countries.

*“Si c’est la raison qui fait l’homme,  
c’est le sentiment qui le conduit”*

Jean-Jacques Rousseau (1712–1778)

## **2 Theoretical Context**

In chapter 2.1, the relevant theories concerning this investigation on local fiscal policy and fiscal decentralization are elaborated on and are followed in chapter 2.2 by a description of the state of the art of theories and academic research on the often stipulated substitution effect. In chapter 2.3, theories on decision making are presented which are then briefly assessed concerning their mode of use and usefulness to this investigation.

### **2.1 Theoretical Background of Fiscal Decentralization and Local Public Finances**

Following Bird (1999: 1) the “theory of fiscal federalism” was originally developed by Musgrave (1959) and Oates (1972), and addresses the division of public-sector functions and finances among multiple layers of government (King 1984). Bird (1999:1) notes that much of the literature of fiscal federalism consists of relatively unrelated treatments of such issues as the “decentralization theorem” (Oates 1991), models for the assignment of powers (McLure 1993), discussions of intergovernmental spillovers and intergovernmental grants (Break 1980), fiscal mobility and migration (Wildasin 1991), and vertical fiscal imbalance and dependence (Hunter 1977). Bird continues that initially, stabilization and distribution were considered to be essentially “central” functions, with the only role for “subnational” (state and local) governments arising in the allocative sphere. From this perspective, the main analytical task of fiscal federalism is to define the appropriate functions and finances of subnational governments as efficiently as possible. Most empirical research has focused on the fiscal behavior of states, rather than local municipalities.

The vertical and horizontal fiscal imbalances which are inherent in public finance systems all over the world are therefore an important element of

research for “fiscal federalism.” The limited tax power and size of expenditure responsibilities make it, in most cases, impossible for local governments to face the resulting fiscal gap without the help of intergovernmental transfers. Transfers from higher-level governments are also an appropriate way to finance those local government functions which have regional or national spillover benefits. Moreover, central governments often justify grant financing of local services as part of a policy of regional equalization of standards of living (Bahl, 1992: 478).

Policy options of local governments are reduced in many developing countries (eg.: they have minimal legal competency or they have little possibility to take credit – often they are not allowed to do so or they lack the appropriate financial institutions etc.). Negative experience in other developing countries with high debt of subnational governments, most notably in Brazil and Argentina, introduced different mechanisms of creating debt ceilings: direct control which is most common in developing countries, co-operative approach, legal approach or market based through rating agencies (cf. Djafari, 2001: pp. 173–186).

In most countries transfers represent the main source of revenue for local governments. Intergovernmental fiscal transfers finance almost 2/3 of subnational expenditures in developing countries and transition economies and about a third in OECD countries (29 percent in the Nordic countries, 46 percent in non-Nordic Europe). Shah (2006: 3) notes that “beyond the pure expenditures they finance, these transfers create incentives and accountability mechanisms that affect the fiscal management, efficiency and equity of public service provision and government accountability to citizens in a decentralized environment.” The appropriate level of transfers among governments in a country is often determined by appealing to notions of fairness and equity (cf. Bird & Smart, 2002). If financing comes largely from intergovernmental grants, it might be (if not distributed by transparent formulas) that decisions concerning the range and level of local public services will likely become the result of negotiations between local and higher-level authorities. Moreno (2003: 1) argues that the expected benefits from decentralization might not emerge if the intergovernmental fiscal system creates wrong incentives in the local policymaking process.

The nomenclature of intergovernmental transfers may vary, especially as the purpose of these transfers is often not clear or mixed. Spahn (2004) dis-

tinguishes three types of transfers according to different purposes: (i) general transfers; (ii) specific transfers; (iii) special transfers. Shah (2006) proposes to broadly classify fiscal transfers into two categories: general-purpose (unconditional) and specific-purpose (conditional or earmarked) transfers.

Bird & Smart (2002: 899ff) argue that intergovernmental fiscal transfers are neither inherently good nor inherently bad. What matters are their effects on such policy objectives as allocative efficiency, distributional equity, and macroeconomic stability. He categorizes four policy objectives of fiscal transfers:

- Closing the fiscal gap. Vertical fiscal balance is achieved by transfers, ensuring that revenues and expenditures of each level of government are approximately equal – even if such fiscal gaps might be closed by transferring revenue-raising power to local governments or by reducing local expenditure responsibility. In some countries in Latin America the experience was to transfer first financial resources which than were followed by negotiating the expenditure function (Campbell & Fuhr, 2004: 13). Based on academic insights, Bird & Smart (2002: 901ff.) give strong advice that a transfer system should be recognized as balanced when revenues and expenditure for the richest local government are even. Remaining fiscal gaps for the poorer local governments should then be addressed as part of the horizontal fiscal balance within one level of government rather than between different levels of government.
- Equalization. Horizontal fiscal balance, or equalization as it is usually called, is controversial because different countries have very different preferences in this respect and because it is a concept with many different interpretations. To avoid problems of moral hazards it is recommended to equalize the capacity of local governments to provide a certain level of public services or the actual performance of this level of service by local governments. Under capacity equalization the aim is to provide each local government with sufficient funds (self-generating revenues plus transfers) to deliver a centrally-predetermined level of services (differentials in the cost of providing services may or may not be taken into account). Transfers are based on a measure of each jurisdiction's potential revenue-raising capacity (such as assessed values for property taxes or measured tax bases for other taxes) and not on actual revenues.

Some other rationale of equalization transfers (by which the main Peru-

vian transfer scheme FONCOMUN is driven) is to provide sufficient resources to enable all local governments, even the smallest and poorest, to provide a basic package of local services.

- Pricing externalities. Local services may spill over to other jurisdictions; nevertheless, a central government may wish to use its budgetary resources to attain given standards of expenditure on certain services provided by local governments. Conditional transfers may induce local governments to provide that level of service, but local governments may differ in responsiveness concerning their policy preferences.
- The political dimension of transfers. Bird advocates that achieving political objectives by transfers should be recognized as a reality, so it may be politically feasible to transfer amounts to unneeding jurisdictions or economically non-viable local governments.

Sometimes local governments receive inadequate signals from intergovernmental transfer systems. In some countries for example, the amount of transfers received depends upon the size of the local budget deficit or national funding is only available for infrastructure investment but transfers are not allowed to be used for operation or maintenance, creating problems of moral hazards.

Bird & Smart (2002: 903ff.) note that “a grant system can also create poor incentives for local governments to raise their own revenues. This effect is most obvious in a revenue-pooling system, such as that used in Germany, Russia and other countries, in which a given share of locally-collected taxes is distributed among all local governments. In such a system, local governments receive only a fraction of the revenue collected in their own jurisdictions, with the rest being distributed to other governments, usually through an equalization formula... Since the cost of local taxation is higher than the benefit to the local treasury, the marginal cost of public funds appears artificially high to the local government.” Intergovernmental transfers should thus set the incentives right and should be structured in a way to make local governments more accountable and provide more scope for local innovation. Bird argues that a properly designed transfer system can still achieve a fully accountable local government, even if transfers finance 90 percent of local expenditures (Bird & Smart, 2002: 899ff.).

The design of transfers should give local governments some degree of stability and central governments some flexibility, so that the transfers are best based at a fixed percentage of all central taxes. Sharing specific taxes is less desirable because experience shows that it gives central governments over time an incentive to increase those taxes which they do not have to share. On the other hand, windfall revenues of a specific tax might also have the unwelcomed side effect of ballooning subnational budgets (unsustainable in the long run when windfall earnings drop) by transferring too much money.

Fiscal theory recommends that a transfer system should distribute funds on the basis of a transparent and not overly complex formula. The essential ingredients of most formula based general transfer programs (as opposed to matching grants which are specifically intended to finance narrowly-defined projects and activities) are needs (in praxis often proxied by population) and capacity (cf. Bird & Smart, 2002: 18ff.).

Their own revenues plus transfers would, in theory, provide each local government with sufficient resources to deliver a minimum or predetermined level of services, depending on policy objectives. Capacity-based transfers would not create disincentives to fiscal efforts, because transfers are based on measures of potential capacity rather than actual revenues. Bird & Smart (2001) note that relatively few developing countries include explicit capacity measures in their formulas and that they are more commonly found in developed countries. For example, in Spain, 25 percent of local transfers are allocated in accordance with local tax collections and 70 percent on population. Denmark and Sweden, like Canada and Australia, explicitly calculate local transfers on the assumption that the average “national” local tax rate is applied. Thus, this creates an incentive to levy at least average taxes since those localities that levy above them are not penalized while those that levy below them are not rewarded. “This approach makes sense only if local governments have the ability to vary local tax rates, at least within limits. The absence of enough local autonomy with respect to local taxes combined with data difficulties probably explains the relatively few examples of transfer programs incorporating explicit capacity measures in developing countries” (Bird & Smart, 2001: 19).

Concerning the question if it is suitable to incorporate a fiscal effort into distributive formulas, Bird & Smart argued against this because the measurement would need complex data and would unduly penalize poorer

areas (the need for equalization in the first place is that fiscal capacity of poor areas is too low, not that their tax rates are too low). It seems hard to justify imposing an additional penalty on poor localities in a transfer program that, given the shortage of resources in developing countries, will almost inevitably fall short of fully equalizing fiscal capacity. “On the other hand, experience in a number of countries suggests that introducing an effort parameter into the fiscal transfer formula may often give more to poorer areas – thereby to increase the redistributive effect of transfers – because poorer areas, once their much smaller fiscal capacity is taken into account, often levy relatively higher taxes than their richer neighbors” (Bird & Smart, 2001: 20).

Traditional analyses of the appropriate degree of decentralization (Tiebout 1956; Oates 1972) have emphasized the role of local governments in providing differentiated public goods in response to heterogeneous preferences. In the literature on decentralization, this is regarded as essential to enhance local accountability. Therefore, most economist and political scientists insist on mayor reliance for local taxes. The basic argument relies on a fundamental link between tax and expenditure decisions: local governments must weigh the benefits of proposed public measures against their costs.<sup>5</sup>

The theoretical discussion of local public finance that has taken place in the context of the Tiebout model is turning around the hypothesis (published in 1956 in an article titled “A Pure Theory of Local Expenditures”) that argues that consumer mobility and interjurisdictional competition leads to efficient provision of local services. Tiebout proposed an alternative to the political process for determining the demand for local public goods. Households would reveal their preferences by choosing their residence among local governments. People would “vote with their feet” (not Tiebout’s term) instead of the ballot box, choosing the desired level of services among the many local governments. In a Tiebout world, perfect knowledge and costless mobility provide a demand revealing mechanism; competition among local jurisdictions assures that the suppliers of local services behave as profit-maximizing entrepreneurs and homogeneity of tastes in each ju-

5 Therefore the “European Charter of Local Self-Government” of the Council of Europe stipulates e.g. that at least a part of the financial resources of local authorities should derive from local taxes and charges of which, within the limits of statute, local governments should have the power to determine the rate.

jurisdiction circumvents the public choices. Local governments compete to attract residents just as firms in the market-place compete to enlarge or retain their clientele (cf. Chaudry-Shah, 1988: 210). In the Tiebout model individuals select a jurisdiction that provides exactly the level of output of the public goods that they wish to consume and are willing to pay for it. In doing so, they reveal their preferences for local public goods and generate a Pareto-efficient outcome in the public sector (Oates, 2006: 3). Moreover, the model states that the location decision of individuals may not be constrained by anything other than fiscal variables (costless mobility is required, no constraints for employment, transaction costs of settling down somewhere else etc.).

Another strand of literature is discussing the nature of the public good envisioned in the Tiebout model. Concerning Oates (2006) these are not pure public goods because they are subject to congestion (cf. pure public goods: which a person can consume without reducing the consumption of anybody else, consumption is said to be “non-rival”). Oates (2006: 6) notes that the Tiebout model is “building on the inherent assumption that i.e. doubling the size of the group requires exactly a doubling of inputs in order to maintain the level of consumption unchanged.”

A voluminous literature has emerged which seeks to evaluate Tiebout’s claim, Wallace Oates was one of the first and probably the most influential academic to popularize the Tiebout model. While Tiebout’s hypothesis was the touchstone for the economic analysis of local government, Oates gave the theory empirical content and brought the idea into the realm of public economics by arguing that property values should reflect the relative desirability of its tax-services package. This essentially means a capitalization of these factors (Fischel, 2006). Even if this theory has provoked much controversy and debate, especially because its basic conclusions are made under very restrictive or unrealistic assumptions, it has offered important insights for public policy debates on the assignment of taxes and services and the design of equalization grants (cf. Chaudry-Shah, 1988 giving a review of related research and theoretical works; and cf. Bardhan, 2002).

While normative arguments established a presumption in favor of the decentralized provision of public goods, these theories were challenged by some other academics. Most noted are the interventions by Prud’homme (1995) and Tanzi (1996 & 2002) which pointed out that imperfections in local democracy can induce local politicians to increase local taxes and fees,



and may inflate local public spending. They are cautiously arguing that if the incentive framework is not well structured, the scope for microeconomic efficiency gains and even such goals as macroeconomic stability might be undermined.

Tanzi is recommending that in some cases alternatives to decentralization should be considered and might be preferable, these consist in his opinion by improving current policies as a first-best option and/or reducing the role of the state by privatization of former public activities.

Most scholarly attention in this context has been concentrated on discussing the issue of the maintenance of fiscal discipline. There is a danger in that the opportunistic behavior of subnational entities may expand their expenditures without eventually facing the full cost. In certain circumstances regional or local governments may be tempted to exploit the “fiscal commons” by effectively shifting the burdens of local or regional programs onto the higher-level government as a whole (Oates, 2005). This happened, for example, in Argentina and Brazil’s financial crisis in the late 90s which was triggered by state-level defaults on debt payments – demonstrating the need for institutional mechanisms that control borrowing by state and local governments (cf. Rodden, 2003. Ter-Minassian, 1997).

The budget constraints in these cases have been too soft, so that local policy makers might try to test the central government’s commitment by getting them to bail them out. The claim that a central government does not come to fiscal rescue is challenged in praxis (questioning this statement as credible). First, central governments care about the welfare of the citizenry (either for altruistic reasons or in order to be re-elected), so a severe failure of a given local government presumably has negative spillovers on other jurisdictions and probably many central governments would react with a bail-out package. Second, mayors would probably shift blame for a fiscal crisis onto the central government, so that political survival instinct of central incumbents may act in favour of intervening. Third, this is further complicated by the potentially important insurance role of the central government (Oates, 2006). Local governments under fiscal distress caused by external shocks will receive, in most cases, help from upper-tiers of government.

It can be observed that the history of intergovernmental fiscal relations matters too. Robert Inman (2003) argues that the reason why the record of the

USA is a clean sheet with respect to strategic bail-outs is because the federal government explicitly rejected efforts by several federal states in the 19<sup>th</sup> century to obtain fiscal assistance (a wave of defaults occurred then as a result of poorly conceived public investment in transportation and banking projects). This refusal then created an institutional setting in which future bail-outs would be increasingly improbable (Oates, 2006: 23).

Also, if the central government provides local public goods this does not, in practise, rule out susceptibility and awareness to local conditions. And, the central government should also be able to obtain the needed information on local costs to function and local preferences to provide Pareto-efficient services in each of these jurisdictions (cf. Oates, 2006). Prud'homme (1995: 208) notes that higher-level governments might be able to differentiate the services they provide, just as private enterprises operating on a national or international scale do. Even if no formal electoral mechanism exists to ensure adaptation to local needs, there might be other mechanisms, equally efficient (or as inefficient) such as the will to serve, deconcentration (or, the redistribution of decision making authority), pricing mechanisms, and survey devices.

Moreover, central governments may even reap the fruits of economies of scale. Actual studies of economies of scale in the various local public services are scarce, but the prevailing view is that there are few local public services for which economies of scale imply nationwide supply. Depending on the sector and approach these economies of scale may vary: eg. the construction of overhead facilities is better underdone by the central government, but these economies of scale are less important in local management and maintenance of these facilities. As Bardhan notes (2002: 190): "Similarly, in primary education, while the local government may run the day-to-day functioning of schools, the upper-tier government can have the economies of scale in designing curricula and prescribing and enforcing minimum quality standards." Prud'homme (1995: 209) argued that "for most local public services, the provision in a given city is independent of the provision in other cities and therefore, the welfare losses attributable to economies of scale that would result from decentralization are probably minimal."

The postulated efficiency gains may – under the background of constraints typical for developing countries – not offer the same impetus for fiscal de-

centralization as in industrial countries. Taken all together, the reasoning for centralized versus decentralized provision of public goods can become, therefore, much more complex when local governments' limitations and centralized capacities are characterized in a more thoughtful way.

Prevailing theories on local government finance and fiscal decentralization posit that sub national governments determine, to a large part, the level of services provided and raise a substantial portion of the revenues to pay for them. Strengthening local taxes as a source of funding local spending is a basic tool. Most tax experts suggest therefore a bigger role for property tax – as the main local tax (which also might enhance accountability and democratic control), even if this tax is believed to be unpopular and difficult to reform (cf. Heady 2002; Shah 1999; or Ahmad et al. 1998). Others assume that the conventional case for property taxes is to some extent flawed and might be linked to the reluctance of central governments to provide sub national governments access to more lucrative sales or income taxes (Bird 2000).

A somehow more “practical” approach show some urban economists – most forcefully the late nobelist William Vickrey (in: Solow & Vickrey 1971) – who argue in favour of user charges whenever possible at marginal cost pricing combined with an important role for the property tax. The latter is to cover services where marginal costs are below average costs and also to finance services not suitable for marginal cost pricing, the fiscal gap left over should then be filled by intergovernmental transfers.

In most literature, governments are traditionally assumed to be either benevolent or maximizing revenue. It is assumed that benevolent policy makers are basing their policies on ethical principles and values without explicit self interest, trying to raise the welfare of the whole constituency. The median voter or benevolent policy maker model posits that elected officials act on behalf of their constituents by taking the preferences of the median voter or a set of decisive resident/voters into account in making expenditure and revenue decisions. The benevolent policy maker does not need to be constrained or restricted because he will give the resident/voters exactly what they desire. If this theory approximates reality, limitations on the fiscal behaviour of local government officials might actually reduce efficiency and

make everyone worse off if elected officials have to alter their behavior in an attempt to circumvent the restrictions (McGuire, 2003).<sup>6</sup>

A very different view on decentralization was theorized by public choice literature (Brennan & Buchanan 1980; McLure 1986, Giersch 1993) with their famous “Leviathan” hypothesis. Geoffrey Brennan and James Buchanan were depicting governments as a Leviathan which seeks to exploit the citizenry through excessive rates of taxation; governments intrinsically want to maximize revenue. Under this model, local government officials are more interested in their own welfare which increases with the size of the budget (or more concretely with the number of support staff members, wage levels, the quality of the furniture and office space, etc.). The resulting level of expenditures and taxes is likely to be higher than desired by the resident/voters. It is argued that the constraint posed by the need to be re-elected is not strong enough to rein in wasteful or undesirable spending because voters find it difficult to monitor the behavior and evaluate the decisions of local officials. Brennan & Buchanan theorized that total government intrusion into the economy would be smaller, to the extent in which taxes and expenditures were more decentralized because individuals and firms were mobile. Thus, fiscal decentralization forces governments to engage in tax competition, destroying Leviathan’s monopoly on taxation and bringing government spending closer to the preferences of citizens.<sup>7</sup>

Fiscal decentralization is seen as a mechanism for constraining the expansionary tendencies of government. Competition among decentralized governments, much like competition in the private sector, can limit the capacities of a monopolist, in this case a monopolistic central government, to increase its control over the economy’s resources (cf. Oates, 2005).

This hypothesis was the subject of several empirical analyses, though fiscal decentralization has been linked to lower government spending in some case studies, cross-national studies have been unable to demonstrate

6 Even if benevolent policy making is a much stated assumption, it is astonishing how little academic research really assesses this statement, – it seems as if the benevolent stance has a hard time.

7 In reality, the rational choice theories stated here were never doctrinaire so as not to consider some “irrational” behavior inside their approaches, e.g. Buchanan theorizes the so called “fiscal illusion” as some irrational appraisal of the human kind inside his theoretical works; cf. further down.

the hypothesized relationship. Indeed Wallace Oates (1985) has declared Leviathan a “mythical beast.” More recently, Ernesto Stein (1999) demonstrated that fiscal decentralization is actually associated with larger governments in Latin America.

Rodden, 2003 pointed out that it is not fiscal decentralization per se that matters, but what form it takes. He is arguing in his paper that decentralization is associated with smaller governments only if state and local governments have wide-ranging authorities to set the tax base and rate, especially on mobile assets; on the other hand, subnational governments which fund a greater portion of public expenditures through intergovernmental transfer increase the size of the overall public budget (and as mentioned it gives them the opportunity for “raiding the fiscal commons”).

Academics are still ambiguous over the outcome of tax competition on tax rates, public expenditures and welfare. Concerning the favorable normative implications of the Leviathan view of fiscal competition, Oates (2005: 355) notes that these “contrast sharply with some later treatments of this issue. There is now a large literature that contends that active fiscal competition among jurisdictions can itself result in distorted levels and patterns of economic activity” (cf. Wilson 1999, Wellisch 2000, Oates 2002, Winner, 2005).<sup>8</sup>

In this respect, research linked to the New Institutional Economics (NIE) is relevant to this investigation for two reasons: first, NIE is modeling political institutions with explicit attention to the incentives they embody (cf. Picciotto and Wiesner, 1998) and secondly, because NIE is giving much more emphasis on studying the behavioral nature of human beings concerning economic development (Simon 1985). NIE departs from mainstream neoclassical economics and has the benefit of focusing on the social and legal norms and rules that underlie economic activity. Although no single, universally accepted set of definitions has been developed (Williamson, 2000 refers to NIE as a boiling cauldron of ideas, with many institutional research programs with competing ideas in progress), most scholars doing research under the NIE methodological principles and criteria follow Douglass

8 The implications are of no little concern in light of economic and political integration of Europe. Several member-countries fear a race to the bottom and consequently argue in favor of the harmonization of fiscal and regulatory policies inside the EU.

North's (1991) demarcation between institutions and organizations. Institutions are the "rules of the game", consisting of both the formal legal rules and the informal social norms that govern individual behavior and structure social interactions (institutional frameworks). Organizations, by contrast, are those groups of people and the governance arrangements they create to coordinate their team action against other teams performing also as organizations.

Oates (2005: 349–373) gives in a recent research paper an academic overview about the state of the art of fiscal federalism theory: he is acknowledging the emergence of a second-generation theory which draws on work of public choice and political economy that focuses on political processes and the behaviour of political agents "under a setting of asymmetric information, where some participants have knowledge of such things as preferences, cost functions, effort or knowledge that is not available to other participants" (cf. Oates 2005: 356). The basic focus of this new approach is based on the incentives that the institutions embody and the resulting behaviour they induce from utility-maximizing participants.

Specifically, concerning the property tax it should be noted that it is the single most important local tax in developing countries. Internationally, most countries have some form of tax on property, even if the relative importance varies substantially from one country to another. However, property tax yields in developing countries are significantly lower than in other more developed countries (some countries can raise significant revenue from property taxes) relative to domestic revenues and compared to gross development product. In terms of their overall contribution to local budgets, property taxes sometimes play a more important part in developing countries, as subnational governments in developed countries often have access to other revenue sources. The property tax yields on average are (unweighted) 4 % of tax revenues in OECD countries and 2 % for transitional countries.<sup>9</sup> In Latin American countries property taxes have been poorly developed (cf. Piza 1999: 363ff.). With the exception of Argentina, hardly

9 In 1965 the average for OECD countries was still 8 %, meaning that property tax has declined in relative importance. The UK, USA, Korea and Japan all yield over 10 % of overall tax revenue from property taxes.

any country has considerable revenues out of this tax (see: Table N° 1). The property tax in Peru is less than 0.2 % of GDP. This is extremely low, even compared to the Latin American average.

**Table N° 1: Property Tax in Latin America**

	Fiscal Year	% of GDP
Argentina	2004	1,45
Bolivia	2000	0,09
Brazil	2005	0,52
Chile	2006	0,37
Columbia	2005	0,65
Ecuador	2003	0,59
Guatemala	2004	0,27
Mexico	2006	0,21
Peru	2006	0,16

Source: Database of the Lincoln Institute of Land Policy  
<http://www.lincolnst.edu/subcenters/PTLA/en/data.asp> (March 2007)

Most academics have argued that the property tax is a benefit tax as it is usually used to charge for the generalized benefits of public services provided by local authorities. This would mean that local differentials in the tax rates simply reflect differentials in the level of services. The underlying rationale for property tax is to confront taxpayers with the cost of municipal services they consume in the pursuit of efficient objectives (Dillinger 1991: 2ff.). “Others have argued that the property tax is a distortionary tax on capital, borne primarily by owners of capital” notes Slack (2001: 270).

Regarded as a relatively stable revenue source, especially when compared to other potential local tax sources like wage or turnover taxes, property tax is the only direct tax which is paid by a broad sector of the population (even part of the informal sector).<sup>10</sup> Local Governments can predict income over the long term. This also protects local democracy allowing long term planning and secure funding for vital services. Moreover, it is also noteworthy that the tax comes with minimal distortion of private allocation processes (Oates, 1996). One inherent principal characteristic is that the

10 Local administration has a better chance of bringing the population into the system than would administration imposed on them from the distant national capital which may help create a compliance tradition (Mikesell 2003).

GDP elasticity of the property tax in general has been close to the same for decades. Property values generally respond more slowly to annual changes in economic activity than do incomes, and even when values do rise rapidly few jurisdictions – and almost none in emerging economies – update property values for taxation purposes on an annual basis (Slack, 2006).

Property tax administration is often a mixed system where valuation, collection and setting of tax rates are shared between different layers of government. Property tax systems range from: a) Central Valuation, Central Collection, b) Central Valuation, Local Collection, c) Local Valuation, Local Collection and d) Local Valuation, Central Collection. In some countries valuation is distinguished between large cities (justify technical expertise) and smaller jurisdictions where this service is provided by the central government. In theory “a cooperative division of functions should combine local autonomy and familiarity with local conditions and central technical skills” argue Martinez-Vasquez & Timofeev (2005: 37). In Peru the property tax administration is shared between the central and local governments, the first setting rates and valuation while the latter afterwards applies the parameters and collects the tax.

Under property assessment is understood the valuation of the tax base which can take different forms. Normally, it is principally divided between the market value and the rental value assessment. Three methods are used to estimate this (following closely Slack, 2001: 272ff.): (1) The comparable sales approach involves looking at valid sales of properties that are similar to the property being appraised. It is used when the market is active and similar properties are being sold. The value is defined as the price that would be struck between a willing buyer and a willing seller in a commercial transaction. (2) The depreciated cost approach values the property by estimating the value of the land as if it were vacant, and adding the cost of replacing the buildings and other improvements to that value. The cost approach is used when the property is relatively new, there are no comparable sales and improvements are relatively unique. It is also used to assess industrial properties. (3) Under the income approach, the potential gross rental income is estimated by what the property could produce, deducted by operating expenditures. The resulting annual net operating income is converted to a capital value using a capitalization rate. This approach is used mainly for income-producing properties. Under the rental value assessment ap-



proach, property values are determined according to their current use. The use of rental value eliminates any increases in property values due to potential future use and speculation.

It is widely assumed that property tax is unpopular. Oates (2001: 23ff.) identifies four main sources of dissatisfaction with the property tax: first, because the property tax is visible (which differentiates property tax from other taxes by virtue). Local residents receive explicit tax bills; the visibility contributes to an awareness of the costs of local public goods, and is from a decision-making perspective, a desirable feature. Secondly, because of inequities in assessment practices (differences in tax burdens across jurisdictions and even among different properties within a jurisdiction). Thirdly, the imperfect association between the income of property owners (ability to pay) and tax liabilities. And lastly, fiscal disparities across jurisdictions may it be by historical evolution or deliberate policy.

A big part of the academic literature on property tax concentrates on the United States where property tax, to a large extent, financed local governments throughout its history. Apparently, the public's unhappiness with the property tax spurred a series of property tax revolts in the late 1970s and early 1980s. The revolts led to significant limitations on local governments' ability to raise property tax revenue. Nowadays, about 44 federal states restrict property taxation in some way; these limitations apply to rates, assessment increases and the total amount of revenue that can be collected from the tax. These restrictions have seriously curtailed both revenue collection and the ability to rely more heavily on the tax in the future.

Therefore, recent studies in the USA center much of their attention on the discussion if property tax limits restrain local expenditure. Some evidence seems to lend support to the Leviathan model of local government (Cutler et al. 1997; Downes 1996; Dye, 1997; Poterba 1995).

Oates (2001) points out that the limitations on tax rates or the growth in revenues (most famously, Proposition 13 in California), have undermined to some degree the role of local property taxation in encouraging efficient budgetary decisions. Figlio & O'Sullivan (1997) and Mullins & Joyce (1996) show that property tax limits have in fact resulted in reduced reliance on local property taxation with state government typically underwriting an enlarged share of local budgets through intergovernmental

grants and greater reliance on fees and charges. In extreme cases like that of California, rigid tax limitation measures have effectively cut the link between local spending and tax revenues.

Citrin (1979) investigated the citizens' perception and found out that Proposition 13 was largely a revolt against taxes and not against the providing of services. And, moreover, that their decisions were based on complex self-interested cost-benefit assessments. Other investigations verified many of Citrin's findings that voters supported tax limits principally in order to increase control of local services (cf. Courant, Gramlich & Rubinfeldt, 1980; Sheffrin, 1998).

Glaeser (1996) and Hoxby (1999) emphasize that local residential property taxation has advantageous incentive effects on the local bureaucrats (education in the USA is principally a county responsibility). The incentive mechanism is assumed to work through capitalization of school quality into housing prices. A district that offers high education quality faces increased demand thereafter on housing because it is regarded as an attractive school district. This is accompanied with a rise in the housing prices, yielding increased revenue to the school district that utilizes residential property taxation as a local income source. Therefore local property tax gives the local bureaucrats/leaders stronger incentives to maintain a high quality education system. Local property taxation may also have beneficial incentive effects on residents in the school district (Fiva et al., 2005). Residents in school districts with high property taxation may be more likely to monitor public expenditure because they receive a greater return from government efficiency because of the capitalization mechanism.

Rattsø and Fiva (2005) show that in the Norwegian experience local choice on property taxation reflects fiscal competition and political fragmentation and that local governments choose with a big majority the maximum rate of two given intervals of tax rates. Another recent research work on Norway suggests that property taxation has incentive effects and can contribute to lower costs in the public sector (Borge & Rattsø, 2003). Blom-Hansen, Monkerud and Sørensen (2004) investigated the impact of party ideology on property taxation and user charges in Denmark and Norway, showing a different approach by leftist and conservative governments.

Another branch of the academic literature on property tax tests the 'yardstick competition' hypothesis by looking at the effects of property tax increases at the local level on the incumbents' vote. The results suggest that property tax increases, at the municipality level, have a non-negligible impact on voting behavior or how local decisions concerning property tax is influenced by fiscal competition and political control problems. Thus, this supports with the results the thesis of existence of strategic interactions at the local government level (cf. Fiva & Rattsø, 2005 concerning a Norwegian case study; Bosch & Solé, 2004 for an empirical Spanish assessment; Bordignon et al., 2003 for Italian municipalities; and Brueckner & Saavedra, 2005 for municipalities in the Boston Area in the USA).

Property tax has important impacts on urban spatial development; often a connection between the property tax and urban sprawl is investigated. Brueckner and Hyun-A (2003) argue, in the case of the USA, that the tax has a depressing effect on property improvements which reduces the population density and finally spurs inefficient spatial expansion of cities. A specialized research institution, the Lincoln Institute of Land Policy, is arguing in favor of a land tax (without considering the buildings on it) because of the related far reaching policy goal (which is to purposely shape urban development patterns). In principle, land property taxes have, at least potentially, two distinct roles in emerging and developed economies: the first is as a source of local revenues and the second is as a tool to affect land use (Slack & Bird, 2006). With low levels of property tax, municipalities are missing out an important instrument for planning.

It should be noted that most theoretical models and case studies are based on the experience of rich countries and there exists a much thinner understanding of the causes and consequences for the developing world. Some special features having to do with the imperfect market/governance structures typically associated with developing countries needs to be referenced:

- Bahl and Linn (1992: 423) already point out in their classic book on urban public finance in developing countries that existing theories confront assumptions which do not exist for industrializing countries: there are limits on the amount of services that local governments are capable of delivering, constraints on the revenues structure, constraints caused

by weak tax administrations and the inability of citizens to reveal their preferences for the provision of public goods and tax levels.

- There is hardly any competition between Peruvian municipalities on any ground. Municipalities have up to now lived in a quite isolated fashion – something that is slowly changing as the repetition of successful innovation by some municipalities is showing, as well as improved investigation and publicity on the best practices of municipalities. Competitive pressures, for the moment, can hardly act as a disciplining force between Peruvian local governments, mostly because competition for mobile residents are absent and consequently the theoretical assumption that “public goods will match residents’ demands” more accurately is flawed (Oates, 1972).
- Tax payers all over the world do not seem to be the best informed clients. And, it is particularly noteworthy that in the Peruvian case sometimes not even so-called specialists were not up to date with the specific calculation of property tax bills – let alone the normal citizenry. As Rodden and Rose-Ackerman (1997) have pointed out, even in a western democracy, electoral competition does not necessarily punish local leaders who fail to respond to exit threats of mobile asset owners and are instead more responsive to coalition building and the ‘voice’ of well-organized lobbies. The disciplining effect – caused by property taxation driven by monitoring from taxpayers who want to keep themselves up to date on what the money is used for – is largely absent in the Peruvian case.
- In theory the property tax might favor revenue collection (Glaeser, 1996) because if local governments maximize their revenues, property taxes will provide incentives for adequate amenity provision, which influence property values. This is only partly true in the Peruvian case, first, because a central institution (CONATA) is mainly setting the value of property, and second, this institution apparently does not reassess the value of property because of improved service provision.
- Local fiscal theory by Tiebout etc. posits a potential mobility of the citizenry, choosing their residential reallocation by consideration of the housing, education, the labor market and the taxes they have to pay for them. If this argument is critical concerning the application on developed countries, then in the Peruvian case it should be noted right from the beginning of this investigation that local tax policy is surely not re-

sponsible for the moving from one place to another. The fiscal competition of local governments as the disciplining force on local politicians that in theory would be an important effect (as a tool which is limiting rent seeking), is absent. If at all, the citizenry expresses their case through tax strikes (difficult to assess in a developing country context if the strike is caused by dissatisfaction or financial incapacity because financial means are one of the biggest constraints).

- Interest groups in developed countries are normally better organized and the citizens especially have a stronger voice in their local government. The interest groups are consequently supposed to take stronger advantage of privileged information. The citizens who have a stronger relationship with the local government might lobby against higher property taxes (eventually also in favor). In Peru, the Chamber of Commerce in Lima is, in general, arguing against a raise in valuation of properties in the metropolis, which is supported by some of the media (might be placed). But, in general, there is little media coverage and the political pressure can best be described as low key.
- Mayors are more dominant in developing countries; presidential tradition and paternalistic political culture make it less easy for civil society, local civil service or the local council members to shape the political agenda.
- In developed countries there exists a professional civil service which sometimes has a particular work ethos. The OECD local government experience suggests a fairly straightforward division of roles between elected members who, it is argued, are responsible for community leadership, and officers who should provide corporate leadership of the local authority organization. Even if in practice, however, executive members frequently find themselves involved in decisions relating to the management and delivery of services (cf. Enticott et al. 2005). By contrast in developing countries lots of local officers get into the city hall by being hired by the mayor. Frequent changes are quite common in Peru and a professional service at the local government instances is mostly unknown. All this indicates a far bigger role for the principal authority.

## 2.2 Substitution of Municipal Revenues Through Intergovernmental Transfers

It is a common place in fiscal decentralization literature to consider the existence of a relationship between transfers and fiscal effort, but there is still no conclusive consensus regarding its direction or magnitude (cf. Aragon, 2005: 3).

In the literature, different rival explanations of the impacts of transfers on the local tax effort stand out (cf. Burki, 1999). The first one has its roots in the assumption that increases in transfer will have a negative impact on revenue generation at the local level and actually substitute local governments' tax efforts ('fiscal laziness').<sup>11</sup> It is argued that the main reason for this effect is that municipal officers will seek to avoid the political and administrative costs of tax collection. Also, local governments would not internalize costs of taxes collected to finance transfers and it would be optimal for them to substitute local taxation with transfers (Peterson 1997: 10). The second explanation, generally referred to as the 'flypaper effect' (dubbed so by Arthur Okun), suggests that 'money sticks where it hits'. According to this explanation, tax collection is not reduced and actually increases with transfers. It encourages local governments to raise expenditure close to and sometimes beyond the pure amount of the given transfer.<sup>12</sup> Some studies have found that the share of grants in local revenues has an expansionary effect, both on the size of the local public sector (Shadbegian 1999) and on the entire public sector (Stein 1998). A research paper by Hines and Thaler (1995) lists some of the most commonly cited studies concerning the flypaper effect. Although the studies were done with a variety of approaches and data sets, the results tend to support that spending is stimulated by non-matching grants. A local government which receives a grant is able to increase expenditures without raising taxes. The third explanation suggests that transfers actually increase their own local revenues (stimulative effect of grants).

11 Tax effort is understood in this paper as only the tax revenues collected by the municipalities and user charges – while an important subject – are only alluded briefly.

12 Partly due to involved maintenance costs, administration and investment preparation.

Anyway, the lack of data and the ambiguity of the relationship between intergovernmental transfers and tax effort make evidence of studies on both developing and industrialized countries up to now far from robust and sensitive to time frames and used models (cf. Raich, 2002: 2).

The results of some recent studies in different countries about this issue do not show a homogeneous picture concerning evidence of a decrease in local fiscal effort linked to increased transfers. The most important are:

1. Mexico. A study undertaken by Raich (2002) which is using quantitative information of all 217 municipalities located in the federal state Estado de Puebla of Mexico argues that the impact of the Fund for Municipal Social Infrastructure (FAISM) on the local tax effort was negative. The FAISM was created in 1997 after the opposition took, for the first time in history, control of the federal Congress and is allocated, in a first step, from the federal government to the states using a formula based on poverty levels and equity. States are required to transfer the FAISM to their municipalities based on the same criteria or alternatively by using a formula made up of employed population below twice the minimum wage, percentage of illiterate, drainage and electricity. Municipal governments are allowed to spend this money only to finance a set of projects related to basic social infrastructure. Mexican municipalities do not have legal authority to modify property tax bases and rates, since this is a prerogative of state legislatures. Mexican municipalities are heavily dependent on fiscal transfers. Nevertheless, Raich notes that the tax effort/laziness behaviour of all the categories of municipalities can't be fully explained by prevailing fiscal theories. Specifically, while the FAISM negatively affects the tax effort of the small and medium size municipalities with low and medium levels of welfare, the big and more developed municipalities do not reduce their tax effort. Despite the significance of this study for Mexico, Raich acknowledges that the results of this investigation might be generated by multiple causes and that the variations in tax collection are caused by far more reasons than the creation of the FAISM. He highlights also in his concluding remarks that it is assumed in his paper, but which in reality is demonstrating an important limitation, that "local governments behave like perfectly informed rational actors that readily adjust their financial policies to maximize their benefits and minimize their costs (by substi-

tuting own-source revenues with grants). However, in reality, municipalities – at least rural and semi-urban ones, like most of Puebla’s – do not have full information about their different sources of revenues nor have the planning capacity to behave like rational actors.”

A second investigation by Moreno (2003) describes the main features of the fiscal federalist arrangement in Mexico and comes to a similar conclusion affirming the existence of a substitution effect by analyzing data of all Mexican municipalities and by differentiating between conditional and unconditional transfers. Moreno shows that local governments’ own tax revenues grew steadily during the 1989–1994 period, but with a dramatic decrease related to the peso crisis of 1995. Although the national economy recovered rapidly after 1995, local tax revenues remained almost static until 2000. Moreno compares local tax revenues with regional GDP and discovers a high heterogeneity between municipalities located in federal states with similar GDP. On the other hand it is argued that revenue-sharing transfers are not reducing the fiscal effort.

Both research works do not consider the whereabouts of the property tax and therefore miss a complementary qualitative explanation. Moreno and Raich are reasoning for themselves that local policymakers do consider other factors in their taxing and expenditure decisions and that this type of information would certainly improve the knowledge of the performance of local governments.

2. Colombia. The decentralization process in Colombia which started cautiously in 1968 then accelerated and since 1986 subnational government spending has increased dramatically. The subnational governments have assumed greater control of health and education programs and other local services. Also, an increasing fraction of national revenues have been earmarked for transfer to lower-level governments. An investigation by Cadena Ordóñez (2002) addresses the relation between transfers and self-generated municipal revenues in a time series for the fiscal years 1984–2000. Transfers were responsible in 1984 for about 25 % of overall municipal revenues and in 2000 for half of the local governments’ budgets. It is shown that transfers and own revenues rise hand in hand over the years, especially since the implementation of the new Constitution in 1991 which gave mayors enhanced autonomy. Overall, revenues were rising fast. Colombian local governments prin-



cipally raise their own revenues through a business tax and property taxes. The latter are levied on the basis of a nationally administered *catastral* assessment system in all municipalities except for Bogota, Cali, and those in the department of Antioquia, all of which maintain their own assessment systems. Municipalities are given some autonomy as minimum and maximum rates are specified in national legislation: most interestingly the majority of municipalities have chosen rates near the bottom of the permissible range (see Leibovich, 2002). Cadena Ordoñez can't detect a substitution effect; rather she argues that local governments demonstrate a fiscal effort. It is argued that the tax effort differs corresponding to demographic and socioeconomic factors of a given municipality and concerning, in particular property tax, rural municipalities were exercising a pronounced tax effort. In regards to the local business tax, the most populated municipalities have shown the best performance.

Another study (Sánchez; Smart & Zapata, 2003) examines fiscal data for a large number of Colombian municipalities for approximately the same time period between 1985 and 1999. They show that the fiscal capacities of Colombian municipalities differ substantially, which is a major challenge in designing an effective system of decentralization. While national transfers are large relative to local revenues and are allocated in part on an equal per-capita basis, transfers have a substantial equalizing effect on the ability of local governments to deliver comparable levels of local service (however, important horizontal imbalances persist among municipalities). The researchers detect some evidence that transfer growth has discouraged the tax effort of the municipalities. The study acknowledges, nevertheless, that despite the attenuation of tax effort, transfers have had a pronounced effect on local program expenditures. It is argued that most of the additional funds have been allocated by local governments to direct program spending, rather than administrative costs.

3. Turkey. An investigation by Isa Sagbas (2004) on the intergovernmental transfers in Turkey assesses two competing theories which are used to explain the source of the flypaper effect: fiscal illusion and the bureaucratic model. She claims that the bureaucratic model, in which local managers cause excessive spending, could better explain the source of the flypaper effect. Local politicians have significant discretion over the

spending side of the budget. The unconditional nature of revenue sharing also provides significant discretion. Since politicians set the budgetary agenda, the outcome will be excessive spending. Sagbas gives evidence that the fiscal illusion theory cannot explain the flypaper effect. It is argued that there could be no misperception of voters about revenue sharing because there is no trade-off between local taxes and revenue sharing. Voters cannot affect the level of revenue sharing and local tax rates in Turkey. For this reason, the fiscal illusion argument is found to be rather weak as a source of the flypaper effect. The investigation detects no substitution effect, rather the opposite: lump sum transfers have a stimulative effect on the level of public expenditures. In addition, it is found that municipalities with a higher flypaper effect make more effort concerning raising revenues. Based on this finding, it is argued that if the flypaper effect is found, local governments spend more than they receive and thereby increase ways to increase revenue.

4. Concerning Peru, there exist three competing investigations: Alvarado (2003) and Aragon (2005) claiming a substitution effect, while a working paper by Rabanal et al. (2006) commissioned by the Peruvian Finance Minister shows that the majority of municipalities react with their own fiscal effort. These three investigations demonstrate some common flaws which will be discussed in more detail in Chapter 6.2.
5. Czech and Slovak Republics. This is an example of the transition from central planning to market democracy countries; if not a direct investigation concerning if there exists a substitution effect in these two republics but rather a more qualitative assessment of the recent experience of fiscal decentralization (comparing the property tax inherent moral hazard). The authors argue that sparse revenue transfers in the Slovak Republic, and as a result greater fiscal need at the local level, were addressed through higher yields of the property tax. On the opposite end, in the Czech Republic the property tax remains largely symbolic and the municipalities are receiving more fiscal transfers (Bryson & Cornia, 2003). Furthermore, the study gives some insights by comparing a locally administered property tax (Slovak Republic) with a centrally administered one (Czech Republic). It is noted that for transitioning countries, a big practical problem in the beginning was the difficulty of establishing market-oriented property values in the absence of a functioning real estate market.

6. Costa Rica. This research paper of the IADB (Hall 2002) investigates the inter-relations between the central government and the municipalities in Costa Rica. It examines episodes in which the central government has bailed out the local governments from their fiscal obligations. Empirical and descriptive methods are employed to show how discretionary grants relate to the degree of fiscal discipline of the municipality to produce hidden bailouts. Political, demographic and economic variables explain the allocation of these discretionary transfers. They illustrate the effects of the high concentration of decision-making in the central government on the municipalities' fiscal performance. The municipalities play a limited role and their function largely depends upon the central government. Using panel data from 1982–1997 in 81 cantons, it is argued that the fiscal effort of the local governments is reduced by the presence of discretionary grants. According to their empirical results the local governments finance local expenses with these discretionary transfers. As expected from the transfer design, variables such as the political affiliation of the local administration have significant effects on the resources received by the municipalities.
7. A general theoretical model was developed by Besfamille and Sanguinetti (2004) where several dimensions of the tax policy are endogenously determined, namely the investment in resources to improve the efficiency of the tax administration, the property tax schedule and the audit policy. The model is based on the assumption that instead of investing in reforming their tax administration, the local authorities can also lobby the central government to obtain discretionary transfers. This decision depends upon the ability of the local government to negotiate with the central government (which eg. depends on the political representation of the region in the Congress). Besfamille argues that when the federal budget for such transfers converges to zero, the region adopts a more efficient fiscal behavior. They note that regions with comparative advantages in lobbying the federal government or with a high degree of divided government will seldom engage in improving the local tax administration. The model developed by them gives opportunity to question it at different stages. First discretionary transfers are not so common. In reality, formula based grants are much more used. The creation of the formula is often based on some political/social/economical goals but this should be not misinterpreted as a result of

lobbying by local governments. Local governments also might try both enhancing their own revenues and lobbying for focalized investment/transfers.

## 2.3 Theories on Decision Making

It could be reasonably argued that theories on fiscal policy are ultimately based/constructed on theories at a more personal and less abstracted level. The same antagonism (benevolent/revenue maximizer) can be found concerning decision theories: the dominant model of decision-making in economics and political science is the rational choice theory. In rational choice theory, individuals make decisions that maximize their individual utility despite given constraints on resources and information. Critics of the rational choice model have long questioned the ability (or even inclination) of decision makers to maximize their utility at all. Simon popularized the argument that while individuals are “intendedly rational” they use a series of “premises” to make decisions – much like decision heuristics. People do pursue goals, Simon argued, but they pursue goals with a “bounded rationality” (Simon 1997). Bounded rationality is sensitive to limitations imposed by the cognitive constitutions of decision-makers. Some researchers even accuse rational choice model of being unrealistic (cf. Engel, 2007: 3–22) given the severe cognitive limitations of the human mind. Analyzing only consciously controlled decision-making would ignore a second mental apparatus based on “intuition.”<sup>13</sup>

It was often argued that the flexibility of the rational choice model can confirm any hypothesis because one can fabricate any possible set of preferences. There would be nothing that could negate a rational choice model as long as one could simply tinker with the information and utility function – any outcome could potentially be “rational.”

Public choice theory views institutions as seeking to maximize organizational utility. While this is normally recognized as the orthodox theory to explain aggregate behavior, the assumptions of comprehensive rational

13 The Max Planck Institute for Research on Collective Goods in Bonn recently set up a research group with the aim to improve the understanding of the interaction between deliberate and intuitive processes in decision-making.

choice break down when individual behaviors are examined. Therefore, the theory views individuals like mayors as limited rational actors who satisfy rather than maximize their utility. Public choice theories are based on the logic of consequences where behaviors and decisions are based on a process of identifying the preferred outcome amongst identified alternatives (March & Olsen, 1989). The logic of consequences assumes financial managers or mayors and government institutions to be rational or directed toward an identified outcome. The traditions of orthodox and prevailing theories are manifested in works that emphasize the importance of economic efficiency for efficiency sake (Buchanan, 1967), policy decisions for the purpose of maintaining political power (Downs, 1960; Wildavsky, 1964) and public choice type arguments of bureaucratic self-protection and budget maximization (Niskanen, 1971). Under the prevailing theory, mayors view property tax as a factor in a political and economic cost/benefit analysis (cf. Matkin, 2004).

A politician's behavior is arguably not only dependent on his/her own motivation, but also on the 'political culture' (eg.: his beliefs about other politicians' motivations and behavior, patterns of social values etc). Beniers & Dur (2007: 29–54) state that political culture may therefore be self-reinforcing. They argue that politicians may have stronger incentives to behave opportunistically if other politicians are more likely to behave opportunistically. Likewise it is argued that politicians' incentives to behave opportunistically are stronger in more polarized political environments, that is, in environments where politicians differ more in their perception of the public interest. The reason is that in more polarized political environments, staying in office is more rewarding as it keeps politicians with sharply different policy preferences out of power.

Some academics, who have theorized lately on local governance (eg. Faguet, 2003), have argued that good local performance is linked to an integrative approach of civil society, business and administration. This view seems to be too optimistic (eg. in the Peruvian context, what is most important is the leadership function of the mayor). A recent research paper on Columbia (Merat, 2004) even argues that there is very little debate between local administrations and municipal councils regarding their fiscal policy choices and no consultation process that engages administrators, councilors or citi-

zens (this is surprising because local governments in Columbia have a far greater say concerning rates and tax bases than in Peru).<sup>14</sup>

One of the rational choice approaches is the bureaucratic politics theory which examines how political advice inside organizations presented in various contexts influences choice. The bureaucratic politics theory stresses the motivation by the relevant officials in the government bureaucracy to protect or promote their own agency's special interests (in competition with other agencies) as a major motivating factor in shaping the timing and the content of government decisions. Each bureau (or other governmental subdivision) continually strives to maximize its budget and its authorized manpower, as well as to protect or extend its operating autonomy and discretion in decision-making in the area of its assigned responsibilities. This theory is often used for analysis in the upper tiers of a government; to a lesser extent it is applied in a local context. One recent investigation reveals for Portuguese municipalities the existence of opportunistic behavior of local governments. Expenditure increases in the pre-election period, especially on items that are highly visible to the electorate (cf. Veiga, 2007: 45–64). Similarly, mayors might order that in pre-election period tax obligations are treated in a different way.

Another example is the Poliheuristic theory (Mintz, 2004) which states that it is bridging the gap between cognitive and rational theories of decision making. Poliheuristic theory postulates a two-stage decision process. During the first stage, the set of possible options is reduced by applying a “non compensatory principle” to eliminate any alternative with an unacceptable return on a critical, typically political, decision dimension. Once the choice set has been reduced to alternatives that are acceptable to the decision maker, the process moves to a second stage, during which the decision maker uses more analytic processing in an attempt to minimize risks and maximize benefits.

Using the analytical framework of principal-agent relations would suggest that lower-tier Peruvian governments interact with higher tiers in strategic interaction as well as with the citizenry. While it is right that sub na-

14 Quoting Merat 2004, the rate of property tax rate may be fixed between 0.1 % and 1.6 % of the fiscal values.

tional governments are dependent on transfers from the centre, hardly any evidence exists to suggest that inter-governmental fiscal decisions are the outcome of politically driven negotiations. The theory would posit that because local governments have access to information about local conditions and face a cost advantage in production of local public goods, they can use their information to a strategic advantage in order to extract higher transfers from the central authority.

The theories stated above do not seem to be of much use in the Peruvian case because the local bureaucracy is weak and if it has its own interests (which obviously exist), these should not be confounded with having a big impact on policy making. The Poliheuristic theory seems not to make a real difference (the first stage assessment seems a bit obvious). Using a game theory approach would show limited results because local leaders do not interact directly with upper tiers of the government (adapting processes – like e.g. increased transfers because mayors are lobbying hard for – are, at best, very slow or do not happen in the Peruvian context). This still leaves open relations between citizenry (principal) and mayor (agent), but this also looks like a somewhat artificial construction given the limited participation/information of the citizenry. Moreover, the general critics on game theory apply.

Resuming, the empirical investigations on local fiscal policy (property tax) or decision theories look somewhat hollow under the context of a developing country (but not only then). In general the assumptions taken do not apply to the Peruvian case. The predominant economic literature is handicapped or limits itself by concentrating mostly on verifying empiric models, without considering mayors as political actors who are acting in regards to a set of complex incentives including not only self-interests but also an overall public benefit. Many philosophers, political scientists, psychologists, and economists have criticized the narrow description of individuals as being concerned exclusively with utility maximization. This investigation is in agreement with the basic assumption of Gary Becker as stated in his Nobel lecture on *The Economic Approach*: “Individuals maximize utility *as they perceive it*, whether they are selfish, altruistic, loyal, spiteful or masochistic”, (Becker 1993: 386). But this investigation goes one step further, pointing out that utility may be in most cases a construction of these and other components.

Preliminary interviews rapidly showed that the assumptions of the above described theories (mainly belonging to the rational choice branch) were falling far short concerning the more complex structures and interconnections under which a given mayor was making his decisions. The contrasting views of benevolent governments or revenue-maximisers should be articulated in a more realistic approach. This investigation posits that policy makers are potentially revenue-maximisers but also seek to optimize welfare of their citizens (one reason but not the sole reason is surely that mayors are concerned with their reelection).

The serious constraints on applying a dominant economic theory on a developing country makes a more sophisticated theoretical model more suitable. Given the dominant position of the mayor in the Peruvian context (cf. chapter 4.2 and 4.3; as an example which might be standing for the developing world?!) who is very much the sole person who makes decisions (analyzing a still very paternalistic policy style), a much more individualized approach is more useful. Also, operationalizing the insides that local fiscal policy theory has to overcome the artificial construction of benevolent against revenue maximizing authorities. Humphrey (2000) and Harrison et al. (2005) are pointing into the same direction, answering to the prolifery of theoretical approaches and models by arguing that it may be inappropriate to search for a single model of choice under uncertainty because behavior is sufficiently heterogeneous that it cannot be described by a single theory.

A model which is drawing on psychological and organisational theories was developed by Kaufman (1991) to understand decision-making in local governments. It is argued that each decision has an informational ingredient and is considered in an organizational and environmental context. The starting point for understanding decision-making according to Kaufman's model is the decision-maker her/himself, or more specifically the personality, intelligence, knowledge and values of the decision-maker. People make decisions, and a person's particular psychological make-up will influence the way they make decisions. In particular, people's values shape decision-making (cf. Scott et al. 2004: 2ff.).

The theoretical model chosen to explain in the qualitative part the performance of the property tax through decisions undertaken by local politicians



is based on an adaptation of the Protection-Motivation-Theory (PMT), which is normally used to explain human behavior under risk/uncertainty. While PMT was originally developed to explain the effect of risk/uncertainty concerning health attitudes and behavior (Rogers, 1975), the theory was fast applied to a diverse array of topics. The PMT concept can involve any risk/uncertainty for which there is an effective response that can be carried out (Floyd, Prentice-Dunn & Rogers, 2000), even if the topics studied in PMT literature are still mostly found in health and environmental issues (eg. Menzel/Scarpa, 2005). Some research projects utilizing the PMT were undertaken in developing countries (eg. Scarpa et al. 2005; Willis 1997; Kaljee et al. 2005).

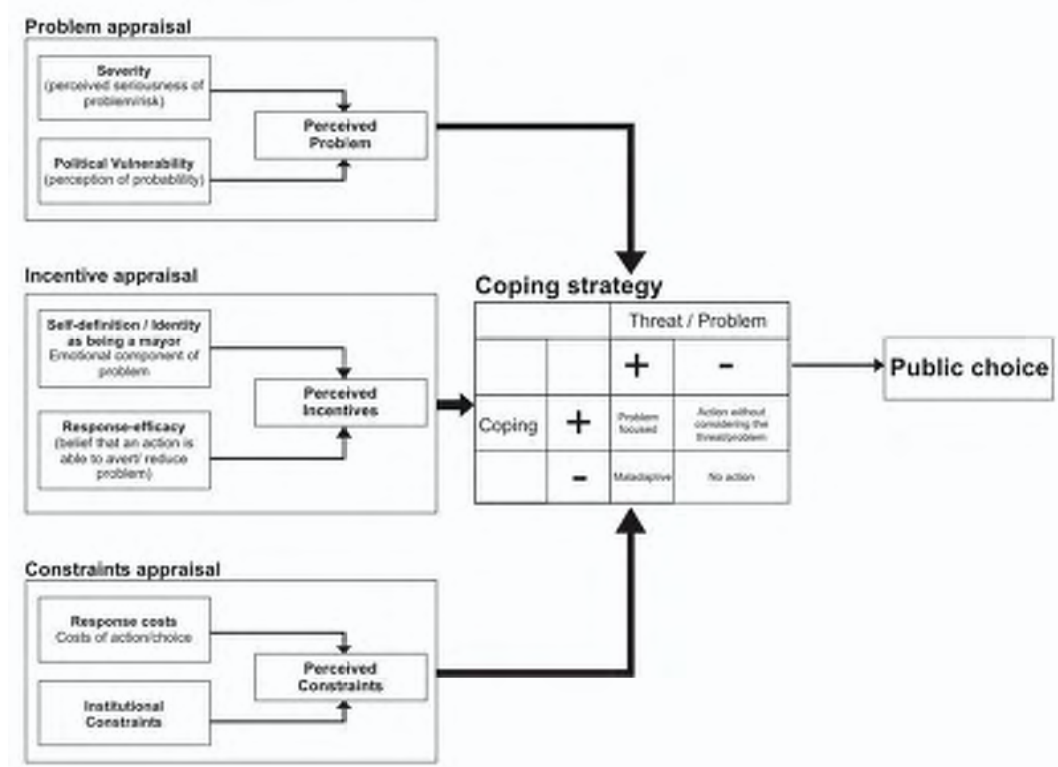
PMT can be described as an alternative approach but still belongs inside the rational choice theory. PMT is based on two appraisal strings (risk and coping appraisal) and argues that decisions are not based on choosing the “best” outcome, but are based on various cognitive appraisals. Individuals balance competing assessments: a decision is to be seen in a complex appraisal system where utility expectations are meeting values, norms, self-efficacy, institutional history, political and social expectations.

While the PMT model of appraisal from a psychological perspective is based on the concept of “agents” and their subjective assessment of a threatening or uncertain situation, the theoretical model developed here is operational in a broader context, not only in risk impact or would be impacts. This investigation posits and consequently argues that a structure consisting of 1) problem appraisal 2) incentive appraisal and 3) constraint appraisal is modeling a more adequate picture about how decisions are effectively taken.<sup>15</sup> The output of the coping strategy using the PMT is an intention of action/inaction which then meets actual barriers (constraints) which finally determine the choice (action) undertaken, in this research the constraint appraisal is internalized into one component of the coping strategy as individuals do not first define an intention of action which then meets the constraints but rather the appraisal of constraints (actual and future ones) is an

15 The differentiation in problem, incentive and constraint appraisal seems also to better capture the academic terminology of public policy literature, rather than the more psychological slang of the PMT which uses risk and coping appraisal.

integrated element of any appraisal (saves the humans valuable energy, cf. Graph N° 1).

Graph N° 1: Theoretical Model (Problem, Incentive and Constraint Appraisal)



This research operates with the following structure of cognitive modules:

### 1. Risk/Problem Appraisal

The appraisal of a perceived risk/problem is the result of the assessment of several sub-constructs. These include the *severity* (degree of) and the *vulnerability* (understood in this research as political vulnerability) components of a problem. Mentzel and Scarpa (2005: 5) point out that “in earlier applications of PMT these sub-constructs were combined in a multiplicative fashion (Beck et al. 1981). This assumption was later empirically rejected, so it was then often assumed that the relations between these sub-constructs were additive” (Wolf, Gregory and Stephan 1986). The approach of Mentzel and Scarpa (2005) breaks away from this restrictive functional relationship. The appraisal string of “assessed risk or problem” is understood in the political context of Peruvian local governments as the potential Damocles’ sword hanging over local politicians: they have to respond, on the one hand,

to high recurrent expenditure and major infrastructure needs for their constituency, and on the other hand, have to handle the involved financial stress local governments face across Peru, struggling to raise revenue to finance those public services. Increased demands by citizens for more, and better, public services; the ever-rising costs of providing services; and pressure for contracting additional municipal employees: all of this makes it possible to define this panorama as a risk/uncertainty which is latent and which is observable in the Peruvian municipal context and might increase with time.<sup>16</sup>

Moreover, mayors are confronted with losing support not only concerning the next election, but Peruvian mayors can also be withdrawn if more than half of the citizenry votes in a impeachment process against them: this is no small concern – in 2004 in about 50 municipalities and in 2005 in about 15 municipalities (often several elected officials were tried to be ousted at once) the citizenry tried to dethrone local politicians.

## *2. Incentive appraisal*

The incentive appraisal is again the result of the assessment of several sub-constructs. These include an emotional component of the problem: the *self-definition or identity* as being a mayor of a Peruvian city and positive or negative aspects of facing or not-facing the identified problem (peer approval, personal pleasure, programmatic goals of his management etc.).

The second component is made up of an appraisal of the *response and self efficacy*: the belief that an action is able to avert or reduce a problem and the self-considered effectiveness in removing or reducing a possible problem (perceived ability to conduct and successfully enact action).

## *3. Constraint Appraisal*

The constraint appraisal consists of an assessment of the associated costs (*response costs*) which in our case is made up of inconvenience or admi-

16 Some might argue that the difference associated by using the PMT at the political stage is that political risk/uncertainty is probably not having, in the perceived acknowledgement of the local politician, such a strong reaction (e.g. as having major natural disaster) and consequently might not make the PMT viable in the particular political circumstances. But, it could be responded to these arguments that the difference between some creeping risk assessment like smoking or climate change are also slow moving challenges and therefore do not exclude the PMT.

nistrative cost, political cost etc. The *institutional constraint* component assesses the projected barriers and alternatives concerning the problem solving. While the incentive appraisal is more of an internal assessment the constraint appraisal focuses more on the external aspects.

Having elaborated the theoretical background for this research the following chapter describes the economic framework conditions of the past years.

### 3. Economic Framework Conditions and Analysis of the Peruvian Budget

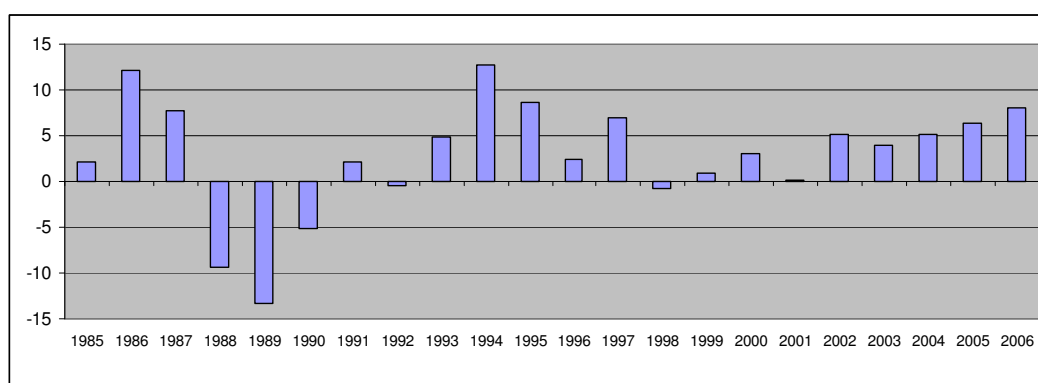
To understand the context under which local governments act the following chapter gives a picture of the macroeconomic framework conditions:

Contemporary economic history of Peru shows a continuing swing between boom and bust times (cf. the volatile GDP, Graph N° 2). Peru belongs to the group of lower middle income countries with an average GDP of US\$2,540 per capita in real terms (2005). Since 2002 Peru can look back on a solid track record of economic growth and macroeconomic stability, GDP grew above 5 percent in each of those years. Growth had been led by exports, which rose 26 percent annually on average in 2002–2006. Although this increase was driven in good measure by the boom in commodity prices, particularly helped by high mineral prices on the international markets, non-traditional exports have grown rapidly as well.

In 2006 GDP was growing at 8.7 %, the dynamic of the internal demand which expanded 10.6 %, due to higher private consumption and an upswing in private investment (increasing at 6.5 % and 20.2 % respectively). Private consumption is fuelled by a bigger purchasing capacity, an increase in the workforce (approximately rising by 10 % in enterprises with more than 10 employees), enhanced access to credit (credit for consumption offered by banks increased by 31 %) and high influx of external remittances (they rose from US\$1,440 million in 2005 to US\$1,825 million in 2006).

While Peru's macroeconomic performance has been impressive and among the best in Latin America in the past few years, poverty remains stubbornly high. The 4 year long recession between 1997 and 2001 and the extra costs incurred in the transition period after autocratic rule had a negative impact (poverty rates had returned to the levels of the mid 1990s). In the country as a whole, 50 % still live in conditions of poverty and 20 % in extreme poverty, with poverty concentrated in the highlands (Sierra) and the Amazon basin (Selva). The Peruvian poverty reduction strategies are complementing economic growth by targeting the poorest families with social and nutritional programs. For the moment a large number of social assistance programs have made it complicated to monitor them properly and have weakened their effectiveness. Many of the resources channeled through these programs did not reach the intended recipients.

**Graph N° 2: Annual Increase in GDP in the last twenty years**

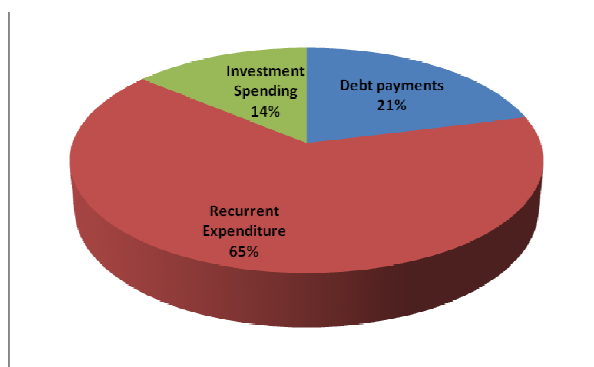


Source: BCRP (Banco Central de Reserva del Perú)

In the last few years, it has been possible to reduce the deficit of the public sector permanently from 2.2 % of the GDP in 2002 to 1.9 % in 2003, 1.4 % in 2004 and 0.6 % in 2005. In 2006 Peru had the first fiscal surplus in 9 years (+1.4 %). The reduction of the fiscal deficit stands in accordance with the IMF Stand-By Arrangements (for the periods of 2002–2004, 2004–2006 and 2006–2008); therefore the IMF attested and is still attesting Peru with an overall responsible budget.

The public expenditure of the regional and central level for the year 2006 was about 50 billion Soles (roughly US\$16 billion). Fiscal maneuver is limited due to the high proportion of recurrent expenditure (mainly salaries and pensions) and service of public debt (see Graph N° 3). The budget was harmed by several promises made by the then president, Toledo. During his election campaign, the teachers were especially promised a doubling of their salaries until 2006. Financial means out of privatizations or concessions processes which were planned to finance a bigger part of the budget were reduced substantially in 2002. This is because the region of Arequipa initiated a powerful campaigning against the privatization of two regional energy production facilities. Despite this, the Peruvian government is again slowly bringing privatization onto the political agenda.

**Graph N°3: Central Government Budget 2006**



Source: BCRP

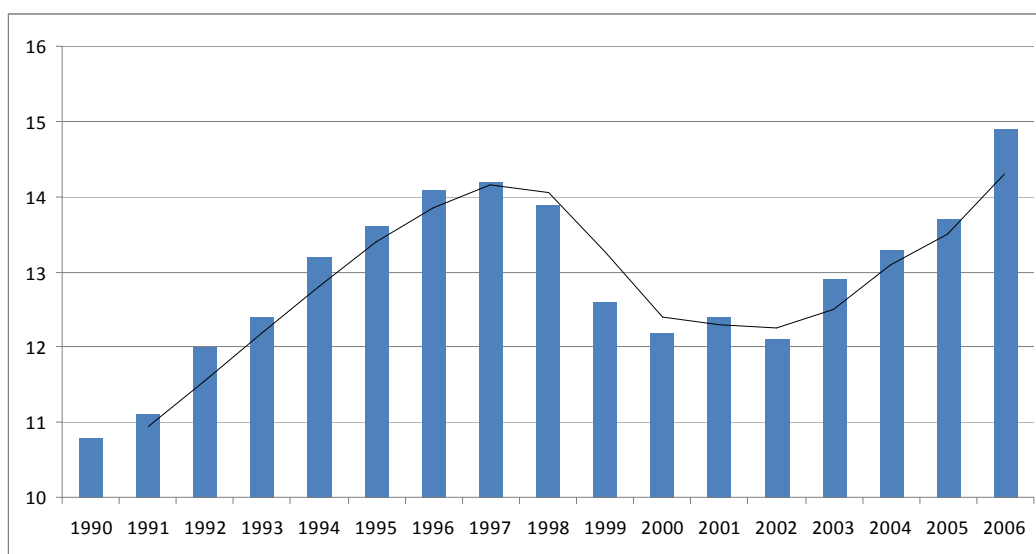
The Peruvian government has in the last year completed the legal framework of fiscal policy. Different laws and regulations, especially the “Ley de Responsabilidad Fiscal y Transparencia (LRFT)” and the “Ley de Equilibrium Financiero del Presupuesto del Sector Público” set important indicators concerning the maximum level of debt and under which preconditions a higher deficit is allowed.<sup>17</sup>

### 3.1 Revenues of the Central State

It was possible to raise the tax ratio from the beginning of the nineties from a very low level (10.8 %) until the start of a recession and the introduction of various tax exemptions in the final years of the then populist Fujimori to 14.2 % in 1997. As a direct consequence the tax ratio went down two percent. Since the fiscal year 2003, it has been possible to raise it step by step again (see Graph N° 4). In 2006 the tax ratio reached its highest level in contemporary Peruvian history with 14.9 %.

17 The law “Ley de Responsabilidad Fiscal y Transparencia” is establishing a step by step reduction of the budget deficit, institutionalizing a stabilization fund, laying down the exemptions under which a consolidation of the budget could be postponed (international crisis and recession) and offering rules about transparency in regards to budget and control mechanisms.

**Graph N° 4: Tax ratio (in % of GDP)**



Source: BCRP

Concerning the tax revenues in 2006 the VAT with 7 % of GDP is the most important, followed by income tax with 6 % of GDP. The excise tax (Impuesto Selectivo al Consumo), which is mainly made up of the taxing of oil derivatives, car imports, alcohol and cigarettes is responsible for 1.3 % of the GDP, tariffs for 0.9 % of GDP and different smaller taxes for 1.1 % of the GDP. Besides taxing, the state had revenues (credit, charges etc.) of around 2.4 % of GDP, which signified a participation of 17.2 % in 2006 (without considering tax payments made in excess) or 52.7 billion Soles of the Peruvian GDP. The ratio of income tax to total GDP was closer to 4 % before the actual windfall earning of the extractive industry sector had shown its impact (indicates a regressive structure of tax policy).

Even if the main goal of the tax policy is to raise the tax ratio in the medium term to 17 % of GDP it will still be substantially below the Latin American average which was about 21 % in 2000. The main mechanism to get to this point is, according to the government, by widening the tax base. On the other hand a fiscal gap in August 2003 made it necessary to raise the VAT by one percent (originally foreseen to be reduced in 2005 and now postponed) and which finally countered widening the tax base. The tax on fiscal transactions was introduced in March 2004 (taxing with 0.01 % of the transaction values, now reduced to 0.008 % and expected to be reduced again in 2008) which besides generating revenue was meant to bring more tax payers into the system.



A special tax on salaries (Impuesto Extraordinario de Solidaridad), with the negative impact of making the formal sector employees more expensive was reduced from 5 % (2001) to 1.7 % in 2003 and was abolished totally in November 2004. Also worth mentioning are the sectoral and geographically concentrated tax exemptions which conforming to an investigation by the tax agency SUNAT is estimated to have a cost of about 3.2 billion Soles or 1.35 % of GDP. The government lead by Toledo did not have the political profile or was not really trying to reduce these tax breaks which partly come with well-known and unwelcomed or dubious results.<sup>18</sup> The Garcia government seemed to be more inclined to reduce these tax exemptions until some pressure by benefitting regional governments or interested parties against some out phasing had changed the central stance (the government is now trying to buy political support by promising that abolition of tax exemption will be accompanied by major infrastructure projects).

A recent study of Peru concludes that 54 large taxpayers account for more than 40 per cent of total tax revenue from internal sources (that is, excluding trade taxes), partly because large companies assist the revenue authority, SUNAT, in collecting VAT and consumption taxes (Mostajo, 2004). The SUNAT has shown to concentrate in the past on these large taxpayers and is less prone to move to less rewarding sectors or parts of the economy (cf. Durand, 2002: 34).

### 3.2 Public Expenditure

Peru is with a consolidated public sector expenditure of below 20 % far away from the average size of the Latin American government which is closer to 28 % of GDP. There are, however, very wide differences across countries in this respect. Government size ranges from 12 % of GDP in Guatemala and Haiti to numbers in excess of 40 % of GDP in Belize, Guyana, Nicaragua and Suriname (IMF, 2006).

18 The reduction of regional and sectoral tax exemptions were even triggers in the policy matrix of the policy development loan DECSAL of the World Bank. During the assessment in the appraisal mission in July 2004 it was visible that the Peruvian Congress was unwilling to rubberstamp regional regulations which were proposing to discard some of the tax exonerations.

Public expenditure in Peru rose annually above 5 % in the years from 2003 to 2007 (in 2006 expenditure raised by more than 10 % compared to the previous budget), despite this expansive character the government was able to reduce the fiscal deficit. Total expenditure without debt payments for the fiscal year 2006 were around 39.8 billion Soles.<sup>19</sup> The budget of the executive branch was grouped around the sixteen ministries: the education sector participated in 2006 with 4.1 billion Soles, the justice sector with 0.85 billion Soles, defense with 3.2 billion Soles, interior with 3.7 billion Soles, health with 2.5 billion Soles, transport and communication with 1.5 billion Soles, agriculture with 0.9 billion Soles, women and social development with 1.2 billion Soles, construction and basic sanitation with 0.73 billion Soles, and foreign relations 0.47 billion Soles. Additionally, payments for professionals in the health and education sector were included in the budget allocation of regional governments which amounted for around 10 billion Soles. The transfers to the local governments amounted to 5.5 billion Soles.

The consolidation of the budget implicated in the last years a reduction of public investment with the negative consequences of harming future growth potential. While total investment of the public sector in 1999 was still 4.8 % of GDP, this went down in 2002 to 2.8 % of GDP and since then has not recovered (see Table N°2).

Through the ongoing transfer from some infrastructure projects to the regional and local level the public investment ratio at the central stage is negatively affected. The low investment spending contrasts sharply with a huge infrastructural gap: public roads, schools, sanitation, hospitals and other kinds of sectors need urgent investment. Partly explained by this huge deficit in infrastructure, it should be noted that in Peru exists a general perception that recurrent expenditure is in itself bad and correspondingly investment spending per se good. The low public investment ratio is acknowledged by policy makers as an utmost important problem to be addressed in the coming years. Private sector investment was somehow lackard concerning the actual booming economy. Although spending increased recently in 2006 by an impressive 2.5 %.

19 The Peruvian currency Sol has almost become stable since 2000, lately gaining some value against the US\$ (S/. 3.15 ~ US\$1 in 2007).

**Table N° 2: Private and Public Investment Spending**

Year	Investment Spending ( % of GDP)	Public Investment ( % of GDP)	Investment of Private Sector ( % of GDP)
1990	16,5	3,2	13,2
1991	17,3	3,5	13,8
1992	17,3	4,1	13,2
1993	19,3	4,6	14,7
1994	22,2	4,8	17,4
1995	24,8	4,7	20,1
1996	22,8	4,3	18,6
1997	24,1	4,4	19,7
1998	23,6	4,5	19,1
1999	21,1	4,8	16,3
2000	20,2	4,0	16,2
2001	18,7	3,1	15,6
2002	18,9	2,8	16,1
2003	18,8	2,8	16,0
2004	18,9	2,8	16,2
2005	18,6	2,9	15,7
2006	21,0	2,8	18,2

Source: BCRP

### 3.3 Debt

Total debt of the Peruvian public sector in 2003 was still 46.4 % of the GDP. Since then the debt profile has improved significantly: in absolute terms the debt in 2006 was about US\$30 billion, which was only a slight increase to the previous years (some rise in absolute terms may also be caused by the strengthening of the Euro).

In 2006 external and internal liabilities together were 32.6 % of the GDP: the ratio of external debt to GDP was 23.5 % (2006) and internal debt had a significantly lower ratio of 9.1 % of the GDP. The MEF is trying to reduce external debt by substituting it with more domestic credit. A big chunk (74 %) of the debt payments has to be served in the coming 10 years. 57 % of the external debt is in US\$ and 46 % of the debt has a variable interest rate. To international finance organizations, Peru owed around US \$ 7.9 billion in 2006 (especially IDAB and IBRD with US \$ 3.6 billion and US \$ 2.6 billion respectively) and the debt to the Club of Paris sank to US \$ 5.6 billion. While it is foreseen that the absolute debt will rise slightly in the years to

come, the ratio of overall debt to GDP is predicted to descend from 32.6 % (2006) to 24.2 % (2010), cf. Table N° 3. This favourable projection of the MEF is based on the assumption that GDP will continue to grow until 2010 by 7 %, after that an increase in GDP will reduce to a longer term average of 5 %, inflation will stay at 1.8 %, interest rates for public debt will be on average 5.9 % and the primary budget surplus will be around 1.2 %.

**Table N° 3: Public Debt of the Peruvian state (in % to GDP, 2007–2010 projected)**

	2006	2007	2008	2009	2010
External debt	23.5	20.9	18.8	17.5	15.9
Internal debt	9.1	8.5	8.7	8.5	8.3
Total debt	32.6	29.4	27.5	26	24.2

Source: MEF, MMM 2006.

Prospectively, higher revenues for the Peruvian budget have to come out of a widening of the tax base and economic development. VAT and income tax already are at a relatively high level and it seems that there is little space for a further increase. Structural problems like the high share of the informal sector in economic activities and a reduced tax culture are priorities to increase the tax ratio in a sustainable manner.

Additionally, some Free-Trade Agreements (FTA) which are currently in negotiation (eg. with the EU, the FTA with the USA was approved by the US Congress in late 2007) will reduce import duties. The main goal of Peruvian fiscal policy – to reduce step by step the debt situation of the public sector and to increase public investment – seems to be feasible; the MEF foresees in a rather conservative projection on a 5 year horizon that the debt ratio will be reduced significantly. The external debt service (interests and principal) is rising from the actual US\$4.3 billion to US\$6.7 billion (2007), after that the debt service is supposed to stabilize in the following years at around US\$4 billion.

In respect to the consolidation of the debt profile, it has to be mentioned that beyond general political risk, the danger of higher interests and a worsening of the exchange rate seem to be remote. To reduce the risk the MEF will take advantage in the coming years to take on increasingly debt via the internal credit market. The substantial burden of high debt payments in the coming years will counter the MEF by restructuring the debt service and taking advantage of new credits with longer grace and repay-

ment periods. The fiscal position of Peru is vulnerable to a drop in the international commodity prices, in particular minerals. These risks are mitigated by growing non-traditional exports as well as a broadening of export markets. The disciplined fiscal performance in the past several years has greatly reduced country risk and lowered interest rate spreads. Until now the new government hasn't attempted to placate the opposition with increased spending.

*Les Grecs, jadis, demandaient au sage Solon:  
"Quelle est la meilleure constitution?"  
Et ce dernier répondait:  
"Dites-moi, d'abord, pour quel peuple et pour quelle époque?"*

Charles de Gaulle, Discours de Bayeux, 16. juin 1946

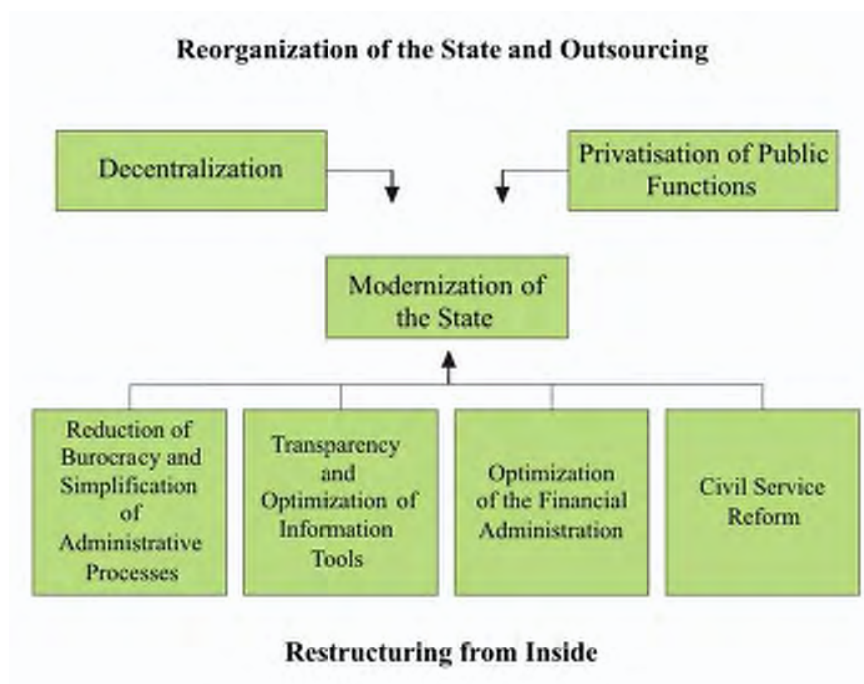
## 4. The Decentralization Process in Peru

Peru is a latecomer in the worldwide move towards more decentralized government (several unsuccessful attempts have been made in the past) and it still belongs to the most centralistic orientated countries in the Latin American category. Only in 2002 did it start the recent decentralization process by dismantling the Ministry of the Presidency, developing the legal framework, electing regional governments on the basis of the existing departments (which might merge in a second move towards macro-regions) and transferring some projects to the regional and local level. The hyper centralism of the Fujimori regime (1990–2000) was highly adverse and harmful to local institutional development. The transitional government until 2001 and the new democratic regime which took over power in mid 2001 reinstalled some of the municipal responsibilities (formerly dismantled by the Fujimori regime).

National government motivations as highlighted in the chapter "General Introduction" may often have less to do in improving efficiency, equity and accountability of local governance but more to do with short run political and bureaucratic imperatives. In the Peruvian case, the political discourse in favor of decentralization is characterized by the following mixture of arguments – decentralization is instrumental for democratization, that decentralization is part of a broader state modernization process (see Graph N° 5, Modernisation of the Public Sector), that it is increasing the accountability of local governments (citizens exert greater effort in monitoring government agencies when they are more local, and hence decentralization increases accountability by bringing the government closer to the people) and that it helps to tailor services better to local preferences, and so reduce the cost of their delivery and increase their quality. It can be noted that these are more or less the same motives as in other countries. A special feature of

the Peruvian decentralization process is that most emphasis is given to regional development. It is expected, or it is one main goal, that regional economies will benefit from the process (poverty concentrates outside the metropolitan area and economic development outside the center was in the past lackluster). Moreover, it is highly probable that because opposition politicians and mayors had to feel the hyper concentration of the Fujimori area, they were more interested in changing the power structures of the Peruvian state (the same reason was important in the case of France, when the Socialists in the Fifth Republic were for many years trapped in the local councils, once they won the election in June 1981 they started the decentralization process – as mentioned on various occasions by the mastermind behind this process, the then interior minister Gaston Defferre).

**Graph N° 5: Modernisation of the Public Sector**<sup>20</sup>



The original sequencing of the actual decentralization process was foreseeing larger transfers of competences during the Toledo government. In fact, the results in the Peruvian case look in reality less ambitious when compared to the experience in most other countries.

20 Graphic based on Fuhr, 1999.

The concentration in Peru on Lima can be seen as a product of a historical process, a specific economic model of development and public policies which favored consciously/unconsciously centralization (e. g. exports concentrated for a long time on Guano extraction on the coast, mineral extraction in the Sierra and on importing products from colonial Spain).

One third of the Peruvian population today live in the Lima metropolitan area which was founded in 1535 as the capital of the Spanish Viceroyalty, displacing Cusco as the former center of the pre-colonial civilization. Astonishing is the fast urbanization and concentration. In 1871, Lima only had 100,000 inhabitants and other Peruvian cities had similar numbers of inhabitants. The “Instituto Metropolitano de Planificación” expects that the total population of the metropolitan area will rise in the next 15 years to 12 Million.

The economy is concentrated in an even more dominant way (Lima accounts for 43 % of GDP and 75 % of industrial production), as are higher education, cultural facilities, credit allocation, the tax revenues (about 90 % of all taxes are collected in Lima<sup>21</sup>, the remaining 10 % of tax collection shows heavy regional disparities) and state institutions.

The regional government level consists of 25 departments; the third administrative level consists of the local level and is made up of 194 provincial and 1,637 district municipalities, the sectoral and geographic competences of these two levels of local administration do not work without interferences and are laden with problems because the allocation of clear responsibilities is missing. During the centuries the state was structured around and controlled through a web of dependencies: in the departments through the “prefects”, in the provinces through the “sub-prefects”, in the districts through the “gobernador” and in smaller villages through the “teniente gobernador.”

#### *Institutional and legal design*

The legal and institutional design of the decentralization process is well advanced. The Presidencia de Consejos de Ministros (Council of Ministers) is responsible for state modernization. At the end of 2002 the Consejo Na-

21 The tax receipt of Lima reflects only partly the bigger economic activities but results also in the fact that bigger companies which are operating outside Lima nevertheless often have their tax home in the capital, cf. Chapter 5 on the Intergovernmental Fiscal Transfer System.



cional de Decentralización (CND) was created, which was formally the leading institution to promote and oversee the decentralization process. The CND supervisory board consisted of representatives from the regional and local government level and members of the executive branch (the last one had a majority). Nevertheless, the CND was institutionally very weak and politicized, and, in fact, the MEF was the central institution which led and designed (similar to the experience in other Latin American countries) the decentralization process. The serious split between the MEF and the CND about who was steering the whole process was finally ended when in January 2007 the CND was absorbed by the PCM.<sup>22</sup>

Sub national governments have to go through an accreditation process if they want to receive transfers of functions; the law “Ley de Acreditación” lays down the criteria: mostly consisting of formal requirements rather than a qualitative evaluation concerning the institutional capacity to handle one particular competence. Around 35 % of sub national governments are, up to now (end 2006), accredited to receive one or another transfer of function.

The recent decentralization process is based on three basic principles, acknowledged in the various laws on decentralization. One, the process is to be undertaken in a gradual way and is to be integrated as part of a larger project of state modernization in general. Two, it is taken for granted and being by the way a specific goal that this decentralization should go hand in hand with an improved regional competitiveness. Three, the decentralization process should not put extra pressure on the fiscal policy and no extra spending should be involved.

The legal design of the decentralization is laid down mainly in the laws “Ley de Bases de la Descentralización”, “Ley Orgánica de los Gobiernos Regionales” and the “Ley Orgánica de los Gobiernos Locales”. The fiscal rules for the sub national government level are given by the “Ley de Descentralización Fiscal”, the “Ley de Responsabilidad Fiscal y Transparencia” and

22 One important reason for the conflict was the Intergovernmental Investment Fund, called FIDE, which formally should have received 30 % of the revenues out of privatizing public entities and should provide cofinancing to subnational investment projects. In the law which created the FIDE it was foreseen that this fund would be administered by the CND (effectively seen by the CND as their most important instrument), apparently the MEF blocked the operation of this fund. The FIDE was renamed in October 2007 into FONIPREL, now under the administration of the MEF and still awaits to start operation.

the “Ley de Tributación Municipal” which design the intergovernmental fiscal framework and determine which taxes and other revenues regional and local governments can exploit, furthermore these laws are trying to counter excessive sub national borrowing by institutionalizing different debt ceilings.

While the regional governments were only constituted in January 2003<sup>23</sup> – only one department was won by the then government party “Peru Possible” – the local governments can look back on a somewhat longer institutional legacy. Since 1965 (apart from an interruption by the military regime from 1968–1980) they have elected mayors and have been responsible for the provision of different services at the local level. The regional governments will probably possess, for some time to come, very limited functions. It is still being discussed whether in the future they will be assigned responsibility for education and health.

The expectation of the population towards these newly created regional governments was in the beginning very high (partly due to the public discourse of regional politicians themselves), but rapidly changed due to the serious constraints through mismanagement and corruption of some regional presidents.

Despite being one of the most important issues on the Peruvian development agenda, decentralization has hardly taken off.

#### **4.1 Historical Development of the Decentralization Process**

Peru embarked, as already mentioned, several times in its republican history on a decentralisation process, but never with lasting impacts. The centralist tendency in Peru has persisted despite a long tradition of debate on the importance of the devolution of political authority from the central state to sub national levels of government. Decentralization has been a political issue for decades, but actual devolution has been scarce (Planas 1998, Zas Fris Burga 1998).

23 The new regional governments were created on the former CTARs (deconcentrated administrative entities of the former Ministry of President), receiving principally the same infrastructure, the same human resources and budget.

In the first moments of the Republic, meaning after the year 1821, there was even a tendency towards federalism in order to reconcile regional caudillos but which finally, due to the absolute institutional instability, did not prosper. The first Constitution of 1823, inspired by liberal ideas, still gave local and regional governments a strong role. The following avalanche of successive constitutions (1826, 1828, 1834, 1839, 1856, 1860 and 1867) flickered from side to side, giving more responsibilities to sub national governments or reducing them. Under the first civil president of Peru, Manuel Pardo, municipalities were structured around a new basic law, transferring education, health, civil registry, public infrastructure works and some other functions to them.

During a financial crisis which occurred in 1874 which was then followed by the war against Chile (1879–1883), power was again centralized. The first steps to strengthen the sub national level were undertaken in the late 19<sup>th</sup> century when the Municipal Law of 1892 defined that local authorities should be elected. The Fiscal Decentralization Law from 1886 established that departments had autonomous budgets and revenues. This effort had little sustainability as under the following president fiscal centralization returned. Under the presidency of Augusto Leguía (1919–1930), there was again a new intention to decentralize: the new constitution created three regional parliaments, one in the North, one in the South and one in the Center which acted like a second chamber, less for legal approvals but more for legal initiatives. After five years of this experiment, and in the context of an ever more autocratic style of the then President, this decentralization process was again stopped. The new budget law (*Ley orgánica de presupuesto*) ensured central government control over departmental budgets (Planas 1998) and, furthermore, the mandates of mayors and local councils were annulled (the election of local authorities was abolished). The nomination of local authorities by the executive became a habit for a long period.

In the beginning of the last century important intellectuals like Victor Raúl de la Torre, José Carlos Mariátegui and Manuel González Prada were starting to criticize the nature of Peruvian centralization and the poor integration of the hinterland. For most of them a decentralization process was always linked at the same time to a new spatial geographic distribution of newly created regions.

In what would foreshadow the lack of decentralizing right through to the end of the twentieth century, Leguía's civilian successors ignored the provisions of the 1933 Constitution, which stipulated that new local councils were to be established (Tyler 2004).

This tendency held through right up until the 1990s, when *descentralización* appeared on most political platforms, including that of Alberto Fujimori, but was not followed through with a meaningful devolution of power.

Interestingly, although some regional cleavages have been evident since independence, politics generally has not been polarized between Lima and the provinces, or between regions. Peru also never fought a civil war over the question of local or regional autonomy. "Most other countries in the Americas "resolved" the federalist question in part through civil war. Such wars occurred in Mexico, Venezuela, Colombia, Bolivia, Argentina, and Brazil, as well as the United States and parts of Central America", notes Tyler 2004: 47.

During a short period of time, in the first government of Fernando Belaúnde 1963–1968, two elections of local authorities were held. This was interrupted in the following years by the military regime, coinciding with a stronger impetus for centralized planning (Munoz 2005). Municipalities under the military regime were mere local administrations with reduced revenues and functions. The first government of Belaunde had transferred to the municipalities some competences formerly administrated by the central state (urban planning, regularization of property etc.) which were then blocked and then reversed by the military regime. The election of mayors was abolished and functionally assigned to the Ministry of Interior.

The Constitution of 1979, created by an elected constitutional assembly (as a byproduct of the institutional crisis at the end of the military regime) was broadly recognized for ill designed reform and policy changes. It defined that the Peruvian state would be representative, united and decentralized. Asking for regionalization, the municipalities were acknowledged as constituting the local government level with economic and administrative autonomy in the field of local competences.

While the second Belaúnde government (1980–1985) never acted to move competencies to the regions, as the Constitution had established, his government rapidly reinitiated the election of mayors and transferred again some competences to the local level. The Belaúnde government somewhat strengthened the base of fiscal resources of the local level, creating a formula based system that transferred slightly more (but still largely insufficient) resources to local governments. Nevertheless, as Calderon (2001: 1–24) argued, the central state in this period of government was by far the dominant actor, even concerning infrastructure investment at the local level. The municipalities were still overly dependent concerning fiscal transfers. In the search for more fiscal revenues for municipalities the government issued Decree 184 which created a betterment levy (Tributo de Contribución de Mejoras).

The lack of impetus for Decentralization changed little during Alan García's turbulent presidency (1985–1990). "During the first two years, he stalled a process of decentralization by promoting an alternative to the proposed regions: a set of "micro-regions", similar to the prefectures, which would be controlled from the center" (Tyler 2004: 49). As it became increasingly clear that García's APRA party would not be a strong competitor in the 1990 national elections, his government began to push for the creation of regional governments, probably persuaded that APRA's considerable political base in many regions would assure the party some political prominence at the sub national level (Thedieck & Buller 1995, Kim 1996, O'Neill 2000). The regional governments as an autonomous government level existed only briefly between their creation (November 1989 until April 1990) and the suppression of those after the *coup d'état* of Fujimori in 1992. The regionalization was characterized through incongruence in the institutional design, the missing of identity in the merged regions, power imbalance between regional parliaments and executives, and a fiscal and competence transfer that was too fast to comply with. Moreover, two big problems were that the restructuring of the state was falling into a serious breakdown of the economy and the dangerous rise of terrorism was causing an ongoing loss of state authority. A particularity was that during the years of the terrorism by the Shining Path it was a common feature that local authorities did abandon their constituency. Several mayors were murdered. And, the Shining Path campaigned to boycott local elections.

During the autocratic regime of Fujimori the local governments were systematically weakened: their functions were reduced little by little, parallel institutions were created (like the social fund FONCODES with functions formerly undertaken by the municipalities and which maintained a great deal of discretion in targeting the funds, cf. Schady 2000) and conflict was promoted between district and provincial municipalities.<sup>24</sup>

The January 1993 municipal elections came as a shock to Fujimori. The weaknesses of his no-party strategy became clear, as his preferred candidates fared poorly despite the president's enduring popularity and a resurgent economy. Without a credible party machine, Fujimori simply had no coattails. The result was an about-face with regard to local government. Fujimori was governing without an organized social base and more in a direct relationship between the people and the president. Whereas previously Fujimori was content to eviscerate the national judiciary and the Congress, his failure in the elections caused him to turn his centralizing attentions to the municipal sphere. The increased sidelining of municipal competences was also viewed as an attack aimed at Fujimori's more potent adversaries – “among them the popular mayors of Lima and Cusco, Ricardo Belmont and Daniel Estrada, both of whom were attracting support outside of their respective regions and thus presenting an electoral challenge to Fujimori” notes Tyler 2004: 80.<sup>25</sup> In 1993, Peruvians narrowly approved a new constitution that retained the essential presidential nature of the 1979 regime, while reducing Congress from two chambers to one and from 240 members to only 120, and – importantly for Fujimori – permitting immediate re-election of the president (Morón, 2006).

Instead of increasing funding to municipal governments, Fujimori introduced Decree Law 776 in 1993. This law drastically cut back transfers to local governments. In fact, municipal budgets shrank by more than 75 % in the year following this reform (Kay 1995). The reform “deprived municipal

24 Throughout the 90s different laws and executive decrees were cutting little by little into the competences and resources of municipalities (cf. Blume, 1998). The mayors of Lima who were opposed to the Fujimori regime were consequentially financially dwarfed. The dependence of municipal governments on national financing during the Fujimori regime was reflected in local election results.

25 Notorious were the conflicts between Fujimori and the mayors of metropolitan Lima, first Ricardo Belmont (1990–1995) and then Alberto Andrade (1996–2002).

governments of finances and forced them into a subservient position vis-à-vis the central government” (Tyler 2004: 80). In addition, he eased the rules for seeking local elections, allowing a flood of independent candidates that made it hard for either the remnants of old political parties or nascent political parties to build a base – all along the lines of the old political strategy of “Divide et Impera!”

Fujimori replaced the regional governments with appointed “temporary” councils, the *Consejos Transitorios de Administración Regional* (CTAR). While provisional in theory, the CTAR in effect served as a mean towards consolidating power in an authoritarian regime. The Ministry of the Presidency, created by Garcia, was given far greater authority and scope. The Presidency became a sort of “super-ministry” designed to coordinate the political programs sponsored by the Fujimori regime, and served as the principal channel of information flow between the Cabinet and the President. Fujimori dominated the vertical relationships within the state, and increasingly conferred responsibilities to members of the armed services and intelligence community (cf. Tyler 2004: 50).

During the transition government of Valentin Paniagua and during the presidential election campaign in 2001 decentralization was a dominant subject. The newly elected president Toledo announced in his government program that the decentralization process would play a fundamental role in his administration. Once elected, Toledo began to show that his pre-electoral promises were not only slogans, but it also included far reaching compromises. Under his government the legal design for the decentralization process was laid down.

While the Toledo administration claimed to have enacted a far reaching decentralization process, the actually transferred new responsibilities or financial means to municipalities looked somewhat more modest: the functional transfer was limited, only minor responsibilities were transferred in the implementation of small infrastructure projects (formerly administered by FONCODES) to district municipalities, an additional basic food program called PRONAA and a rural road program called Provias-rural (both to provincial municipalities). Fiscal transfers were rising sharply (see following chapters) but mainly as the result of a fixed share of VAT and corporate income tax transferred to the sub national level and not because of additional or new transfers.

The newly transferred funds correlated to the above mentioned increase of functions can be described as being not very substantial. The first transfer which the local governments received in this decentralization process was the operation of small infrastructure projects formerly administrated by the Social Fund FONCODES. Up to now, about  $\frac{1}{4}$  of FONCODES' projects have been transferred together with the budget line. The sectoral ministry MIMDES is still supervising or monitoring the municipalities which received this transfer (they had signed obligatory management contracts). Moreover these transfers were limited to those municipalities which were able to pass an institutionalized accreditation process (introduced with the aim to comply with minimum standards of service delivery and somehow different to the experience in other countries in the region). The result was that in reality (until end 2006) not even half of the municipalities were finally transferred these responsibilities. The requirements accreditation process range from having elaborated planning documents for the municipal development to the establishment of a Consejo de Coordinación Local (a local participatory body) to more ambitious goals like successfully implementing participatory budgets.

The sequencing of the decentralization process of the Toledo government was not very opportune because at the end of this administration the stage of no return was still not reached, so that in theory a future more centralistic government would have been able to revert easily the changes – as history has shown.

In the run-off resulting from the presidential election of May 2006, the candidates for the second round of the presidential election for June showed some proposals on how to increase or accelerate the devolution process.<sup>26</sup> The run-off between Alan Garcia and Ollanta Humala (with friendly ties to Chavez) in June 2006, was decided by a 53 % victory for Alan Garcia, meaning that the APRA government got a second chance to govern after the disastrous years from 1985–1990. This new opportunity for the APRA is only partly accompanied by an institutional renovation of the party; many senior politicians are still the same.

26 The Christian-democratic party “Unidad Nacional” did not make it, and lost out during the final phases of the election campaign to the APRA.



For the strengthening of the decentralization process and the municipal level the outcome may be quite favorable. The APRA can really claim to be the sole Peruvian party with a serious basis of local party organization in the whole country. The founder and party ideologist Victor Raúl de la Torre always did argue in favor of a decentralist structure of the state. At the end of 2006, Alan Garcia announced an acceleration of the transfer of competences (FONCODES, PRONAA, and PROVIAS) to the sub national level, concerning the Decreto Supremo 068-2006-PCM these transfers which would have concluded in 2010 will now be completed at the end of 2007.

Surprisingly the APRA did not do very well in the regional and local election in November 2006! The political map was seriously modified: a big part of the total 12,468 electoral offices (25 regional presidents, 25 vice-presidents and 228 regional parliamentarians, as well as 196 provincial mayors and 1,717 provincial council members and at the district level 1,637 mayors and 8,641 council members) were won by independent candidates or local movements. Only three regional presidents came from an established national party and only two regional presidents were reelected (Piura and Lambayeque). At the local level only around 55 % of elected mayors were backed by established parties. The fluctuation at this level of government is also huge, less than 1/4 were reelected (13 % of provincial and 22 % of district mayors; local councilors serving a second term is below 7 %) – which certainly constitutes a big problem for the institutional continuity.

## **4.2 Functions and Structures of Peruvian Local Governments**

Peruvian municipalities consist in a homogeneous institutional context<sup>27</sup>: the electoral rules, the timing of the elections, the formal budget rules, etc. are identical across municipalities. On the other hand, there exists (as a peculiarity compared to other countries) two types of municipalities: the provincial and the district level which together form the local government level. The Constitution of 1979 confirmed this traditional differentiation (since independence) between provincial and district municipalities. The structure of the 1,831 Peruvian municipalities (194 provincial and 1,637 district

27 The only exemption consists in the 2003 law “Ley Orgánica de Municipalidades” (LOM) providing frontier municipalities a special legal status.

municipalities<sup>28</sup>) is characterized by big differences in size, the concentration of economic activity in some of them and a high fiscal heterogeneity.<sup>29</sup> Besides the municipalities, there are more than 1,980 smaller settlements registered (centros poblados menores). There exists between provincial and district municipalities overlapping functions. It is estimated that 72.7 % of Peruvians now live in urban areas (INEI 2006; cf. Table N° 14 in the Annex concerning the biggest Peruvian agglomerations).

The greatest number of Peruvian municipalities are small and rural; out of more than 1,600 district municipalities around 80 % have less than 9,200 inhabitants (cf. Table N° 4). Many Peruvian local governments in the past were functioning in a rather insulated manner, but through increased attention from the media, the central state, and civil society, along with new communication technology, these days seem to be gone forever.<sup>30</sup>

**Table N° 4: Population Size of district municipalities**

Number of districts	Inhabitants
2 %	> 42000
18 %	9200-42000
80 %	< 9200

Source: INEI (2006)

Moreover, the geographic limitations between districts inside provinces and between provinces are not accepted by everyone. There are more than 1,000 litigations between local authorities. It can be reasonably argued that Peruvian municipalities, when compared with most other Latin American countries, are especially fragmented without political voice and real representation at the central level (the various municipal associations are extremely weak and there exists a certain level of in-fighting between some of them).

Also noteworthy, is that the already high number of small municipalities is still rising, due to the creation of new districts – which can be correlated with the fiscal incentive that every new district automatically receives financial resources out of the national transfer programs. (cf. Table N° 5 data on the rapid legal constitution of new jurisdictions in the past).

28 Several districts conform one province.

29 At the regional level the Peruvian territory is divided into 25 regions.

30 In 2005 about 20 % of municipalities did not have access to telephone lines.

**Table N° 5: Constitution of districts and provinces in Peru.**

**Constitution of districts**

before Independence	1822–1850	1851–1900	1901–1950	1951–2005
459	16	301	489	564

**Constitution of provinces**

before Independence	1822–1850	1851–1900	1901–1950	1951–2005
26	34	35	42	57

Source: PCM, DNTDT

Peruvian municipalities are responsible for the provision and regulation of different services like water/sewage (mostly through municipal owned enterprises), waste removal, parks and maintenance of public spaces, urban planning (building and zoning), maintenance of local streets, permits and control of private sector (restaurants, markets, etc.), clearance center for conflicts (conciliation), provision of public documents (civil register) like marriage and birth certifications, economic development etc. Some municipalities also feature local enterprises like slaughterhouses, local banks etc.

The LOM classifies the responsibilities as a) exclusive functions of provincial municipalities, b) shared functions of provincial municipalities, c) exclusive functions of district municipalities and d) shared function of district municipalities. Nevertheless, provincial and district municipalities mostly have the same competences. In fact, the provincial municipality often acts as ‘just another’ district municipality. Some local health facilities are provided for by some municipalities, but that is not the rule. The provision and maintenance of the education infrastructure which is acknowledged in the LOM as a shared responsibility is for the moment undertaken by the Education Ministry (the new government under Alan Garcia has started in January 2007 to transfer basic education on a pilot level to municipalities).

It is observable that there is little articulation between provincial and district municipalities. The mayor of a given provincial municipality, who was also elected by the whole provincial constituency, gives little attention to what is happening outside the capital district (eg. provincial investments concentrate almost entirely on the capital district). This fact is seriously harming governance at the local level and makes it a major issue concerning institutional development.

It should be acknowledged that while, as mentioned, the competences of district and provincial mayors are pretty much the same, the latter has at least some important tools in order to ask for better coordination. First, is that the provincial municipality is regulating the public transport in the whole provincial jurisdiction. Second, they have a mandate concerning provincial planning (including the district level), meaning in practice that district municipalities need an authorization if they want to make changes in zoning. And third, district municipalities need a similar approval concerning the setting of their user charges. In practice however, provincial municipalities often just rubberstamp these requests.

Salaries of mayors were until March 2007 entirely at the discretion of local governments, but only after the president first reduced in 2006 salaries for high ranking officials at the central government (in an attempt to please public opinion, for austerity reasons or by judging that actual pay was then excessive – the top salary allowed now is about US \$ 5,000). In addition, he made it clear that local governments had to follow suit by introducing a range of permitted salaries for the regional and local government level related to the voting population in the respective jurisdiction (the range is from US \$ 400 to US \$ 3,800). Local councilors will receive an allowance for time *indemnization* (*dietas*) which will not be higher than 30 % of the monthly salary of the mayor/regional president. The corresponding law was seriously questioned by advocates of local and regional autonomy. The effect was that public sector salaries, which even before these changes were not competitive to private sector pay, lost even more ground. Many mayors were forced to see their salaries decreased in considerable ways. Especially negative is that these modifications were introduced just after local officials had assumed their new four year term (some corruption will surely be correlated to the fact that mayors had made their campaigns based on calculations with a different income).<sup>31</sup>

Corruption in Peru is a big problem in the public administration in general including local governments. Out of 179 countries Peru has a score of 3.5

31 Some research was done trying to correlate politicians payment and corruption. Paying politicians generously may reduce politicians' incentives to take bribes as losing office becomes more costly (cf. Besley, 2004).

which ranks it 72nd in the Corruption Perceptions Index (CPI) of Transparency International.<sup>32</sup> Some new methods like the obligatory use of the financial software SIAF, higher transparency of public contracts through a listing on a central web page and oversight by a central agency, disclosure of income and assets of incumbents, increased control by the Contraloría which is demanding and promoting accountable and responsive public administration, have made harmful practices more difficult.

Imperfection in local democracy and accountability sometimes induces politicians to pass the bill to the next incumbent through upcoming judicial charges, unpaid providers, overstaffed offices etc. The Peruvian legislation which is well aware of this problem tries to combat these ills by the obligation to create the so called “commission of transference” where the exiting authorities are meeting their successors, but this institutional construct is not always working as sometimes a new mayor did not find any information or document at all in his first day in office: the outgoing mayor just took everything with him (concerning this problem the financial software SIAF at least will resolve the greatest flaws).

Local advisory councils, participatory development plans and participatory budgeting were introduced in 2002 with the beginning of the decentralization process to reduce citizen apathy and engage all stakeholders in identifying development needs and setting priorities. Municipalities are now obliged to use participatory budgeting (Presupuesto Participativo) for a share of their expenditure assignment. Nevertheless, even with some negative implications already known and broadly discussed in literature (like atomization of the expenditure assignment and capture by organized groups), participatory budgeting comes with the benefit that more citizens are involved with local policy issues and the process of participatory budgeting is strengthening local capacity in the organized and unorganized citizenry.

While in the past the central government was responsible for the biggest chunk of public investment, this has changed lately in favor of the local level through strongly increased transfers from the CANON and FONCOMUN.<sup>33</sup>

32 CPI Score relates to perceptions of the degree of corruption as seen by business people and country analysts, and ranges between 10 (highly clean) and 0 (highly corrupt).

33 The Canon is a territorial fiscal tax which is benefiting only regions or local governments in which natural resources are being exploited (fish, minerals, oil, wood).

At the central level, investment as a share of expenditure has continually diminished in recent years. Already before the actual windfall transfers/revenues at the local level investment represented 1,320 million soles (2003), around 33 % of the total municipal expenditure. This situated the municipalities in percentage terms of total expenditure of the state entities with the highest share of investment (helped by the different legal obligations to use transfers for investment). While with the reduction of conditionality, transfers could be used increasingly for recurrent expenditure (induced by the latest legal changes), local politicians understand that their political success depends on public works (“*obras*”).

The functional distribution of the municipal expenditure is concentrated with 44.4 % on administration and planning, followed by 16.2 % on social assistance, 13.9 % on health and related issues, 11.9 % on transport and 5.4 % on housing/urban development.

### 4.3 Typology of Local Government in Peru

Svara (1990) distinguishes between mayor-council forms of government and council-manager forms. Mouritzen and Svara (2002) offer for local governments a typology of executive forms, which can serve to illustrate the specific governance form in Peruvian municipalities: municipality governance is either characterized by having a strong mayor, a committee leader, a collective or a council manager. Furthermore, they provide in their cross-national analysis of ‘leadership’ of local governments a detailed picture of the roles of mayors and the way they interface with their Chief Executive Officers (CEOs). This research, as well as showing that overlapping leadership roles between senior politicians and CEOs is the norm, categorizes different ways of pairing the leadership roles: 1) CEO as dependent political agent, 2) CEO as dependent professional agent, 3) CEO as interdependent and 4) CEO as independent.

Most Peruvian municipalities be they rural or urban, function with the same institutional model with a mayor supported by a CEO (the equivalent to “City manager” is called “*Gerente General*” in Peru) which is appointed by the mayor and often changed by him again during the administration term (high fluctuation): eg. individual officers or the CEO are sacked by a

disgruntled mayor as a response to popular protest or by changing priorities. The average span of municipal functionaries in office is low (the same can be said about ministers at the central stage with an average span of about 14 months). Department directors of bigger cities normally have a bit more autonomy (even in Peru!), because they are supposed to be well-trained experts. Nevertheless, it can be argued that Peruvian municipalities are very much presidentially orientated, helped greatly by the election modus (for details concerning election results of interviewed mayors see chapter 7.1.10). Like in other Latin American countries, the mayor has a far bigger portion of power than the local council members put together (Nickson, 1995: 69ff.).

Traditionally, Peruvian mayors were using patronage for keeping followers in line (jobs in the local bureaucracy, contracts for local enterprises etc.). An incoming mayor was in the past and still is often sacking most of the personnel to make place for own supporters – this is a habit which is widely expected by municipal employees, citizens and probably most by his campaign supporters.

The first municipal elections after the military regime were held in 1980 and since then nine ballots have taken place. Until 1998 municipal election occurred every three years, the Constitution of 1993 extended the period of the local mandate from three to four years (1998 and 2002), the elected authorities in November 2006 are again serving for four years. There is no term limit for local government officials. The electoral modus of local governments is given by the *Ley de Elecciones Municipales* N°14669 from September 1963. The law stipulates a semi-direct election of the mayor through closed lists. The first candidate on the list obtaining the most votes becomes the mayor.

Peruvian municipalities have a parliamentary system which benefits the winning party greatly, giving it at least the majority plus one seat in the local parliament (in most municipality councils this share is closer to a 2/3 majority). The mayor is a member of the municipal council, in fact he is presiding the council. Municipal governments are elected with a minimum of 20 % of the votes emitted, with the result that a broad representation is not given, due to the fact that most mayors are in fact elected with little more

than 20 % (this election modus is partly to blame for the fragmentation of the party landscape).<sup>34</sup> Until July 2004 the mayor himself benefited in the local council in cases of parity with a double voting right. This legal disposition was changed after some discontent against apparently corrupt local authorities in remote areas (actually one mayor was burnt, the second one was stoned!).

Given this structure it is small wonder that the council members of the opposition have minimal powers and little oversight capacity.<sup>35</sup> It is interesting that municipal elections are obligatory; citizens are fined a hefty amount – in relation to average income – if they don't vote. While prior to 1995, local council members were not allowed to exercise executive or administrative functions inside the municipality, this was changed by Law 26483 in 2003, increasing the discretionary capacity of the mayor.

Guillermo O'Donnell (1994) coined the phrase “delegative democracy” to refer to the powerful status of contemporary Latin American presidents. The basic premise of a delegative democracy is that once an individual is elected president he/she is “thereby entitled to govern as he or she sees fit.” Power falls into the hands of a single person, but, unlike authoritarianism, the leader is still held accountable at the ballot box by the electorate. The populace, tired of decades of corruption and complacency under an ineffectual bipartisan model, chose a leader who is the epitome of the presumptive delegative democratic model: a highly individualistic, paternalistic figure who sits above all other institutions as “the embodiment of the nation”; eg. in Peru this concentration of power in the Executive is only minimally reduced by the role the Judiciary or lower levels of governments are playing. One of the most important legal powers of the Legislature consists in regard to the authorization of the budget. In Peru, this is limited through the fact that the executive presents to Congress an initial budget proposal to be ap-

34 In 2002 the Law N° 27734 eliminated the 20 % minimum vote a mayor had to get to be elected.

35 As already mentioned council members receive a monetary remuneration (no salary) for their duty; these allowances, called “dietas” are far from being insignificant. In rural areas they compete favorably with other economic activities. Anecdotal evidence suggests that mayors often use the method of withholding dietas from local councilors the string of withholding their payments “dietas.” Their own party councilors are paid first and then later on the opposition.



proved, but the Peruvian Congress can neither create nor increase budget lines by itself.

Morón (2005: 40) impressively demonstrates by virtue of showing statistics differentiating between 1. legislative decrees, 2. urgency decrees and 3. laws that in the last quarter of the century the executive had a big share in the legislature process. Of a total legislation body of 8,317 laws between 1980–2005, about 45 % were of the type of urgency decrees and about 13 % legislative decrees, meaning that only around 40 % were effectively elaborated on by the Congress.<sup>36</sup> To what extent such decree authority is appropriated by presidents and how much they are delegated to them is a matter of current debate (Carey and Shugart, 1998).

The same could be said concerning the local level (but little investigation or reliable data exists) in which the legislature is relegated to periphery of the policy making process and mayors (presidents) appear to rule through a series of decrees. All things equal, however, incumbents' institutional creations are more easily compromised by their successors because of these exaggerated policy making powers, these successors are then equally free to overturn these administrative rules and replace them with their own preferred structures (Morón, 2005: 44ff.).

The bureaucracy of a municipality is likely to accept that power is distributed unequally and that the mayor is relatively unchallenged. The Power Distance Index (PDI) which is part of a broader model, developed on the basis of extensive research by Hofstede (2001) that identifies four primary dimensions on cultural differences, is in the Peruvian case quite high. This suggests that the hierarchical governance system is endorsed by the followers as much as by the leaders (eg. part of the political culture is that professionals might tend to hold back advice to mayors because of fear of back-firing, meetings are often concentrated on intervention of a mayor, little delegation of power etc.).

36 The statistic is furthermore giving hindsight regarding the situation concerning specific administrations: eg. in the Toledo government (2001–2005) around 80 % of laws came out of the parliamentary body, meaning reduced use of executives' decrees; and 30 % of these laws were vetoed, hinting into the direction of a hostile relation between Congress and Presidency.

Outside the municipal sphere there still exists important traditional power breakers in some regions: for the rural coast and valleys they are the so called “Juntas de Regantes” (self organized entities which manage the always scarce water resources) and in the mountains and Amazon basin the indigenous communities.

Bringing one more feature into the discussion to enrich the above described basic typology: some academic effort was made concerning the legitimization of local governance: the differentiation undertaken by Haus and Heinelt (2004) draws on Scharpf (1999) to “identify three such processes of legitimating; input, throughput, and output. Each aspect rests on a different democratic precept:

- a) Input-legitimizing through participation. According to Scharpf (1999), “political choices are legitimate if and because they reflect the ‘will of the people’ – that is, if they can be derived from the authentic preferences of the members of a community.” Input legitimating can be achieved through demonstrating that popular consent underpins the political system.
- b) Throughput-legitimizing through transparency. Legitimizing of a political system is also achieved through having transparent and accountable structures and procedures. A political system’s “social environment has to understand how measures are taken and who is responsible for them” (Haus and Heinelt, 2004).
- c) Output-legitimizing through effectiveness. Following Scharpf, “political choices are legitimate if and because they effectively promote the common welfare of the constituency in question. A political system generates output legitimating as it promotes the common good.” (quoted from Howard & Sweeting, 2004: 4).

Elements of each of these legitimating processes can be found in the Peruvian case. There exists multiple, but also limited, routes for citizens to be involved in local governance through participatory budgeting and revocation processes of mayors and council members. Local media coverage is existent in bigger cities, especially in the capital cities of the departments and are more or less a reliable source of information<sup>37</sup> and there are several

37 Some insiders argue that scandals are brought up by local media only to be dropped later on because they received a bribe.

web based information tools (municipal debt, budget, transfers, accreditation process) which empower the public to demand accountability (transparency) from their leaders and to have a greater awareness of how city leaders are performing and what their policies are achieving (effectiveness).

In relation to throughput legitimating, the Mayors are highly visible in the Peruvian context. Within the council and the constituency it is clear that the executives are the key decision-makers. In the broader context, mayors are often in the local media, explaining and defending municipal policies. Recent polls have suggested that citizens are very dissatisfied with their political institutions, especially the Parliament, regional government and the judiciary. Services provided by their Local Authority get a somehow better rate of 'customer satisfaction' than that of most public institutions.

“Con la plata baila el mono”

Popular Peruvian saying

## 5. The Intergovernmental Fiscal Transfer System

The Peruvian Fiscal System which consisted of only two levels of government until 2003 is becoming more complex due to the decentralization process. In the past the Peruvian sub national government level never received a substantial part of the public revenues. Only in 1986, with the transfer of more own revenue generating sources, did overall participation of municipalities in taxes improve from 1.6 % (1981–1985) to 3.8 % between 1986–1987 (Alvarado 1994). Then revenues deteriorated again with the general disaster of public finances in the last years of the APRA government and the following hyper-centralism of the Fujimori government.

While the most important transfer programs (FONCOMUN, CANON) in Peru are semi-conditional and mainly linked to the obligation to invest in infrastructure and formula driven (allocation is considering equalization criteria: poverty, degree of urbanization, child mortality and population size in the case of the FONCOMUN, and geographic location of natural resource exploitation in the case of the CANON); this is not the case for the assignment of specialized but rather smaller programs like FONCODES or PRONAA. The allocation formulas of the FONCOMUN and CANON were changed repeatedly in the last few years (the same was happening with the expenditure restriction coming with these transfers, formerly earmarked only for investment), but apparently no political engineering seems to be behind these rearrangements.

Some minor transfer programs called “Renta de Aduanas”, “Regalias Mineras” and the FOCAM are also conditional and formula driven. The basic food program which is channelled through the municipalities, called “Vaso de Leche” which lately received lots of bad press (eg. Alcázar, 2003; Flores, 2005) is a product of historic assignments and concentrates on rural municipalities.<sup>38</sup>

38 The basic food program *Vaso de Leche* is channeled through the fiscal coffers of the municipalities, but they pass these transfers to grass root organizations in the form of

As mentioned some municipalities (those which are accredited, meaning they fulfil certain imposed requirements) are receiving transfers to implement small infrastructure projects formerly administrated by the Social Fund FONCODES as a first step in the ongoing decentralization process.

#### *Departments and Regionalization*

The recently created regional governments have practically no own revenues and finance their budget almost entirely through intergovernmental transfers. Regional governments together had a budget of 9,969 Million Soles in 2005 (the whole central government was around 40,000 Million Soles). The budget of the regional governments is earmarked for a big part to pay salaries of the health and education sectors; in average this adds up to 73 %, therefore regional governments received in 2005 a regular assignment of 8,279 Million Soles. In fact, the former transfer scheme in which the salaries of teachers and health personal were channeled through the CTARs was passed to the elected regional governments. Add to this pension payments and their own administration costs and it is little wonder that regional investment was until recently only a 10 % part of the entire regional budget execution, also meaning that their discretionary spending potential was very restricted.

Additional transfers' schemes in 2005 were 1.137 Million Soles. The regional compensation fund (FONCOR), consisting of a budget line and further sharing 30 % of the privatization revenues, is accounting for about 37 %. Some geographically concentrated regional governments, especially regions with mineral or petroleum exploitation, receive extra revenues from the Canon or other special transfers which are responsible for the other 63 %.

Up to now the functional transfers to the regional governments were mostly limited to the big special infrastructure projects formerly administrated by the Instituto Nacional de Desarrollo (INADE); these projects are mainly linked to irrigation and are chronically underfinanced.

One self declared goal of Peruvian policy is the consolidation of macro-regions, based on the integration (fusion) of two or more actual existing

Clubs de Madres or directly to the benefiting society members. This program has a yearly budget of something over US\$100 Million.

regions.<sup>39</sup> The macro-regions would share tax revenues out of existing taxes, no new taxes or surcharges on existing taxes would be introduced.

The Law on Fiscal Decentralization came into force in February 2004 and it differentiates between two phases in this process. In the first phase the regional governments will get funding out of transfers and the regional compensation fund (FONCOR). The law foresees that in the second phase the regional governments would benefit with 50 % of determined taxes which are collected in their jurisdictions – but linked to the condition that the actual existing regions will merge (excluding Lima and partly Callao of this policy choice).<sup>40</sup> If needed this tax share system will be complemented by supplementary transfers. To get into the second phase a government approval (MEF after coordination with the then CND) would be formally required.

#### *Actual Tax Collection and Expenditure Structure*

Tax collection is highly concentrated in Lima; around 90 % of tax revenues are collected there (88 % of domestic taxes and 87 % of taxes on international trade, see Graph N° 6). Most big companies have registered their tax home in Lima, even if their operation might be located mostly outside of the metropolitan area.<sup>41</sup>

**Graph N° 6: Spatial distribution of Peruvian tax collection in 2005 (in Mill. Soles)**

	Domestic Taxes	Taxes on International Trade
Lima	24.734	10.066
Total Peru	28.040	11.682

Source: SUNAT

39 To make it more comprehensive: “departments” are acknowledged in this investigation as “regions”, two or more regions can merge into “macro-regions” (even if the terminus legal is just “region” as well).

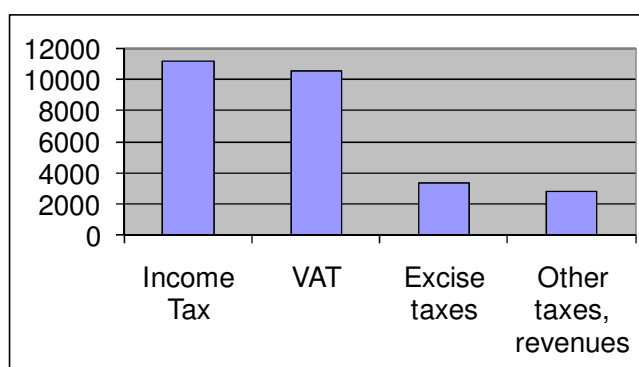
40 In a much discussed first draft version of the Law of Fiscal Decentralization, later on discarded, it was foreseen that the regional governments will benefit from 30 % of the regional collected VAT and ISC; and once integrated in macroregions this share would go up to 60 % (also excluding Lima and Callao).

41 This concentration on Lima is only partly explained by company/personal preferences but is rather a consequence of the past when transferring your fiscal home to Lima was linked to an incentive. Eg.: your business would be in the province belonging to the group of big tax contributors meaning that you were more suspect to tax assessment by the regional branch of SUNAT, so it was advisable to move your tax home to Lima.

As all over the world, the Peruvian tax revenues consist mainly of VAT, income taxes, excise taxes and tariffs. VAT is contributing with 40 % to total internal tax revenues, (see Graph N° 7).

Concerning the regional tax collection no tendency is observable (tax revenues are going up and down) and in some regions the cost for collecting taxes are higher than the yield! In several Departments tax revenues did not rise in the last 9 years (1997–2006), in most others it improved only slightly, with Lima being the big exception (see Annex: Table N° 2: Regional Tax Collection).

**Graph N° 7: Internal Tax Revenues of the Central Government in 2005 (in Mill. Soles)<sup>42</sup>**



Source: SUNAT

#### *The prospective fiscal system after the creation of macro-regions*

Macro-regions would benefit from a 50 %-share of internal taxes collected in the merged macro-regions (meaning excise taxes and VAT out of external trade are not included): value added tax (without considering the 2 % surcharge “Impuesto de Promoción Municipal” which is going into the Municipal Compensation Fund), excise taxes (Impuesto Selectivo al Consumo) and income tax for the first, second, fourth and fifth categories (excluding corporate tax payers).<sup>43</sup>

42 Revenues (taxes and tariffs) out of the international trade were in 2005 around 11.6 billion Soles.

43 The obligation to pay income tax is divided into five categories and some special regimen (no domiciliados, Regularización, Régimen Especial del Impuesto a la Renta and Otras Rentas). Special regimes are for around 20 % of income tax collection outside Lima responsible. A substantial amount of income tax from corporate tax payers is transferred to the sub national governments in the form of the CANON (actually consisting of a 50 % share of income tax).

The Corporate Income tax represented 5,315 Million Soles in 2005 or 47 % of overall income tax respectively. In the same year income tax outside of Lima and Callao was below 2,000 Million Soles, excluding from this amount corporate income tax (meaning taking account only of the 1st, 2nd, 4th and 5th categories) the regional collected income tax was not significant. This translates into the statement that the tax sharing would apparently involve only sources which are not the most important.

The actual structure of the tax collection based on where an individual or firm has registered his/her tax home misrepresents regional economic activities so that the LDF specified that the tax sharing system would be based on a methodology which is going to take into account “the real regional produced tax amount”. The actual methodology is overestimating the importance of the Lima Metropolitan where almost 90 % of the taxes are collected due to most enterprises having their fiscal home in Lima, while the GDP of Lima represents about 54 %. The methodology for the calculation once the regions are merged will be elaborated by the SUNAT but until now little information has been forthcoming.

Normally, the best reference concerning how the regions participate in the national tax revenues is the regional GDP. This macroeconomic approach using regional GDP as a proxy was discarded, apparently because of the lack of valid data. The SUNAT therefore favored a methodology based on microeconomic data. The impact for the prospective macro-regions would be the following: Tax share revenues for merged macro-regions would increase substantially but would stay below expenditures, so that the regional budgets will still be dependent on fiscal transfers.

Regional presidents were preparing regional integration in 2005 on an evolving legal process (especially the content of the regulation of the FDL was unsure). That the tax share design of the Fiscal Decentralization Law would be paralleled by expenditure responsibilities was poorly communicated and/or understood: Regional presidents mainly assumed that the share of central taxes would be extra cash for discretionary spending and would not be paralleled by transfers of responsibilities (windfall extra earnings were expected). Once the “bitter” reality became apparent, regional presidents reacted with deception and outrage.



Somehow surprisingly the intention to conform macro-regions was much faster than foreseen: five integration processes institutionalized themselves in 2005, with the explicit goal to merge into a macro-region. 16 out of 25 departments were involved in an integration process.<sup>44</sup>

An attempt to kick start the process of regionalization was tried by the use of incentives, given by the FDL and the Ley de Incentivos a la Integración y Conformación de Regiones (LIICR): a) projects presented by macro-regions would get priority consideration for funding out of the Intergovernmental Fund for Decentralization (FIDE) and external financing b) tax sharing arrangements c) Enterprises registered in a macro-region would get a 20 % bonus in public bidding processes. Additional to these incentives, President Toledo announced in his state of the nation speech in July 2005 to give 210 Million Soles (the equivalent of about 1 % of VAT) to newly created regions in the years from 2006 to 2009 as an extra transfer, earmarked for investment.

Some of these incentives would have had a rather questionable impact and there were serious doubts whether these incentives were strong enough or even the right ones to create macro-regions and, moreover, if the population finally would favor an integration process.<sup>45</sup>

44 a) Apurímac and Cusco; b) Ayacucho, Huancavelica and Ica; c) Lambayeque, Piura and Tumbes; d) Arequipa, Puno and Tacna; e) Prov. of Lima, Ancash, Junín, Pasco and Huanuco.

For some time c) seemed as the most advanced integration process (forcefully pushed by Yehude Simon, regional president of Lambayeque). Further on in the process, more and more regional politicians were reluctant. In the case of Cajamarca the principal reason for that reluctance was the transfers of the “Canon minero” which due to the existence of several mining enterprises in its territory gets a lot of it (the regional government Cajamarca got 73 Million Soles in 2005 and is projected to increase even more). In a new created macro region, the canon transfers would go to the whole region. The regional governments of Amazonas and Tumbes fear that they would be sidelined by their bigger partners (part of the negative experience from the planned regionalization in 1989/90).

45 It is supposed that any integration process would work only if regional governments would campaign for it. In fact they have to favor to dissolve themselves, a most powerful disincentive for any bureaucracy.

A somehow smaller problem is the regional exemption concerning IGV and ISC in the Loreto, Amazonas, Ucayali, etc. (given under “Ley de Promoción a la Amazonia” and which abolition was somehow stopped in the Congress). The tax sharing as mentioned in the FDL would not give an extra incentive to these regions to integrate into macro regions.

The outcome of the referendum, held in October 2005, was very negative concerning any integration process and has caused a delay for any further referendum. The vote in favor only got about 25 % of the vote, discarding with a wide margin any regionalization. Only in the department of Arequipa did a majority favor a merger with their neighbors. The limited authority of regional governments had to be also taken into consideration. In fact, about half of the regional presidents were questioned in the period 2002 to 2006 for corruption/mismanagement while two regional presidents had to actually resign.<sup>46</sup>

The incentive structure did not really convince or counteract given regional identities and political interests. The arguments used by interested parties during the campaigning to favor macro-regions were to some extent flawed. The biggest incentive which apparently was the tax sharing design wouldn't have made the regional governments' discretionary expenditure bigger, due to the fact that it would be offset by additional responsibilities (like salaries for teachers and health personnel). The high fiscal transfers out of the CANON were counterproductive in some departments and the fiscal incentives to merge were flawed. The then unpopular President Toledo campaigned with little force, while bilateral donors were giving cash and advice, surprisingly favoring unanimously for macro-regionalization.

The next opportunity for the integration of regions will be in 2009/10, meaning that at least for the moment there will be a serious imbalance between own resources of regional governments and expenditures. Prospectively, the role of the MEF as the final voice to authorize revenue sharing and transfer expenditure responsibilities in case of the creation of macroregions will be put under immense pressure. The metropolitan area is, as mentioned, excluded from any tax sharing arrangement (the actual design applied in Lima would involve real money), leaving it to Lima to live with the not very attractive tax base for municipalities. It might be good advice to look for some improvements here.

### *Transfers to Municipalities*

In a qualitative different stage (or shape) are the local governments which can auto-generate revenues through taxes and user charges and get addi-

46 Due to the election modus most regional presidents were – similar to local governments – elected by less than 1/3 of total votes.

tional transfers through FONCOMUN, the Canon and special allocations from the basic food program “Vaso de Leche.” Some municipalities having a harbor in their jurisdiction get a share of the collected tariffs (“Renta de Aduana”). This last transfer principally benefits the metropolitan port of Callao; the total transfers in 2006 were about 126 Million Soles.

The two major national transfer programs are nevertheless the FONCOMUN and the Canon (consisting of 50 % of the corporate income tax of enterprises exploiting natural resources like oil, fish, wood or minerals). From the Canon the only municipalities that are benefiting are the ones in regions where the exploitation of natural resources is geographically situated, meaning that it is concentrated in some regions/municipalities. In the Peruvian case transfers to municipalities were until now not as volatile as Peterson (1997) describes as a principal characteristic of intergovernmental transfers, but rather due to the fact that in the past local governments had small assignments and are only recently receiving substantive transfers (when mineral prices fall the Canon will rapidly reduce itself as a result).

The composition of the FONCOMUN is based on three taxes: a 2 % surcharge on the Peruvian VAT, called “Impuesto de Promocion Municipal” (contributing in 2005 to about 94 % of the Foncomun), a tax on petrol “Impuesto al Rodaje” levying 8 % on the petrol price (6.1 %); and, thirdly, a tax on recreational boats (0.13 %). The aim of FONCOMUN is to secure the functionality of all municipalities in Peru and is therefore distributed with compensation and equity goals. The transfers are allocated based on a formula: Distribution is happening in two steps: in the first step the total amount is distributed to the 194 provincial municipalities in accordance with an index of a) population and b) infant mortality. In the second step the amount is then distributed within each province: in the case of Lima and Callao between the two provincial municipalities (20 %) and district municipalities (80 %) based on an allocation formula based on population, lack of basic infrastructure, electricity and sanitation, quality of housing and ratio of illiteracy. In the rest of the country the share between provincial/district municipalities is the same (20 % / 80 %) but the allocation between districts is based solely on population (rural population is weighted twofold).

Legal changes (Decree Law 776: Ley de Tributación Municipal) in the mid 90s adjusted the focus of the main transfer scheme, the FONCOMUN, from one based solely on population to one based on population and poverty. Also important was the elimination of a fixed share of 30 % of the FONCOMUN for the metropolitan municipality of Lima, the remaining 70 % was then distributed between the rest of municipalities. The result of this legal change was that the share received by the metropolitan municipalities (before it was well over half of the overall transfer) was seriously reduced.

The reduction of the many taxes by the Decree Law 776 has to be seen under the background of a wider process of restructuring and streamlining of the national tax code and the tax agency (SUNAT) in the first half of the 90s. It was undertaken during the change of the prevailing economic model of the state interventionist Alan Garcia to the liberal Fujimori government. Some political engineering was obvious: while the Metropolitan Municipality of Lima has seen its revenues reduced by about 80 % (Alvarado 1994), the municipalities of the departments of Huancavelica, Cuzco, Apurímac, Puno and Ayacucho have benefitted hugely, increasing their transfers out of the FONCOMUN by more than 100 % (Araoz y Urrunaga, 1996).

Relatively new are the minor transfer schemes “Regalias Mineras”, which is not a tax but rather a concept of *indemnization* for the exploitation of non renewable natural resources. The Regalia is calculated with up to 3 % of the value produced/extracted, not the utility generated. Moreover, the amount paid is deductible from the Corporate Income Tax). And, FOCAM (Fondo de Desarrollo Socioeconómico de Camisea) which is constituted by a 25 % share of the part the government receives from the gas exploitation in Camisea (a Peruvian mega project). In 2006, the regalias mineras made 309 million Soles and mainly benefitted municipalities and regional governments in the departments of Moquegua, Tacna and Puno. The FOCAM made up to 76 million Soles and is targeted on municipalities in the departments of Ica, Ayacucho and Huancavelica (for a complete list of transfers schemes and money involved, see Annex Graph N° 14). The FOCAM is breaking away from the old habit (which is to benefit only the areas of direct extraction), and is introducing a new broader concept of area of influence, meaning in practice that this transfer is distributed to more local governments within Peru.

In the past there existed the legal obligation to use the total amount of FONCOMUN transfers for investments (earmarked for investment purposes). This was first reduced to 70 % and in 2003 it was totally abolished. Within the accreditation process municipalities are again obliged to use 50 % of the FONCOMUN transfers for investments (municipalities who get the minimum transfer of about 25,000 Soles/month are exempted).

The earmarking of the two main transfer programs FONCOMUN and Canon for infrastructure investment in the past (it was not allowed to use these transfers for operation or maintenance expenditures) might have effectively caused a perverse incentive. Already highly stressed local budgets had to take maintenance/operation expenditure out of their own revenues which might have created problems of moral hazards. Local governments in Peru are known to put relatively little effort into maintaining existing infrastructure. The MEF have taken account of this and made the use of these transfer schemes more flexible.

Investment spending has been rising impressively during the last few years, linked to the conditional transfer out of the Canon which has to be used 100 % for infrastructure, see Table N° 6.

**Table N° 6: Investment spending of Local Governments**

Year	Revenues of Local Governments		Investment Spending of Local Governments	
	(in Million S/.)	(in % GDP)	(in Million S/.)	(in % GDP)
1994	1700	1.7	649	0.7
1995	2157	1.8	866	0.7
1996	2534	1.8	1102	0.8
1997	3149	2.0	1409	0.9
1998	3485	2.1	1448	0.9
1999	3329	1.9	1397	0.8
2000	3624	1.9	1525	0.8
2001	3692	2.0	1502	0.8
2002	4113	2.1	1534	0.8
2003	4631	2.2	1670	0.8
2004	5375	2.3	1998	0.8
2005	6457	2.5	2224	0.8
2006	7863	2.6	3090	1.0

Source: BCRP

The FONCOMUN was legally supposed (Ley de Tributación Municipal) to be distributed in the future (normally from 2006) while considering in the

formula a) municipal own resource mobilization and b) prioritisation of public investment, a legal disposition which still waits to be enacted. The legal disposition was introduced by the MEF itself in February 2004 when the Congress passed legislative power to the executive concerning tax issues. MEF officials are now apparently uneasy with how to make this scheme work without complicating the allocation formula too much.

One reason for the postponement can be found in the formula of the FONCOMUN which until recently was based on population and infant mortality and is now progressively substituted by Unsatisfied Basic Needs (Necesidades Básicas Insatisfechas). It is highly possible that mayors and municipal officers do not even understand now, how these indices are composed (to illustrate that: a given municipality receives a share of 0.00015132 another one 0.00008354 and a third 0.00006683 of the overall amount).<sup>47</sup>

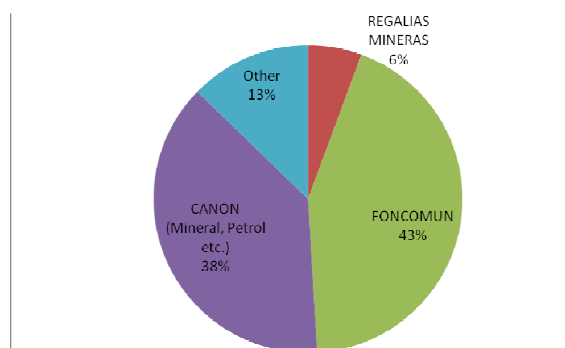
Fiscal transfers have been rising fast lately: in the last five years the FONCOMUN has increased on an annual basis by over 7.8 %, parallel to the impressive increases in the collection of VAT by the SUNAT (see Annex: Figure 1: FONCOMUN 1997–2006). Due to the bonanza on the international mineral and petroleum markets the Canon, since 2004, has participated with an increasing percentage of the overall transfers. In 2006 the total amount increased to about 2,103 million Soles – almost bypassing for the first time the transfers channelled through FONCOMUN. Before this the FONCOMUN was generally financing the main chunk of the transfers to local governments: eg. in 2003 the ratio Canon to FONCOMUN was still about 1/10. Through the geographically concentrated windfall revenues, horizontal fiscal imbalances (with high standard deviations at the municipal level) are increasingly becoming a concern (cf. Ahmad and García-Escribano, 2006: 12f.).

47 Concerning the formulation of the indicator for the investment expenditure the effects of the transfers of the Canon, FOCAM and Regalias should be taken into account. If these transfers were included in the calculation then this would unduly benefit those municipalities which receive these transfers. In addition, the undergoing change in the formula system of the FONCOMUN, data problems at the municipal level and the question “how big should be the financial incentive?” makes it difficult to implement this policy change.

All together transfers together have increased in the last thirteen years from US \$ 400 million (or 1,1 billion Soles) in 1995 to around US \$ 3,2 billion (or 9,7 billion Soles) in 2008 and constitute by far the largest financial revenue for municipalities.<sup>48</sup> In 2006, the overall transfer of about US \$ 2 billion (around 5,6 billion Soles) were coming from the following sources: a) share of tariffs (Renta de Aduanas) 126 million Soles b) FOCAM and Regalias 385 million Soles c) FONCOMUN 2,389 million Soles and d) the various Canons 2,103 million Soles (cf. Graph N° 8, Transfers to the local governments). This translates to an average transfer per capita of about US \$ 65. In the 80's, the total amount of transfers was at a very inferior level of US \$ 2 to 3 per capita.

Inside the overall amount of transfers the FONCOMUN was responsible, in 2006, for about 43 %, the different Canons for 38 % (with strong regional concentration: e.g. the “Canon Petrolero” is benefiting only the municipalities of the departments Loreto, Piura, Tumbes and Ucayali – and “Canon Minero” alone represents with 1,309 million Soles about 23 % of the transfers and concentrates on Ancash, Arequipa, Cajamarca, Moquegua and Puno).

**Graph N° 8: Transfers to the local governments (2006), altogether about 5,560 million Soles<sup>49</sup>**



Source: MEF

The Table N° 7 shows that there exists high interregional disparities and while certain transfers are distributed with the goal to compensate poorer

48 Conforming to the apparently non-binding “6th Disposición Complementaria” of the Ley Orgánica de Municipalidades the transfers to the local government level should be raised until the year 2009 to 12 % of the public sector budget.

49 Including the partly transferred budget from projects of the FONCODES (73 Million Soles) and the basic food program “Vaso de Leche” with a volume of about 363 Million Soles.

regions, the overall amount of fiscal transfers does not stand in relation to the poverty rates in the departments. Some departments receive up to eight times the average transfer amount/per capita.

A comparison at the disaggregated municipal level shows even stronger imbalances: for the moment the intergovernmental fiscal transfers can be described as a patchwork of political liabilities of the past rather than connected with thorough compensation or improved services.

**Table N° 7: Fiscal Transfers to local governments in relation to population and poverty rate**

Departamento	Transfers 2005	Population	Ø transfer/pop.	Poverty rate <sup>50</sup>
AMAZONAS	51,765,557	389,700	133	60.9
ANCASH	153,739,842	1,039,415	148	55.3
APURIMAC	67,840,822	418,882	162	65.9
AREQUIPA	135,260,567	1,140,810	119	40.9
AYACUCHO	89,616,559	619,338	145	64.9
CAJAMARCA	349,686,961	1,359,023	257	74.2
CUSCO	395,380,205	1,171,503	337	59.2
HUANCAVELICA	122,136,117	447,054	273	84.4
HUANUCO	82,394,923	730,871	113	77.6
ICA	62,661,972	665,592	94	29.2
JUNIN	134,054,399	1,091,619	123	52.6
LA LIBERTAD	112,038,730	1,539,774	73	48.2
LAMBAYEQUE	69,919,654	1,091,535	64	46.7
LIMA	348,062,229	7,819,436	45	37.1
LORETO	189,824,383	884,144	215	62.7
MADRE DE DIOS	11,049,631	92,024	120	20.4
MOQUEGUA	187,268,181	159,306	1,176	37.2
PASCO	54,715,182	266,764	205	61.6
PIURA	292,831,521	1,630,772	180	60.9
CALLAO	120,373,958	810,568	149	~
PUNO	259,083,238	1,245,508	208	79.2
SAN MARTIN	62,971,413	669,973	94	57.1
TACNA	196,788,014	274,496	717	26.7
TUMBES	50,428,892	191,713	263	21.6
UCAYALI	80,860,165	402,445	201	55.8
<b>Total</b>	<b>3,680,753,117</b>	<b>26,152,265</b>	<b>141</b>	<b>51.6</b>

Source: SIGOD (CND) and INEI 2005, INEI 2004

50 Under the measure 'Poverty Rate', the INEI understands the overall poverty ("Incidencia de la Pobreza"); a human being living in "extreme poverty" is considered to be unable to cover a basket of basic alimentation products; and as 'poverty' someone who can't satisfy basic needs (this measurement is broader: e.g. services are also included).



The MEF is aware of the fiscal imbalances and is eager to modify some of the biggest flaws, but being conscious that it maybe politically unfeasible, it has chosen an approach of trying to smooth things out. In the draft law of the “Ley de Equilibrio Financiero 2007” the MEF wanted to change the distribution criteria of the Canon, reducing the amount to 40 % of the corporate tax share of natural resources exploiting enterprises and using this 10 % to fill up the Regional Compensation Fund. In 2005, the MEF wanted to create a Fund to balance high periods of high transfers with those of lower years – however, change management is, as it seems, not a stronghold of the MEF because no political deal or dialogue has been sought with the main stakeholders in the political stage. Both initiatives of the MEF were finally dropped.

## 6. Analysis of the Financial System at the Local Government Level

Overall revenues show a rather favourable evolution for Peruvian municipalities. Local government revenue rose from 3.772 million Soles in 2000 to 8.200 Soles in 2005, this was especially due to higher transfers and in some extent to bigger local revenues. The increase in discretionary budget allocation was somewhat smaller because a big portion of the increased revenues were earmarked. Nevertheless, these increases were not usually linked to an equivalent increase in expenditure responsibilities as one might think appropriate in the broader context of a decentralization process.

Their own revenues consist of user charges (waste removal, local security and park maintenance), local taxes (property and property transaction tax, vehicle tax, gambling), fines, fees and rent.

User charges are principally applied to park maintenance, garbage collection and local security in some cities. The water distribution and sewage is undertaken in the forty-five biggest urban agglomerations by the so called “Empresas Prestadoras de Servicio de Saneamiento-EPS” which are owned by the municipalities. Their budgets are due to their status as public owned enterprises and are not considered in municipal revenue or expenditure accounts. It is generally acknowledged that water charges, but also the other user charges, do not even cover the operational costs.

Municipalities in Peru can raise taxes on property, on property transactions (called “alcabala”, 3 % of transaction values), on vehicles no older than three years (taxing 1 % of value, received by the provincial municipality)<sup>51</sup>, public gatherings like concerts, movies etc. and gambling.

Peruvian municipalities furthermore have the possibility to recuperate infrastructure investment by applying a charge on the benefiting citizenry (the so called “Contribución Especial de Obras Públicas”). In the past some actions were taken to use this instrument but generally with little success.

51 This in itself is quite a negative incentive, punishing less environmental damaging cars.

## 6.1 Property Tax Evaluation

In 1962, Law 13689 authorized that the provincial municipalities were able to receive property tax, designating 50 % of the revenues to the district municipalities. Finally, in 1965, law 15248 gave the provincial municipalities the power to administrate and collect property tax, until then a private entity, the Caja de Depósitos y Consignaciones was in charge of this responsibility.<sup>52</sup>

In 1985, a law (called Ley de Financiamiento N° 24030) brought important changes; most important was the creation of a surcharge of 1 % on the Peruvian VAT to finance a formula based transfer system, replacing to a big extent the discretionary transfers which were until then the common practice. This tax reform made it also possible to improve property tax by raising rates and adjusting tax scales and, furthermore, introducing a tax on idle land.<sup>53</sup> The property transaction tax was reduced from 6 % to 3 % to entice private investment.

The actual local tax law is regulated by Legislative Decree N° 776 which came into force in 1994. It described the nation's rationalization behind the municipal tax structure with the double aim of reducing tax complexity and raising revenues. The law streamlined the local tax system by eliminating some of the then existing different taxes (reducing the number of taxes from about 15 to 6, of which some were more costly to administer than the revenue actually collected. The impact of the legal changes introduced by this decree was that urban cities, especially Metropolitan Lima (which was then in the hands of the opposition) lost out to rural areas (Alvarado 1994). The tax on idle land was part of the abolished levies. The transaction tax on properties which was before collected by provincial municipalities was given to the district level.

52 This entity was also in charge of the national taxes and was managed by the Peruvian banks (sic!). The government of Fernando Belaunde abolished the Caja de Depositos in his first month, and in its place, created the public Banco de la Nación. Peruvian Bankers were not too happy about this.

53 The latter one did not have important impacts on policy changes concerning the aim of this tax.

The property tax in Peru accounts for less than 0.2 % of GDP, which is even compared to the Latin American average, is extremely low. In 2002 property tax was collecting nationwide about 10 % of the overall budget of local governments, in 2006 the share was closer to 6 % due to windfall transfers.<sup>54</sup>

As already mentioned the property tax administration in Peru is shared between central and local governments, the former setting rates and valuation, the latter afterwards applying the parameters and collecting the tax. The identification of taxable properties is based on the principles of “self assessment” (the so called “autoavalúo principles”). The taxpayers are legally responsible for providing all relevant data regarding properties – but in practice the municipalities determine the value of a property by using the official index provided nationwide by the “Consejo Nacional de Tasación” (CONATA).

Peru is essentially using a depreciated cost approach for assessment, the value of a property consists of the sum of the value of the land and the building assigned per square meter. A range of different parameters are applied (there are about 70 parameters: standardized exterior and interior components like construction materials, floor materials used, bathrooms, doors, age of the property, electrical and water connections ...).<sup>55</sup> Buildings are depreciated on their base value. Each year unit values are reassessed; the new tables of unit values are published in the official Gazette (El Peruano).

Local governments are applying progressive tax rates on property values (cf. Table N° 8) fixed by the Municipal Tax Code.<sup>56</sup> In fact, the property tax therefore increases theoretically the overall vertical equity of the tax system as the national tax system is relying more on regressive VAT.

54 For comparison: according to the U.S. Census Bureau Government Division, property tax revenue in the USA in 2002–2003 comprised of 45.9 % of local government general revenues from own sources and 27.5 % of total local government general revenue – down from 48.2 % and 30.1 % respectively in 1992–1993.

55 Other countries were showing favorable results when they introduced a simplified valuation methodology.

56 Before 1994 there were seven tax rates: 0,20 %; 0,30 %; 0,40 %; 0,50 %; 0,60 %; 0,80 % and 1,00 % (cf. law N° 26173).

**Table N° 8: Scales of property tax**

Scales of property valuation (AUTOAVALÚO)	Tax rate
Until S/. 15 UIT	0.20 %
Between 15 UIT and 60 UIT	0.60 %
More than 60 UIT	1.00 %
Minimum Amount which might be established by the municipality	0.6 % of one UIT

One UIT (Unidad Impositiva Tributaria) is in 2005 the equivalent of 3300 Soles (roughly US \$ 1000).

As in most countries, some taxable properties are exempt by law like public institutions, charities, property related to education activities, churches, international organizations etc. Pensioners receive a hefty tax reduction of 50 UITs if they can show that they actually use the property for themselves and (recently introduced in 2002) do not have a monthly income of over one UIT. There are various cases where exempted properties are being used for revenue generating activities: eg. the Catholic Church is renting a property in Cusco for a luxury hotel, public schools and public institutions are receiving income by renting land or property, and pensioners are renting out spaces.

The exonerations in Peru are a serious problem, in some districts of Lima, like Pueblo Libre almost 30 % of all property is exempt, especially the exonerations of the elderly (while some relief might make sense) are having seriously negative impacts on the property tax collection.<sup>57</sup> One additional limitation of the property tax is that it is levied on the district level and no information exchange between municipalities is happening. A big property owner may have an incentive to circumvent higher property tax bills by distributing property in different districts (constituting one important reason in favour of a central administration of the property tax).

Property tax on agricultural land is flawed with limited tax yields in rural areas. The value of land is differentiated by CONATA according to its productive potential (quality of the soil and access/form of irrigation). The maximum value is about 12,000 Soles (~US\$3,500) but goes down to a min-

<sup>57</sup> First the elderly receive a deduction of 50 UITs on their tax bill and only those who receive a pension above 1 UIT have to pay at all, hardly any pensioners are paying anything.

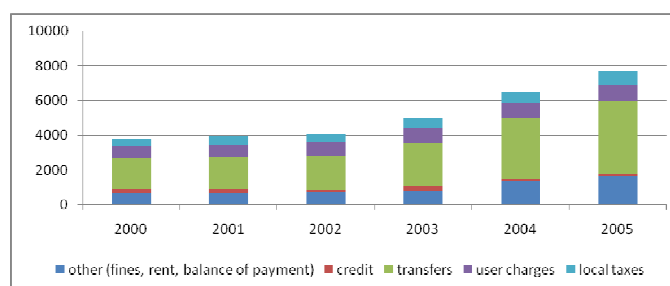
imum of 33 Soles or US \$ 10 (sic!). Moreover, rural properties receive a special deduction of 50 % of their valuation (cf. attempts to raise rural property tax Garzón & Vasquez, 2004).

To illustrate the national property tax scenario one should start with the assumption that half of the population is living in poverty and mostly do not pay property tax at all, leaving a population of 13 million as potential contributors living in around 3 million properties (habitational units). If it is considered that one fifth are exempted (mainly pensioners) and that the private sector handles a bigger share of the property tax bill, we still have more than 2 million properties which paid around 400 million Soles in 2005, meaning every property is paying around 200 Soles each a year (the equivalent of US \$ 67).

Total tax revenues for Peruvian municipalities are quite low. Graph N° 9 shows that for Peruvian municipalities taxes were only 12 % of total revenues in the fiscal years 2000–2002, the following two years the percentage was closer to 10 % because of the windfall transfers. Within the overall tax revenue of local governments, the property tax was by far the most important which was responsible in 2005 for about  $\frac{2}{3}$  of all taxes levied; property transaction tax levies being about 10 % and vehicle tax about 9 %. Taxes on public gatherings and gambling made up 7 % together. It is noteworthy that the revenue from user charges (mostly local security, garbage collection, maintenance of parks) was 13 % (2003) to 16 % (2005) of total revenue which is higher than that from taxes.<sup>58</sup>

58 It is still an open question if local governments were more capable of improving the yields of user charges because the legal framework provided the local governments with more discretion over those tariffs compared to taxes. In the past the rate of a particular user charge was linked to the valuation of the property and not by the use/cost of the service provided.. This meant that increases for the fees were linked to an overall increase of the property value, but in this case it is not offset by the parallel raising of the UITs (see further down). The Constitutional Court in mid 2004 challenged this practice: municipalities are obliged to take into account the cost of services from the end of 2005 (now property valuation might be only one of several parameters).

**Graph N° 9: Classification of Revenue sources of Local Governments (in S/. million)**<sup>59</sup>



Source: Contaduría Pública de la Nación, MEF and SUNAT. Data processed (Revenue classification of the Contaduria modified as the Canon is subsumed in this Graph more correctly as a transfer scheme)

About 40 % of total local revenue for the years 2000–2002 came from transfers (Canon, FONCOMUN, tariffs and the food program), for the following years it was closer to 50–55 %. Without considering the Metropolitan area this ratio is even higher, meaning that own revenues in the province were on average more reduced than at the metropolitan level (Carranza/Tuesta 2003: 33ff.). The vertical fiscal imbalance of local governments in Peru is, compared to the OECD standard, very high (the exception is the Mexican federation where municipalities receive on average 90 % of their total revenues from intergovernmental transfers (cf. Giugale & Webb, 2000; OECD 2006)).<sup>60</sup>

While the revenues of local governments during 2000 to 2002 were rising at an average rate of 4 %, there was a huge increase from 2003 to 2005 with a 20.5 % increase in total revenues (transfers were the cause) and the revenue from local taxes was also rising at an impressive 13.5 %.

59 Statistical data is not available for all local governments, the ratio included is anyway close to 90 %.

60 The vertical fiscal imbalance (VFI) is defined as the total amount of transfers by the central state to total sub-national revenue. International comparisons are mainly based on the database of the Government Finance Statistics (GFS), which has been published annually by the IMF since 1970, but which contain certain weaknesses. On the revenue side, the GFS does not distinguish whether taxes are collected via shared taxes, piggybacked taxes, or locally determined “own-source” taxes, nor what proportion of intergovernmental transfers are conditional, as opposed to general-purpose transfers (cf. Torgler & Schaltegger, 2005).

Recent research projects have shown that property tax is correlated to the degree of urbanization of Peruvian municipalities (cf. Aguilar & Morales 2005; Alvarado 2003): the average of the municipalities with an urbanization degree of more than 75 % had own revenues several times higher than rural municipalities.

The Table N° 9 shows the revenue sources and expenditure classification for all local governments for the budget year 2004. Rising balances of payments are a result of windfall transfers and corresponding problems to execute infrastructure projects. During the local election process at the end of 2006 and the installation of new local governments in the first month of 2007 execution was severely halted.

**Table N° 9: Local governments' revenue sources and expenditure classification 2004, in Millions of Soles)**

Revenue Source	Revenues	Expenditure Classification	Expenditure
<b>CANON</b>	<b>828,907</b>	<b>CANON</b>	<b>631,441</b>
Fiscal year 2004	705,968	Work force and social security	17,375
		Goods and services	15,331
		Other recurrent expenditure	7,020
		Investment spending	581,308
Balance fiscal year 2003	122,939	Debt payment	9,383
<b>SHARE OF IMPORT TARIFFS (Aduanas)</b>	<b>122,870</b>	<b>SHARE OF IMPORT TARIFFS</b>	<b>101,152</b>
Fiscal year 2004	107,959	Work force and social security	26,033
		Pension payments	3,859
		Goods and services	19,588
		Other recurrent expenditure	3,118
Balance fiscal year 2003	14,911	Investment spending	43,390
<b>FONCOMUN</b>	<b>1,836,473</b>	<b>FONCOMUN</b>	<b>1,652,293</b>
Fiscal year 2004	1,729,074	Work force and social security	327,648
		Pension payments	43,823
		Goods and services	254,325
		Other recurrent expenditure	88,537
		Investment spending	696,071
Balance fiscal year 2003	106,414	Debt payment	241,890
<b>LOCAL TAXES</b>	<b>671,616</b>	<b>LOCAL TAXES</b>	<b>591,815</b>
Taxes	631,990	Work force and social security	174,022
		Pension payments	64,888
		Goods and services	194,648
		Other recurrent expenditure	59,155
		Investment spending	52,673
Balance fiscal year 2003	39,223	Debt payment	46,429
<b>OTHER REVENUES</b>	<b>1,662,930</b>	<b>OTHER REVENUES</b>	<b>1,524,157</b>
User charges	885,832	Work force and social security	331,672
Sale of property	56,219	Pension payments	62,201
Service charges	149,445	Goods and services	789,146
Property rent	164,957	Other recurrent expenditure	138,313
Fees and rent	229,709	Investment spending	186,325
Balance fiscal year 2003	129,556	Debt payment	16,501
<b>CREDIT OPERATION (INTERNAL)</b>	<b>229,762</b>	<b>CREDIT OPERATION (INTERNAL)</b>	<b>191,658</b>
Credit (internal)	163,091	Other recurrent expenditure	2,655
Balance fiscal year 2003	66,391	Investment spending	144,196
		Debt repayment	40,860
<b>DONATIONS AND TRANSFERS</b>	<b>208,904</b>	<b>DONATIONS AND TRANSFERS</b>	<b>136,451</b>
Donations	24,759	Work force and social security	3,216
Balance fiscal year 2003	1,944	Pension payments	100,937
Transfers	113,738	Goods and services	11,771
Balance fiscal year 2003	68,242	Other recurrent expenditure	1,102
		Investment spending	98,566
<b>ORDINARY TRANSFERS (Vaso de Leche, PRONAA etc.)</b>	<b>939,554</b>	<b>ORDINARY TRANSFERS</b>	<b>906,702</b>
Transfer	932,009	Goods and services	377,213
Balance fiscal year 2003	7,470	Other recurrent expenditure	283,766
		Investment spending	243,084
<b>TOTAL REVENUES</b>	<b>6,502,483</b>	<b>TOTAL EXPENDITURE</b>	<b>5,737,137</b>

Source: Contadura, Data processed and simplified



Credit is 3 to 4 % of the revenues, which is still not substantial (for concerns about this see World Bank, 2004). There have been until now no bailouts of debt laden local governments. Different recent laws in the context of the decentralization process have reinforced the former soft budget constraint – at least in theory because apparently there does not appear to exist a real monitoring of the central state. The LOM which chronologically is the oldest law in this respect, ordered that debt for interests and amortizations should be below 30 % of overall revenues. The two other relevant laws (LDF & LRTE) define the criteria of the debt limit not in a uniform way but agree at some point to set the redline when debt is i) equal or more than 100 % of the recurrent revenues, ii) when interest payments can't be higher than 25 % of recurrent revenues, and iii) when short term liabilities can't be higher than 1/12 of overall revenues (including transfers). Some crude statistics point out that many municipalities actually breach these legal standards. Often municipalities tend to owe considerable amounts to local providers or pension funds, although seldom is this debt registered. Suing local governments is, moreover, a difficult business: due payments for liabilities are capped at a maximum of 5 % of the budget for all public entities!

In addition, many municipalities encounter lots of judicial trials, all too often related in increasing the local fiscal burden. These negative impacts are not addressed in the Peruvian debt statistics mostly because of a lack of information.

All together, outstanding debt of local governments at the end of 2006 was about US \$ 656 Million (December 2006) and overdue payments were US \$ 271 Million (which might be one indicator for difficulties to repay).<sup>61</sup> According to the information available, some 1,579 municipalities had some debt and the average debt shows huge standard deviations (debt is in 85 cases above US \$ 1 million). Most municipalities owe money principally to SUNAT, ONP/AFP (pension), ESSALUD (health insurance) for not complying with tax obligations (income tax for municipal employees/hired consultants and the extraordinary solidarity tax), and social insurance payments for employees and/or fines. The biggest chunk of debt is owed to the AFP's with US \$ 255 Million, followed by ESSALUD with US \$ 113 Million,

61 Source MEF: Preliminary Information taken from the *Portal de Deuda de los Gobiernos Regionales y Locales*.

PREBAM (program to supply equipment like bulldozers, tractors etc.) with US \$ 95 Million, SUNAT with US \$ 78 Million and ONP with US \$ 49 Million.

Overall, municipal debt is not recognized to have an impact on macro-economics, but some districts in metropolitan Lima, like La Victoria, which has debts of US \$ 29 million, San Martin de Porres with US \$ 26 million and the provincial municipalities of Chimbote with US \$ 27 million and Chiclayo with US \$ 34 million are serious candidates for bail outs (debt was passed on from past mayors to incumbents). Based on relatively poor data it seems as that municipal indebtedness is rising. Peruvian commercial banks are only minimally involved, lending around US \$ 25 million to mainly five metropolitan municipalities. Until now there does not exist a debt market for municipal bonds, but the Metropolitan Municipality of Lima is creating the first Peruvian municipality bonds in the market with a face value of up to 250 million Soles (financing a big urban infrastructure project). The public *Banco de la Nación* earned in the past and is still earning some handsome profits by giving credits to local governments, especially if one considers that transfers are channeled through this same bank which have been taken as collateral so that the risk of debt default is greatly reduced. In general, banks seem to be cautious to lend to local governments or are ousted by the competing Banco de la Nación.

## 6.2 Substitution Effect

As mentioned in the introduction, some evidence suggests that a substitution effect is/was widespread in local governments in Columbia, Guatemala, Bolivia, Ecuador and Venezuela amongst others (Peterson 1997; Cadena 2002; Sanchez et al. 2002). Concerning Peru, it can be referred to three relevant investigations: Alvarado (2003) and Aragon (2005) claiming a substitution effect while a working paper by Rabanal et al. (2006) commissioned by the Peruvian Finance Minister, shows that the majority of municipalities react with their own fiscal efforts. These three investigations demonstrate common flaws which will be discussed here in more detail:

Alvarado (2003), stating a substitution effect for the years from 1994 to 2000, argues that for any given unit of received transfers the municipalities reduce their investment expenditures from their own revenues by 37 %. And, at the same time they redirect these into recurrent expenditures. The

investigation states that the property tax is more proclive to be reduced than user charges as a result of increased transfers. However, Alvarado does not take into account that investment is accompanied necessarily by increases in recurrent expenditure (let it be for maintenance, operation or even the preparation of investment projects). Due to the fact that during the time-frame used in this research project transfers were predominantly earmarked, municipalities reacted by shifting their own revenues (property taxes) into recurrent expenditures. Moreover, the negative effects of the erosion of the property tax base in the 90's were taking its toll (which was neglected in this investigation). In the end, this investigation deserves merit for showing the high dependency of local governments regarding fiscal transfers and for using explanatory variables like density, urbanisation grade, poverty and population, and thereby demonstrating effectively the huge heterogeneity of Peruvian municipalities.

The second investigation by Aragón (2005) is using mainly the same data (taxes, transfers and debt) for the years 2000 and 2001 and comes to similar results repeating the same flaws. The model developed by him suggests that the relationship between fiscal transfers and fiscal effort is negative, but that the effect of transfers on local effort decreases with the level of per capita expenditure of the local government. The reduction of fiscal effort is higher among local governments with lower levels of expenditure. As long as the expenditure level increases, the effect tends to disappear. Aragon suggests the inclusion of conditions in the transfer assignment scheme. He states that allocating a certain proportion of transfers based on local fiscal effort indicators might increase effort and local tax collection. There is reasonable evidence that the research results are not consistent because it does not take into account legal changes and that an assumed negative relationship is the result of the model used.

The results of Rabanal et al. (2006) show that the central government transfers are an important tool for enhancing the tax collection of the subnational governments for the years 1999–2004. However, it is argued that results differ depending on the kind of transfer. In particular, the subnational governments that receive transfers for the extraction of natural resources related to mineral products and petroleum apparently show some complacency in the collection of their own taxes. It can be stated that the explana-

tory variables chosen by Rabanal et al. in their model are biased (eg.: the variable “regional GDP” appears not to be very adequate because property tax is not directly linked to this indicator and the regional GDP is taken from 1994 data is perceived as unreliable; the variable transfers per capita is misleading as the Canon is only distributed, in part, on a per capita basis; different legal changes impacting on distribution of transfers are not integrated in their model (see further down)).

These three investigations have a commonality in that they do not take into account evident public policy issues of the whereabouts of the property tax. Their reliability is further reduced because these investigations use local taxes in an aggregated manner, meaning that they do not differentiate between property transaction tax, property tax and vehicle tax. No effort was undertaken to ask the principal party (the local government) about the relationship between transfers and their own revenues.

After demonstrating some of the principal flaws of previous studies, this investigation did not try to develop another mathematical model between fiscal transfers and local own revenues because there are serious concerns about the appropriateness of a quantitative model in a context of frequent policy changes (allocation formulas, conditionality, etc.). All this theoretically directly impacts the relationship between fiscal transfers – own revenue generation (see Box N° 1 for an overview; the most important legal changes are explained in more detail further down).

**Box N° 1: Legal changes during the last years concerning structure of transfers and property tax**

1. Law 27616 of December 2001 improved the finances of local governments by reinstalling the obligation that notaries had to – before registering a transaction of property – make sure that the respective property taxes were paid.
2. Law N° 27616 (year 2002) regulated that every municipality will get a minimum monthly assignment out of the FONCOMUN of 8 UITs/month (around 25,600 Soles).
3. Valuation adjustment was partly offset by the annual raising of the UIT, which in the years between 2000 and 2006 increased on an annual basis by 2.5 % to 3 %.

4. Earmarking of FONCOMUN for investment was reduced in 1997 to 80 % (Ley N° 26891), in 1999 to 70 % (Ley N° 27082) and since budget year 2003 (Ley N° 27630) comes without any earmarking. In July 2004, the Law of Accreditation (Ley N° 28273) regulated that only those local governments will be certified – the certification is linked to transfers of responsibilities and resources – which are using at least 50 % of the transfers out of the FONCOMUN for investment. Decreto Legislativo 776 wanted to set an incentive beginning in January 2006 for the municipalities concerning the allocation formula of the FONCOMUN. The incentive is linked to self-generation of revenues and an emphasis on investment in the local budget. This article is still not enacted.
5. The allocation formula of the FONCOMUN, which until recently was based on population and infant mortality based on the census in 1993, has been progressively substituted by an index of “Unsatisfied Basic Needs” which impacts individual allocation quota.
6. Financial engineering by municipalities was widespread while transfers out of the FONCOMUN were still earmarked (eg. recurrent expenditure was registered as investment)
7. The laws N° 28077 (September 2003) and N° 28322 (August 2004) modified in a substantial manner the allocation formula of the Canon.
8. The earmarking of the Canon was reduced since the budget year 2006, as a response to a low execution of local investment; the MEF allowed 20 % of this transfer to be used in maintenance and feasibility studies related to investment.
9. Since 2003 pensioners only receive property tax reductions (of 50 UITs) if they do not have a monthly income of over one UIT.
10. Higher investment spending comes hand in hand with higher recurrent expenditure: eg. costs related to the preparation of investment project and maintenance are subsumed under the header of recurrent expenditure.
11. Constitutional Court in the middle of 2005 challenged the given praxis that user charges were linked to the valuation of property, as a result revenues out of user charges dropped considerably (see footnote N° 73).<sup>62</sup>

62 Not directly linked to transfer or property tax but also eating into municipal own revenue generation eg.: is Law N°27963 (May 2003) which reduces revenues out of

Therefore this investigation limit itself by rather analysing the state of the art of fiscal transfers and own revenues in a quantitative manner and arguing that a qualitative assessment is necessary to investigate from closer by the supposed substitution effect.

To demonstrate the effect fiscal transfers have in the case of Peruvian local own revenues this quantitative analysis is considering ca. 1,600 of the 1,832 municipalities based on the information given by the Contaduria General de la Republica; those municipalities that are not included are not complying with the legal obligation to deliver information on budget allocation to the Contaduria or the latter one was unable to process the data. The missing 200 municipalities, which are about 10 % of the total number, belong mostly to the group of small, rural types; also some provincial municipalities do not supply information or supply this information with inconsistencies. Out of this group only 1,223 municipalities had any revenue from the property tax (meaning more than 350 municipalities had no property tax at all).

Property tax rose hand in hand with transfers growing by an average of 10 % over the last five years. Total property tax nationwide rose from 308 million Soles (2001) to 333 million Soles (2002) to 367 million Soles (2003), to 408 million Soles (2004), to 461 million Soles (2005), indicating somehow against a supposed substitution effect (see Table N° 10).

**Table N° 10: Local Tax Structure (in Mio. Soles)**

Year	Property tax	Vehicle tax	Property transaction tax
2005	461	55,2	97,5
2004	408	61,5	63,9
2003	367	53,0	55,6
2002	333	31,0	55,5
2001	308	25,4	n.n.

Source: Contaduria

Property tax constitutes about 8 % of total municipal revenues. The property tax collected by all provincial municipalities was together 111.5 million Soles (2003) and of all district municipalities 255 million Soles (2003). Not taking into account the metropolitan area (the two provinces Lima/Callao

the property transaction tax by introducing a tax-free allowance of 10 UIT per transaction. Decreto Supremo 033-2001-MTC (2001) is reducing revenues from fines generated by traffic infractions, etc.

and 45 districts), the provincial municipalities were able to collect only about 78 million Soles in 2003 and the district municipalities about 61 million Soles (there are roughly 10 times more districts than provinces) or the equivalent of 38 % of the total property tax collected. Even if property tax outside the metropolitan area is not very substantial, it was possible to increase collections from 119 million Soles (2001), 130 million Soles (2002), 139 million Soles (2003), and 157 million Soles (2004) to 172 million Soles (2005).

It can be stated that the property tax is yielding very little considering the vast territory of some 1,700 districts and provinces outside of Metropolitan Lima with a tax collection of about 139 million Soles in 2003 (US \$ 40 million in all). While property tax collection is highly concentrated in the metropolitan area, their picture is not very favourable either: the greater metropolitan area of Lima, with around 8 million inhabitants, was only able to collect around 227 million Soles in property tax (ca. US \$ 70 million) in 2003.<sup>63</sup>

Within the group of district municipalities, 25 % are collecting less than 200 Soles per year (sic!). Half of the district municipalities have revenues from property tax of less than 2,000 Soles per year; and 75 % of municipalities raise less than 25,000 Soles/year which is the monthly minimum transferred from the FONCOMUN to each district.

Within provincial municipalities 50 % are collecting less than 55,000 Soles and only 12 % of the provincial municipalities are collecting more than 1 million Soles. Data indicates that property tax is highly correlated with urban settlements: in the case of the biggest municipalities, property tax has a share of total revenues as high as over 20 %, this share gets smaller for more rural municipalities, which have almost no revenue from property taxes. The standard deviation for all municipalities is 1,872,577 Soles, which is very high and clearly shows the dispersion between the municipalities. The average revenue is 377,278 Soles but the great part of municipalities does not reach this level. Some municipalities like San Isidro, Surco or Miraflores collect over 20 million Soles in property taxes.

63 Metropolitan benchmarking would be a helpful exercise and interesting research project.

From the property transaction tax districts were able in 2003 to levy S/. 32.1 million (without Lima Metropolitan S/. 13.2 million), provinces S/. 23.5 million (without Lima Metropolitan S/. 15.5 million) and from the vehicle tax S/. 53 million (but highly concentrated on the provincial Government of Lima and to a lesser extent Callao, without those two provinces the revenue for the rest of the provinces is only S/. 5.4 million). The property transaction tax is even more concentrated than the property tax (the municipalities which do not have any revenue from this tax is very high). If provinces have an established provincial development fund, 50 % of the property transaction tax collected by districts should go into this fund, but in reality districts seldom comply with this legal obligation.

A big issue which is not addressed in previous research projects is related to the erosion of the tax base. CONATA, which is functionally part of the Ministry of Housing (Vivienda) and is operating without decentralised offices, is the organization technically responsible for assigning countrywide valuations of buildings and land parcels in the form of an extensive geographical based index (for the urban areas about 1,629 square km are included into this index, 629 square km alone for Lima/Callao). These valuations are then applied by the municipalities. The budget of CONATA for 2003 was about 4.3 million Soles (about 1 million Soles were self collected through additional service providing) having a legally fixed share of 3/1000 of the collected property tax – however, not all municipalities are complying with the due payment; some municipalities owe debts from several years, therefore CONATA was looking for extra income by providing services.

In the 1990s, CONATA struggled and failed (induced probably by a hostile hypercentralisation) to keep the adjustment at least even with inflation (see Graph N° 10).

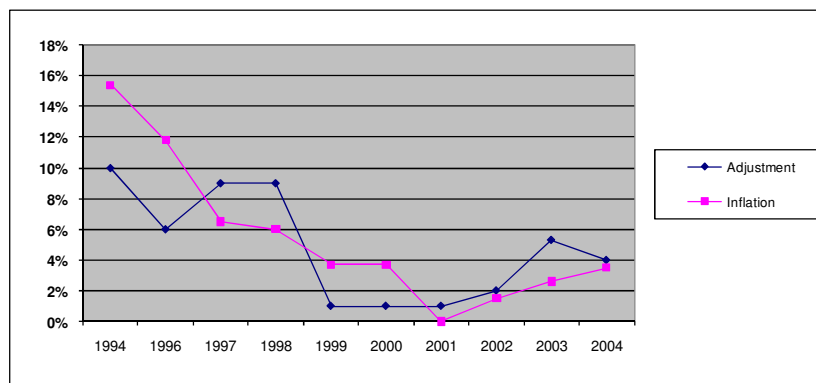
In the last years CONATA was trying to increase the valuation progressively close to inflation. There was an ill designed attempt to adjust the valuations considerably in 2003, meaning for some properties that the tax would have risen by more than 20 %. After some pressure from the media and from organized lobbies (the Chamber of Commerce in Lima), CONATA modified this to a much more moderate increase.<sup>64</sup> Nevertheless,

64 Concerning change management of the property tax, Slack (2001: 279) notes that from a public choice perspective, the losers from a change in policy tend to be very



in 2003 the adjustment was not based on a unique rate for all property. In fact, the rise was higher for valuable properties, and outside Lima the average rate was apparently reduced by 16.7 %. Overall adjustment for 2004 was about 4 %, which was close to the inflation rate of 3.5 %.

**Graph N° 10: Average Adjustment of Property Valuation in Comparison to Inflation**



Source: CONATA and INEI

Up to now CONATA has elaborated about 360 district maps with property rates (these are seldom updated annually, e.g. theoretically investment in infrastructure or services should translate into a valuation increase) for a total of 194 provincial and 1,637 district municipalities, concentrating on the municipalities with the biggest potential tax base.<sup>65</sup> A ratio of 30 % to 60 % of the appraised value by CONATA to the real market value can be cautiously quoted as reflecting the facts (although no systematic evidence to back up this estimate is available), offering a big upward potential.<sup>66</sup> There

vocal (even if they are the minority) because they value their losses more than the gainers (even if they are the majority) value their gains. This problem is not unique to property taxation, but it is particularly significant because of the visibility of this tax.

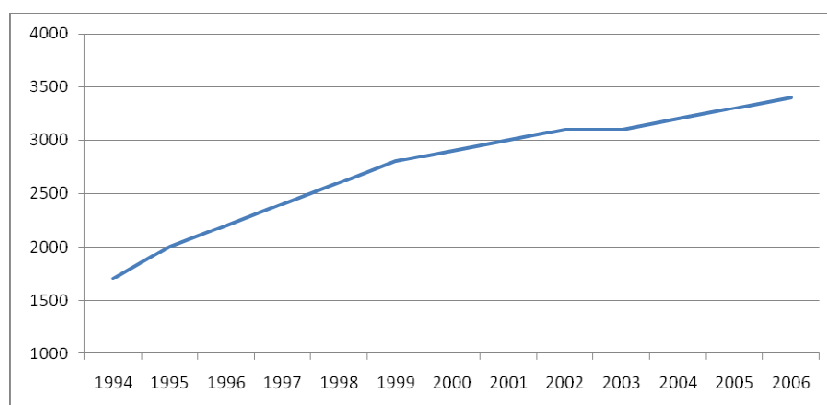
65 As a self introduced incentive CONATA is giving preferences by updating those maps of the municipalities that are complying with the transfer of the share of 3/1000 of the property tax. However, it seems as that some local governments didn't show very much interest in the technical work of CONATA limiting their interest in applying the given indexes.

66 For example the most expensive spot in Lima are the square meters the Hotel Marriott is standing on which is valued by CONATA at ca. US \$ 170 the m<sup>2</sup>, the residential areas behind it are around US \$ 80 (actually these residential areas sell for US \$ 600). Market values are based on actual sale transaction data. Sales values are widely believed to be "adjusted" downwards before being reported.

are no estimates of the market value of the property tax base in individual municipalities or for the nation as a whole. Revenues from property tax are rising faster than the adjustment by CONATA, meaning there are less tax arrears and the ratio of properties subject to paying tax has increased.

It is most important to mention that adjustment was partly offset by the annual raising of the UIT, which in the years between 2000 and 2006 increased on an annual basis by 2.5 % to 3 %, meaning that the ranges of property tax which municipalities have to apply are also rising too (for example: while the maximum scale of property tax of 1 % is applied on properties worth over 174,000 Soles in 2000, in 2006 this rose to 204,000 Soles, cf. Graph N° 11). CONATA is also providing municipalities with figures concerning the depreciation on properties, which in turn is also eating into potential revenues.

**Graph N° 11: Value of the Unidad Impositiva Tributaria (UIT) en Soles**



Source: Sunat

Other impacts are linked to legal changes in the allocation formula of the transfers: Law 27616 of 2002, restated in 2003 by a ministerial resolution, regulates that every municipality should get a “minimum assignment” of 8 UITs/month, which totals 25,600 Soles for the benefit of poor rural municipalities, at the same time reducing the share that urban areas receive. Due to the high number of municipalities in the territory (1,832), about 1/3 of the total FONCOMUN is transferred as a “minimum assignment”. Every municipality receives at least 300,000 Soles, which is a large amount compared to the very low revenue from property tax: for those 25 % of district municipalities with a property tax yield below US \$ 60 a year and those 50 %

below a yield of US \$ 600 the minimum transfer, there is little incentive to raise own revenues from taxes due to these abysmal differences.

Moreover, while there used to exist in the beginning a legal obligation to spend the transferred amounts out of FONCOMUN in investment, adapting to reality, the percentage was reduced in 1997 to 80 % (Ley N° 26891) and in 1999 to 70 % (Ley N° 27082), since budget year 2003 the expenditure allocation is at the discretion of the municipality (the transfers from Canon had at this time still be invested to 100 % in infrastructure).

It is highly likely that this is in fact another disincentive because it is freeing local governments from the need to raise property taxes as a source for discretionary financing. In July 2004 the Law of Accreditation (Ley del Sistema de Acreditación de los Gobiernos Regionales y Locales, Ley N° 28273) set that only those local governments will be certified – the certification is linked to transfers of responsibilities and resources – which are using at least 50 % of the transfers out of the FONCOMUN for investment. This, in practice, will work as a legal restriction due the high interest of local governments to get this certification. Municipalities with only the minimum transfer are exempted from this condition.

The article 87 of the Decreto Legislativo 776 foresaw from January 2006 an incentive for the municipalities concerning the transfer distribution of the FONCOMUN, the incentive is linked to the self-generation of revenues and emphasis on investment in the local budget. This article is still not enacted.

The laws N° 28077 (September 2003) and N° 28322 (August 2004) modified in a substantial manner the allocation formula of the Canon, having deep impacts on individual municipal budgets. Further on, the earmarking of the Canon was reduced in the budget year 2006, as a response to a low execution of local investment. The MEF allowed 20 % of this transfer to be used in maintenance and feasibility studies related to investment.

Own revenues were positively impacted by reinstalling the obligation that notaries had to – before registering a transaction of property – make sure that the respective property taxes were paid (Law 27616 of December 2001). Very favourable was that the property transaction tax was fixed by the same law as the percentage of the value of the commercial transaction and not the mostly lower indexed value of Conata. The property transaction tax was levied in the month after the transaction was legally endorsed, so that the

legal changes are highly correlated with increased tax collection. Whereas in 2001 the property transaction tax for the provincial municipalities was around 7 million Soles, this jumped in 2002 and 2003 to three times that level.

It should be taken into account that Peruvian municipalities have poorly maintained property records. Lots of municipalities – officially responsible for the local *cadastre* – do not possess records and are apparently unwilling to spend resources and effort on this. According to the National Registry of Municipalities (source INEI) there are 367 municipalities with a cadastre, and lots of these are not up to date (also due to a high ratio of transactions).<sup>67</sup> There is no precise information available concerning the coverage ratio which measures the amount of actual property that is included in tax records (often called cadastral records). And, there is still no legal obligation to register property (related costs may work as a barrier: the registration fee of the SUNARP amounts to 3/1000 of the transaction, plus lawyer and notary costs; below 45,000 Soles a reduced fee is paid) – a legal disposition in the law of 2004 which creates a national cadastre was discussed and later discarded.

As in many other Latin American municipalities there have been to date no connections between the property and the fiscal cadastres. Law N° 28294 of July 2004 has created an Integrated National Cadastre System which will connect during time with the national register of property. The self-set goal is to have by 2011 a fully functional national system of cadastre.<sup>68</sup> There are also problems concerning interchange of information between

67 Nevertheless, the municipalities were obliged to spend in the last few years three percent of the collected property tax in a cadastre, a legal obligation which many municipalities didn't follow. The amount of this earmarked share was raised to five percent by the amended Ley de Tributación Municipal in 2004 (in the early 90s this share was even 10 %), dictating the creation of a District Cadastre Fund (“Fondo de Apoyo al Plan Catastral Distrital”) in every provincial municipality for the period 2005–2006. Municipalities are arguing that the cost for employees, office etc. can be subsumed under this header. Impacts will to a big part depend on the will of the central government to oversee this legal obligation.

68 Related to the cadastre exists the very challenging issue to find solutions to the many litigations regarding boundaries of districts, provinces and even regions. According to the Dirección Nacional Técnica de Demarcación Territorial (DNTDT) there are about 320 registered territorial conflicts but the real number is supposed to be as high as 1,500.

the National Property Register entity (SUNARP) and Municipalities. Two special projects PETT, registering of rural property, and COFOPRI, registering of urban property, (the former is financed by IADB, the latter by the WB) haven't had much contact with municipalities.

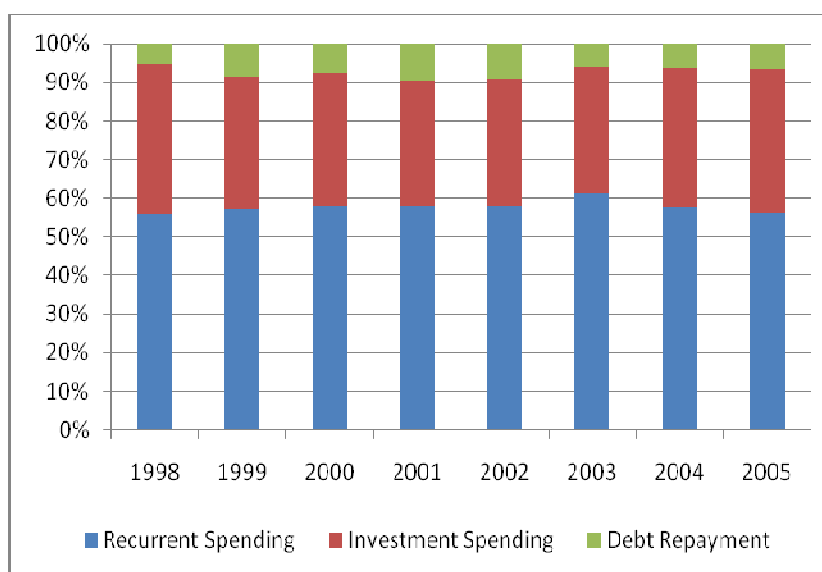
A supposed substitution effect may also be seen in regards to revenue sources that were substituted relative to the structure of the expenditure classification. But based on the aggregated data there seems to be little support for this argument.

Using the fact that municipal budgets use a double registering format based on the financial software (SIAF) which makes it feasible to track expenditure assignments in relation to revenue sources, a follow-up can be made about what expenditure was budgeted by a specific revenue source (cf. Graph N° 17 in chapter 6.1).

The data is processed and a generic group of "local taxes" is used as a proxy for property tax as there is no more disaggregated data available. The data base does not differentiate between property tax, vehicle tax and property transaction tax. This proxy is as close to reality as the vehicle tax and transaction tax are highly concentrated in some municipalities, therefore the information is not biased in a substantial manner. Also, generic groups used in Peru are sometimes not consistent with international standards (eg. the Canon transfer is classified as revenue out of rent but essentially it is a transfer scheme).

The distribution of expenditures has maintained over the years a certain relational rigidity with recurrent expenditures of between 56 % and 62 %, investment 30 % to 35 % and the remaining part for debt payments of 5 % to 8 %. Even in the last two years of windfall revenues (2004 and 2005) investment spending gained only slow ground and is now closer to 40 %, cf. Graph N° 12.

**Graph N° 12: Expenditures of Local Governments**

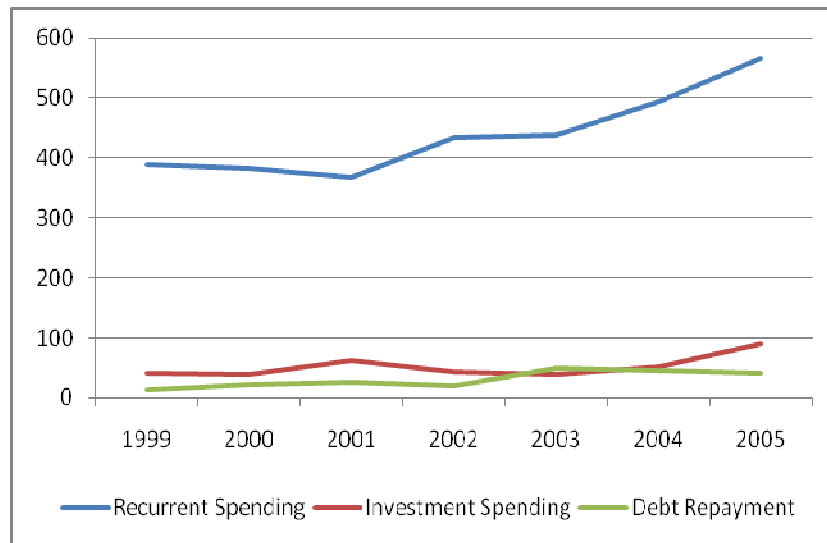


Source: Contaduria

In the following chapter it is looked at in more detail for what expenditure the principal revenue sources (differentiating between local taxes, Canon, FONCOMUN, other revenues) were finally used – even if it should be taken for granted that money is fungible and some financial engineering at the local level is a given praxis.

Local taxes are used traditionally for recurrent expenditure. Tax revenues are used to pay for wages, pension schemes and especially for municipality employees who work under contract (municipalities normally are hesitant to enlist employees as regular staff and favor enrolment based on short-term contracts). Nevertheless, local taxes financed in the budget year 2005 about 100 Million Soles of investment and around 40 Million Soles were budgeted for debt repayment. And, this tendency is rising (see Graph N° 13). Municipalities should have been able to use other revenue sources (fiscal transfers) for these expenditures. Advocates of the substitution effect would have expected that the municipalities would have been able to reduce their tax collection by the same amount/margin as the fiscal transfers.

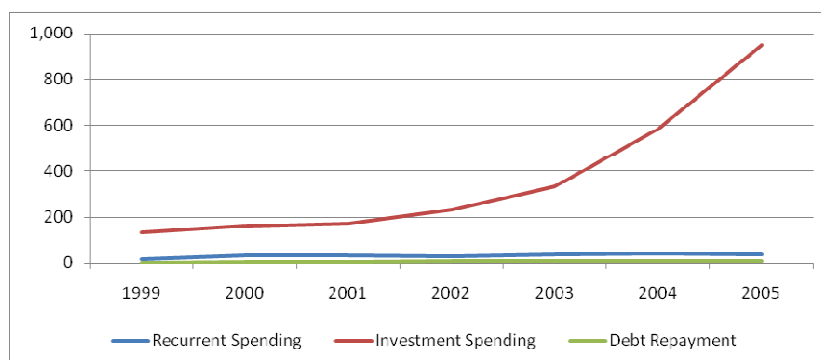
**Graph N° 13: Expenditures out of Local Taxes (in thousand Soles)**



Source: Contaduria

The Canon is spent almost entirely for investment. The investment expenditures are rising fast but always stay far behind the revenues as municipalities encounter management problems in identifying, preparing and executing investment projects (see Graph N° 14). Surprisingly, in the past, some Canon revenues were used – if not in a substantial way – for legally forbidden recurrent expenditures and debt payments. The same can be said concerning the share of import tariffs were municipalities were using more than half of it for recurrent expenditures in the fiscal year 2004, effectively demonstrating little respect for legal obligations (or not to be the most prudent concerning the classification of expenditures), but which could have easily ended in legal retortions as mayors are often prosecuted after completing their term.

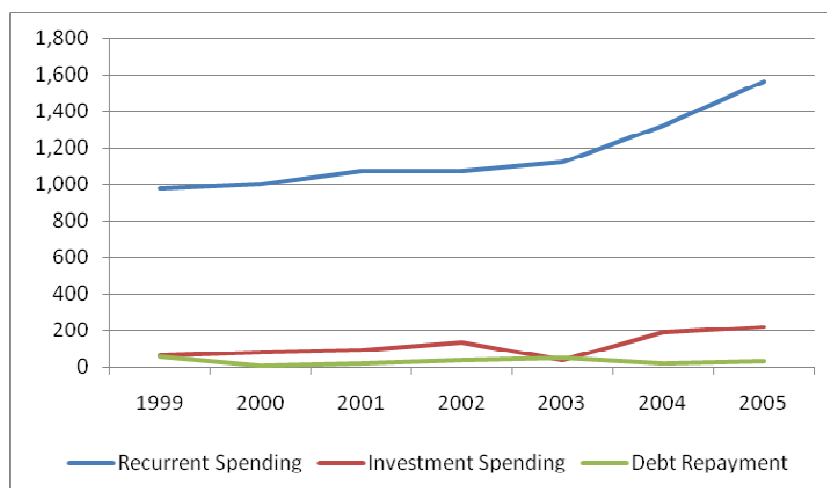
**Graph N° 14: Expenditures out of the Canon transfers (in thousand Soles)**



Source: Contaduria

Other revenues which consist of fines, fees, services provided and mainly user charges for waste removal, park maintenance and local security are used primarily for recurrent expenditures (cost of the workforce, service contracts etc.). Also, in 2004 and 2005 about 200 Million Soles went into investment spending, see Graph N° 15.

**Graph N° 15: Expenditures out of other revenues (user charges, fines etc.) (in thousand Soles)**



Source: Contaduria

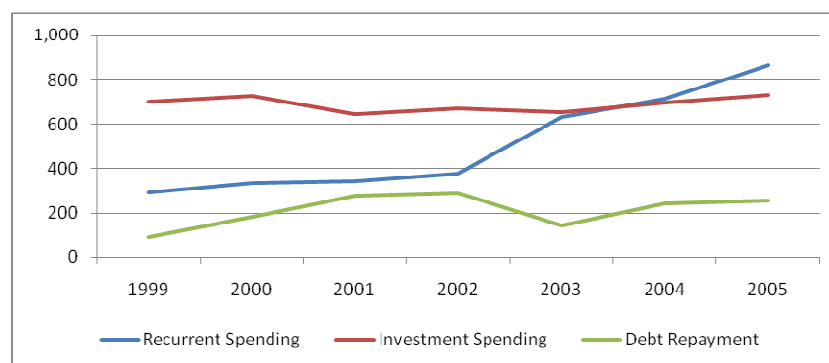
If at all, the substitution effect can be detected in relation to the FON-COMUN where it seems that rising funds go hand in hand with increases of recurrent expenditures (Graph N° 16).



As mentioned, until December 2001 only 30 % was allowed to be used for recurrent expenditures, but since January 2003 the use of the FONCOMUN has been at the discretion of the municipalities. One reason for this reduction was an adaptation to reality: most rural municipalities (if not also receiving funds from the Canon transfer) live essentially from the FONCOMUN and, most importantly, they have almost no other revenue sources to pay for recurrent expenditures.

Probably linked to this liberalization was that the municipalities used more of the FONCOMUN for recurrent expenditures, while investment stayed steady it should be noted that expenditures for debt repayment were less in the first year following this change.

**Graph N° 16: Expenditures out of the FONCOMUN (in thousands of Soles)**



Source: Contaduria

However, it should be noted that maintenance costs of infrastructure are subsumed as recurrent expenditures and that local governments have had to shoulder increasing project preparation costs with discretionary revenue sources such as FONCOMUN. Plus, local taxes, like the windfall transfers out of the Canon, were not allowed to be used for maintenance nor project preparation. As a consequence of this fiscal stress, not unnoticed by policy makers, the budget law of 2006 allowed 20 % of the Canon transfer to be used for maintenance and 1 % for preparatory studies which translates to 260 Million Soles. In 2005, the funds for recurrent expenditures out of the FONCOMUN topped the amount spent in investments (related to raising windfall earning of the Canon!). One additional problem is that local governments were acknowledged to use widely accounting engineering, to make budgets respond to legal obligations. The removal of earmarking

might have made it just feasible to register expenditures where they really belonged.

Looking in more detail at the recurrent expenditures financed by the FONCOMUN, the picture does not confirm an extraordinary increase in a particular sub item. For the four fiscal years until 2003 the structure of the recurrent expenditures did not modify much. In the budget year 2003, there is a noticeable jump covering all four sub items a) Work force and social security b) Pension payments c) Goods and services d) Other items (see Table N° 11).

**Table N° 11: Detailed expenditure out of the FONCOMUN**

	1999	2000	2001	2002	2003	2004	2005
Recurrent Spending (total)	294,945	335,470	345,108	376,857	634,015	714,332	865,349
a) Work force and social security	141,062	150,552	162,749	185,380	287,935	327,648	384,516
b) Pension payments	11,064	31,783	30,993	30,886	57,016	43,823	47,772
c) Goods and services	131,266	124,635	116,655	116,138	218,811	254,325	328,017
d) Other	11,574	28,501	34,711	44,454	70,253	88,537	105,043

Source: Contaduria

Using more FONCOMUN for recurrent expenditures does not necessary mean that this equals the stated substitution effect, but essentially should be interpreted as what it is: an overall increase in salaries and social security (formalization of workforce), pension payments, and goods and services. But, from the point of view of this investigation it should be taken on neutral ground.

### 6.3 Conclusions

The quantitative data available seems to show little sustention to affirm positively a substitution effect over the last five years. While the yield on property tax is low, there are no signs that increases in transfers have had, on average, a negative impact so far. The expenditure structure has mainly stayed the same over the years. Municipalities were using FONCOMUN transfers to increase recurrent expenditures (might include maintenance costs and expenditure linked to project preparation or execution etc.) but with no negative impact on exercising a fiscal effort. Property tax has been rising slowly, hindered by a paulatine erosion of the tax base and various

institutional constraints at the central and local level as well as by line ministries/entities.

Due to the many legal changes, all with supposed big impacts on the incentive structure, a mathematical model seems unfeasible, the relationship between transfers and property tax will be further investigated in the qualitative part of this research project.

The fiscal base of local governments in Peru remains small for the municipalities and this is for many various reasons. These include insufficient local capacity for revenue generation in the majority of municipalities, restricted revenue bases, excessive central control over values and rates, and limited incentives from the central government (cf. Campbell & Fuhr 2004). Municipal revenues are dominated by central resources. It is noteworthy that in general few developing or transitional countries are currently giving local governments sufficient discretion – or responsibility – with respect to property taxes.

It also should be noted that the nature of the property tax makes increases in revenues a long term effort, similar to the much discussed broadening of the tax base at the national level. Nevertheless there exists in Peru a large unused potential for increased property tax collection.

For the time being it might be objectionable but understandable behaviour for local authorities in Peru not to engage considerable resources into the enforcement of property taxes because bases are narrow and have modest yield prospects. The tax base has eroded in the past due to the double connection with: a) the valuation set by CONATA which was offset even by moderate inflation and b) the indexing of the progressive property tax rates to the fast increasing UITs. More or less passively accepting whatever revenue happened to come in might have been the most reasonable approach for most municipalities, but this statement is challenged by the quantitative data.

Up to now the revenue from property tax is at 8 % of total local revenue, quite low in itself and is at the bottom end when compared with yields relative to the GDP internationally. Peru should therefore give serious thought to raising more revenues out of the property tax, especially in view of the difficulties of raising other local revenues. The property tax can enhance accountability at the local level and is also important considering that most

charges or transfers are earmarked such that property tax yields can cover discretionary finances.

Property tax revenues are highly concentrated in urban areas and especially the metropolitan area (high heterogeneity of municipalities). It is no surprise that the geographical areas of the mountain highlands and the Amazonian basin have on average much lower revenues from property taxes (correlating with the higher incidence of poverty). Rural properties might not have big potential; in fact, these are often taxed at a marginal rate or even excluded (informality in semi-urban and rural areas).

Although the blocking of a stronger role for property taxes by vested interests in the current system is not detectable, the situation might better be described as that of relative indifference from the various institutions. While the legal changes in the Decreto Legislativo 776, introduced in 2002 and 2004, potentially improve the tax revenue of the municipalities by (1) eliminating some exemptions, (2) obligating notaries to verify the payments of local taxes before the registering of a new owner and (3) creating the District Cadastre Fund, and (4) modifying the allocation formula (local municipal revenue collection is to be made one parameter of the transfer index).

It is important to mention that in praxis, whether the point (3) or (4) are implemented, it demonstrates little zeal for enacting improvements. There is still plenty of scope for reform and further steps are necessary to increase the significance of the property tax.

The institution responsible for the valuation of property, CONATA, has made some attempts to increase rates (with up to now little success). Modern techniques of valuation like the manual mass valuation approach, and use of CAMA (computer assisted mass appraisal) techniques are still not used in Peru, but have shown that they can produce more equitable, up-to-date values in a transparent, cost effective, timely and sustainable manner.<sup>69</sup> Some mayors argued in the survey (cf. chapter 7) that CONATA isn't always valuating on technical grounds, but rather respond sometimes to particular interests of a given enterprise, for example.

<sup>69</sup> A change of calculations of the assessed value from a multi based index to a more simplified valuation method based on  $m^2$  and area index have shown in some cities good results, e.g. Santa Cruz in Bolivia (Rojas 2004).

For some time, the MEF was experimenting in several municipalities with a cadastre module linked to the SIAF-GL which essentially was a datasheet regarding property tax collection (no georeferential maps were to be used). Apparently this module was showing very favourable results, but this pilot was surprisingly ended in 2007 without extending the software to other municipalities.

Deterrents at the local level must also be addressed. Given the inherent political liabilities of the property tax, sustained improvement is unlikely as long as more politically attractive means of increasing resources are available. The reduction of earmarking of the principal transfer scheme FONCOMUN might be the wrong route and could be counterproductive for their own resource mobilization.

Given the reduced policy options for municipalities, the central government is responsible for enabling conditions (promoting and facilitating revenues from property taxes). Municipalities are limited in their financial and normative means to react responsibly to local priorities. Because municipalities have only a restricted voice at the central level it is observable how the central government institutions are constantly changing the rules of the game, sometimes with dramatic impacts (Canon, Foncomun distribution and use, regulation concerning fines etc.).<sup>70</sup>

70 The last legal surprise came in 2004 when the distribution of the Canon was changed considerably in the middle of the budget year, benefiting some and harming others.

*“Les institutions communales sont à la liberté ce  
que les écoles primaires sont à la science; ...  
Sans institutions communales une nation peut se donner un gouvernement libre,  
mais elle n’a pas l’esprit de la liberté.”*

Alexis de Tocqueville: De la Démocratie en Amérique. Paris 1848.

## **7. Quantitative and Qualitative Analysis of a Set of Peruvian Municipalities Concerning their Fiscal Effort**

The importance of the motivation of local politicians regarding decision making is self-evident: since moral hazard and adverse selection problems in political decision making abound, politicians’ motivation matters for policy choices. These choices depend on whether politicians care about the private rents from office (opportunism), represent the interest of a particular group of voters (partisanship) or base their decisions on broader public interests (cf. Beniers & Dur, 2007).

This chapter is going to analyze if mayors exercise a fiscal effort and on what parameters they base their decisions. It is assumed that mayors have interests in increased revenues from property taxes which can be used as a source for discretionary spending. But, if tax pressure is too high (or corruption is visible) local voters may recall the mandate or vote in the next election for somebody else. Mayors might also think that the potential for property tax is small and not worth bothering their citizens for.

As already stated, the theoretical model used in this investigation focuses very much on the mayor. Regarding interest groups, it has been noted that in this sample local business chambers were not involved because they are not a main actor (the reason might be due to the fact that often in the provinces the chambers are assemblies made up of smaller businesses and that bigger corporations do not use local chambers as a platform). It can be stated as well that the organised and unorganised civil society hardly participates in the discussion of the property tax.<sup>71</sup> The bureaucracy has also a

71 The participation of the civil society in Peru and other Andean countries may often take the form of mobilization or protest in an ad hoc way rather than by formal institutionalized channels.

reduced influence since financial officers are low ranked and predominantly give only technical input. In this context of weak actors, the mayor is the dominant policy maker.

In theory, if taxpayers perceive that their interests (preferences) are properly represented in political institutions and they receive an increased supply of or qualitative performing public goods, their willingness to contribute increases (voice option). Conversely, a municipality in which corruption is rampant is one in which citizens have little trust in authority and thus a low incentive to cooperate. The most important element (and restriction) in the political process of disciplining and selecting politicians is the information that voters have when they cast their ballot.

A more encompassing and legitimate state may be essential preconditions for a more adequate tax system in developing countries. Societal institutions in this sense might be seen as an indicator of the extent to which citizens feel they have a meaningful voice in influencing the state. At the same time, however, the level of taxation can also be expected to be related to the availability of what may be called the 'exit option' of just dropping out of paying local taxes or user charges (at the national level this exit option would refer mainly to the informal economy).

De Mello (2004) provided evidence, in a cross-country sample of developing and developed countries, that the assignment of revenue sources to lower levels of government can be associated positively with social capital and governance. He argues that to the extent that social capital development boosts participation of the citizenry in the policy-making process and empowers the poor through political participation, fiscal decentralization may be an integral part of poverty reduction and healthy development strategies. The author recognizes that the statistical association between social capital and fiscal decentralization can be affected by reverse causality. Decentralization is found to be a determinant of social capital, but it is also likely to be affected by it.

Contrary to the above stated reasoning for social capital, state institutions are perceived by Peruvians often as simply negative, they do not expect very much from their politicians, congressmen, judges, mayors etc. Even if the local level of government is trusted more than most central institutions

(based in the surveys), there exists from a large part of the population a general perception that mayors rob what they can and try to make the most money possible during their term (this is often even expected because candidates have to invest heavy sums for the election campaign and some mayors might want to recover this investment).<sup>72</sup>

Property tax is a complex issue and citizens are apparently not sufficiently familiar with the relevant implications and trade-offs (cf. Sørensen, 2002 even argues this in the case of the Norwegian property tax). Several studies on public finances point out that citizens who pay property taxes are underestimating the cost for services provided to them (in the literature known as “fiscal illusion”, (e.g. Buchanan 1967; Sausgruber & Tyron 2005): to the extent that tax payers consistently misinterpret how much they really pay for public services/public goods, which might end in demanding ‘too much’ public expenditure). And, according to the widely discussed “Mill hypothesis”, the tax burden from indirect taxation is underestimated because indirect taxes are less “visible” than direct taxes (Mill 1994).

Local governments in Peru have no choice concerning tax rate settings. Moreover, the property valuation is framed into a given index provided by CONATA. Mayors do not collect directly more property tax through improved service provisions and, only indirectly, if CONATA transmits these improvements in the value of the land and the building (something that normally should not be taken for granted). This investigation concentrates through which incentives/disincentives the local choice is affected. As municipalities have the means to actualize property values, the tax register and reduce the tax arrears.

It is obvious that at the local level exist serious shortfalls concerning the capacity and technical expertise of administrations to handle the property tax. The tax collection ratio, which measures the share of property tax levy (property tax bills sent to taxpayers) compared to that which is actually paid

72 There is little information of how big the financial investment is for a Peruvian election. Some insiders indicate that a candidate for a position of a mayor has to spend somewhere between US \$ 10,000 and US \$ 25,000, for a seat in the parliament about US \$ 45,000 without a party and around US \$ 30,000 with a known party backing him. These sums are made up of gifts, organization of events, propaganda etc.



is below 50 % for most municipalities (the same is valid for charges). In the following years overdue payments bring the payments close to 90 %, meaning that about 10 % of the property tax is not collected. The annual tax amnesty is a given praxis in many municipalities and widely expected by taxpayers. Overdue taxpayers are normally not financially punished (no fines, no interest rates), so that it is tempting for those who still pay in a timely manner to postpone their payments. Poor performance and little local authority means that citizens perceive local taxes as the least urgent financial obligation. Local administrations tend to be characterized by apparent incompetence, high turnover, non-merit based selection of professionals (it is still all too common that an incoming mayor changes a large part of the municipal personnel), and salaries that are not competitive enough (compared to the private sector) to attract qualified staff. Tax enforcement does not only have an administrative cost but it may also have a political price, so that some mayors who are more devoted to popularism than to long term goals might try to avoid the collection of taxes. Finally, poor performance also reflects a local government's greater vulnerability to local political pressure – “a case of political responsiveness acting in the guise of technical incompetence” (as noted Dillinger 1991: 30).

## **7.1 Classification of Municipalities regarding Fiscal Revenues**

As mentioned in the methodological chapter this investigation concentrates principally on municipalities with annual tax revenues above 300,000 Soles (93,000 US \$). To be able to compare property tax revenues between the 36 selected sample municipalities (for geographic location see map in the Annex: Figure N° 2 and N° 3), the property tax revenue is used as a proxy (baseline 2005) divided by the number of habitational and commercial units (*Vivienda particular y establecimientos*) in the respective municipality, which finally gives us the property tax collected per habitational/commercial unit (see Table N° 13 in the Annex). The source of information for the number of habitational units in a given district is taken from the Census of 2005 which has detailed information. Similarly, it is possible to compare fiscal transfers by correlating those to the population of each municipality, which gives us a fiscal transfer/per capita as the result (cf. Table N° 12).

**Table N° 12: Property tax per habitational unit and fiscal transfers per capita in 2005  
(in Soles)**

MUNICIPALITIES	Property tax per habitational/ commercial unit	Transfers per capita	Only Transfers of FONCOMUN and Vaso de Leche per capita
Abancay	22	92	89
Arequipa	451	144	133
Baños del Inca	39	662	88
Cajamarca	61	408	97
Callao	227	122	44
Cañete	83	102	81
Chiclayo	114	72	72
Chincha	80	91	87
Coronel Portillo (Pucallpa)	27	175	113
Cusco	90	157	107
Ferreñafe	37	138	138
Huamanga (Ayacucho)	39	55	47
Huancayo	133	145	141
Huaraz	64	198	105
Ica	69	87	70
Ilo	187	422	57
Imperial	42	60	43
La Matanza	10	176	97
Lima	343	203	202
Mariscal Nieto (Moquegua)	25	522	40
Maynas (Iquitos)	84	195	135
Monsefú	9	57	57
Pisco	63	83	71
Piura	106	125	124
Leoncio Prado (Tingo Maria)	35	71	71
San Isidro	1265	11	11
San Juan de Miraflores	65	52	51
Santa (Chimbote)	113	79	57
Santiago de Surco	347	13	13
Tacna	117	103	33
Talara	107	293	63
Trujillo	153	55	53
Túcume	4	85	85
Tumbes	35	158	87
Ventanilla	23	182	59
Villa El Salvador	55	63	61

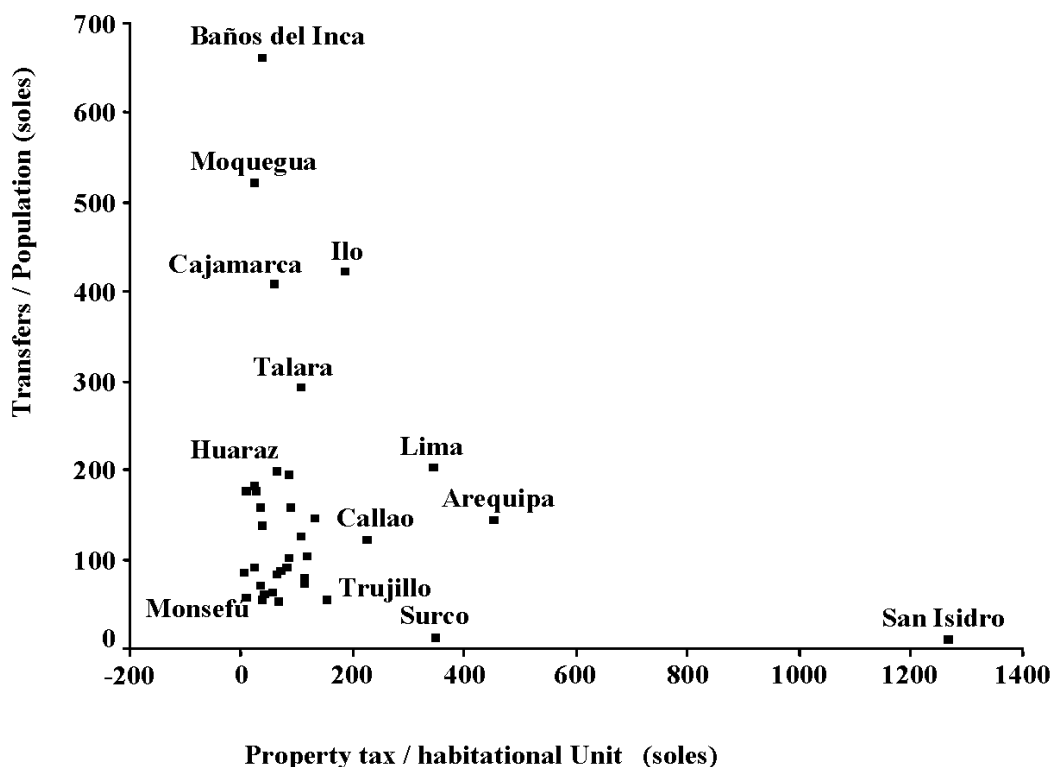
Source: Contaduría General de la Republica; SIGOD; INEI 2006.

The table shows that there exist big differences between the municipalities not only concerning the revenues out of the property tax (the range goes from 4 to 1265 Soles) but also concerning the fiscal transfers which have a population criteria in its distribution (FONCOMUN and Vaso de Leche) with a range from 11 to 202 Soles/per capita. Taking overall transfers into account, this dispersion rises strongly (11 to 662 Soles/per capita). These statements are not affected by other local taxes, because the property transaction tax and the vehicle tax are both strongly concentrated in Lima/Callao.

The result for each municipality is visually demonstrated in the scatter diagram Graph N° 17 and allows classifying groups of municipalities with similar fiscal features. The small Andean municipality of Baños del Inca in Cajamarca receives 662 Soles for each citizen as fiscal transfer, whilst having a property tax bill of only 39 Soles per habitational unit. On the other extreme, we have the district of San Isidro (harboring the financial center of the country) with a property tax bill of 1,265 Soles per habitational unit and only 11 Soles in transfers. A basic typology of four groups can thus be made:

- a) Municipalities which are able to register high property tax revenues per habitational unit, but receive low fiscal transfers (eg. Surco, San Isidro)
- b) Municipalities which receive high fiscal transfers, but show low revenues out of the property tax (eg. Baños del Inca, Moquegua, Cajamarca and Talara)
- c) Municipalities with important property tax revenues and also significant fiscal transfers (eg. Lima, Arequipa and Ilo)
- d) Municipalities with low property tax revenues and low fiscal transfers (eg. Leoncio Prado, Huamanga, Imperial, Monsefu)

Graph N° 17: Total Transfers per capita in relation to property tax per habitational unit (2005)



This classification does not automatically translate in detecting in a given municipality a fiscal effort or fiscal laziness, which will be shown in the following qualitative assessment: The theoretical model used in this investigation permits us to address and analyse policy issues on a more individual basis. While most municipalities have their special characteristics and mayors react to these and the political culture that goes with them, it was possible to abstract a set of typical patterns for mayors.

The semi-structured interviews of the sample were processed and compared with detailed financial data of the respective municipalities. Several ways of presenting the information were plausible. It would have been possible to differentiate only between a) rural municipalities, b) municipalities with high transfers, c) urban municipalities and d) municipalities with SATs. However, to illustrate the research results in a more purposeful manner and as a pure reflection of the high heterogeneity, a mapping was undertaken which further differentiates the municipalities into eight principal types. An elementary rating consisting of four grades (very strong/very high, strong/high, neutral and low/negative) was used. As already mentioned in the me-

thodical part, this investigation uses an adapted version of the PMT theory – the general remark applies here that what ever model used here is the simplification of the more complex municipal or personal reality.

The three appraisal strings (problem, incentive and constraint) are then assessed in the coping strategy (cf. the illustration of the model in Graph N° 2). The combination of the several appraisal strings result in different outcomes/patterns: there might be a fiscal effort exercised without having the actual need (low severity); or the intention to engage in property tax collection is focused on *rational problem solving*; or *fatalism* when a mayor is aware of a problem but is not able to improve collection or does not want to try because constraints are strong; or finally, *wishful thinking* if a mayor does not have a problem with actual property tax revenues or is not able to see a problem in reduced revenues. It is argued that mayors make their decision based on their personality, with regard to the particular context of their municipalities and incentives/constraints from the outside.

The inherent ratings undertaken in this section have to be understood in the context of the particular purpose of this investigation and it should be acknowledged that putting emphasis on other policy areas might result in different outcomes. A schematic overview is depicted in Table N° 14.

Further detailed financial data for each municipality in the survey can be found in the Annex.

### 7.1.1 Type 1: Well Advanced, Consolidated Metropolitan Municipalities

These municipalities, unlike others, do not have to master serious shortfalls in basic infrastructure because they are well consolidated as older metropolitan areas. These districts were previous residential areas which benefited by the move out of the inner Lima city centre of services and financial institutions.

#### Property Tax Revenues 2001–2005 (in Soles)

Municipality	Prov.	Dist.	2001	2002	2003	2004	2005
San Isidro		X	15,677,781	17,410,701	21,034,788	22,619,954	25,172,008
Santiago de Surco		X	17,259,162	21,281,819	24,102,283	27,363,064	26,394,298

### ***Risk/Problem Appraisal***

**Severity:** The property tax is the main revenue source; these municipalities get little from fiscal transfers (11 Soles per capita in the case of San Isidro and 13 Soles in the case of Surco), meaning that fiscal transfers contribute to less than 4 % of the municipal budget. Therefore these municipalities have to essentially be financially self sufficient. The property tax finances current expenditures (an important item is wages), discretionary finances, maintenance and participate also in investment expenditure. The municipal services are cost or almost cost recovering (receiving some subsidies).

San Isidro collected about 1,265 Soles per habitational/commercial unit in 2005 (this impressive amount is biased on the fact that this district is the financial centre of the country with lots of banks and enterprises paying high amounts) and Surco 347 Soles per unit. In both districts the property tax rose throughout the years; former municipal administrations had already started (budget years 2001 and 2002) to raise property tax collection and this trend continued up from 2003 with the new administration. On average the revenues of property tax were raised by 10 % per year. These municipalities survive predominantly from the property tax revenues and it is no wonder that mayors express that they perceive the issue of property tax as very important. Therefore, the severity is very high.

**Political Vulnerability:** Mayors of these types of municipalities are assessed predominantly on the quality of services the municipality is providing. The constituency consists of middle and high-class urban areas, citizens are more likely than in other districts to be people with influence. Interestingly, there was an intent in the past to make these better-off citizens contribute financially (by a betterment levy) to major infrastructure projects which were directly benefiting them. This experiment failed in the 90's (Calderon 2001). Citizens in poorer neighbourhoods were more likely to accept and contribute financially (for bigger infrastructural needs) and were not as fast to respond with lawsuits (partly because they were unable to afford it) or political pressure. Residential areas are also primarily against densification (construction of multi-family buildings), which can result in extra revenues for the municipality through building licences and more taxpayers. Therefore, the political vulnerability is neutral to strong.

### ***Incentive Appraisal***

**Self-definition/Identity:** These mayors orientate their policies around providing services and try to be in constant dialogue with their citizenry. Mayors are more inclined than their peers to be inclusive and transparent in their management model. Mayors of the districts of Metropolitan Lima were relatively well paid professionals with salaries of about 5 to 6 thousand dollars.<sup>73</sup> The mayors in our sample were not questioned concerning their management. They identify themselves as being responsive and reform orientated managers. Therefore they possess a rather strong impetus for modern types of public management.

**Response and Self-efficacy:** As stated, citizens are likely to be affluent in Surco and San Isidro (middle and high class). Mayors argue that citizens are rather eager to comply with financial obligations. The municipalities are working hard on reducing tax arrears, which is not such a big problem as in other municipalities. The local public administration is well established and compared to other municipalities, the staff is professionally well prepared and the tax office is user-friendly. These municipalities are able to manage the fiscal stress in this given context; therefore the response and self-efficacy is high.

### ***Constraints Appraisal***

**Response costs:** The tax assessment by the municipal financial cadastre is functioning well, tax offices are well staffed, have modernized computer systems (financial software administers revenues) and the tax database is actualized in a permanent manner. In the future, increased revenues out of the property tax will have to come more and more by increasing urban density (which increases the number of tax payers) and ,prospectively, by increasing rates or valuations (as property tax is perceived to have reached a level where further increases will be harder to obtain). Response costs are for the moment rather low.

**Institutional constraints:** A big problem is seen in the valuation given by CONATA. Both mayors were negotiating with CONATA about a reassessment of the property valuation, but without much success. Increases in

73 An executive decree reduced salaries for mayors in April 2007, as part of an attempt, seen by some political analysts as highly populist, to reduce the public sector wage bill.

user charges are not identified by mayors as an alternative to property tax for two reasons. First, user charges are connected to the service provided and potential financial gains are not allowed to be used for other destinations and also most services are already cost recovering. Second, the Constitutional Court in mid 2005 challenged the given praxis that user charges were linked to the valuation of property, since then user charges have to be calculated on the real cost for providing these services and the valuation of property may be of only one parameter.<sup>74</sup> Both municipalities are complying with the legal obligation to transfer CONATA 0.3 % of the property tax revenues and use five percent for the development and maintenance of the cadastre (municipalities subsume administrative costs as part of expenditure related to the cadastre). The exonerations given by the Tax Code are identified in these districts as effectively limiting the property tax potential. The institutional constraints are recognised by these mayors as a big problem.

**Synthesis:** These district municipalities of the central metropolitan area demonstrate an important fiscal effort and show a permanent assessment and actualization of property values. Mayors correctly perceive that their municipalities are heavily dependent on the property tax because they receive only minimal fiscal transfers. The FONCOMUN distribution formula is not advantageous to them because the basic infrastructure gap is relatively low. But later on, the financial needs for upscale and qualitative far-reaching infrastructure are significant (eg. most district streets have potholes). These municipalities have well functioning sophisticated cadastres for fiscal and planning use. Mayors only have the property tax to raise revenues. Their identity of modern public administrators is supportive to their fiscal effort. They have the professional clout to argue with the CONATA for a reassessment of valuation and as interviews showed they are trying to coordi-

74 This decision in mid 2005 of the Constitutional Court proved to have very unfavorable consequences. After the legal verdict municipal revenues from user charges dropped substantially because citizens questioned the legality of their bill for user charges. Municipalities were asked to recalculate the price of their user charges in the middle of a budget year. Through this decision user charges were actually made more regressive (to the disliking of municipalities) because while user charges were linked before to the value of a property (more valuable properties paid higher user charges), now these were calculated on the real costs involved.



nate reassessments with CONATA. Interestingly, the principal tax officer of San Isidro even argued in favour of a raise in the tax rates to increase revenues (in the whole survey almost everybody else was arguing to maintain the current tax rates).

### 7.1.2 Type 2: Metropolitan Municipalities in Process of Consolidation

The second type consists of metropolitan municipalities which are still in the process of urban development and consolidation on the periphery of Lima, which generally had their origins as “pueblos jóvenes” (urban settlements created in the last half century).

#### Property Tax Revenues 2001–2005

Municipality	Prov.	Dist.	2001	2002	2003	2004	2005
San Juan de Miraflores		X	2,841,762	2,520,278	2,759,496	4,014,331	4,619,346
Ventanilla		X	1,407,776	1,340,982	1,872,489	1,864,960	2,054,055
Villa El Salvador		X	2,354,554	2,491,351	3,492,177	3,813,778	4,321,249

#### *Risk/Problem Appraisal*

**Severity:** The mayors of these districts have to master serious shortfalls in basic infrastructure. Municipal services have to be subsidized and need to be improved. The lack of financial funds is the main problem for these rapidly urbanising areas. The municipalities inside this group have until now reduced property tax revenues between 23 and 65 Soles per habitational/commercial unit; the regular transfers are (in the range of 51 to 61 Soles per year/capita) also not very substantial compared to their enormous financial needs. The tax arrears out of the property tax in these three districts are between 25 to 40 % (up to 80 % in unconsolidated urban settlements). All together there exists a huge financial gap; therefore, the severity is very strong.

**Political Vulnerability:** Citizens are urgently requesting more public investment and, therefore, mayors are assessed regarding their ability to improve basic infrastructure. The interviews showed that mayors know that their re-election chances depend very much on their performance in this particular policy area.

Due to the rapid urbanization through the migration process, the citizenry in these districts are more likely to be rather new in Lima (often their homes were built on illegal land possessions). And, their social cultural

background is very different to the well-off districts of the type N° 1. To illustrate the particular political culture it might be helpful to refer to the municipal building of Villa El Salvador where some frescos of these land possessions in the 60's might be seen. These possessions created the district in the first place: citizens are shown with arms in the air, challenging authorities, making their voices and needs heard.

Also, citizens may ask for personal assistance/aid from the mayor (municipality) in certain situations (eg. a funeral, sickness, ...). Therefore, the political vulnerability is rather high.

### ***Incentive Appraisal***

**Self-definition/Identity:** Mayors of these districts are burdened with the many problems of the urbanization process. They see their main role in the delivery of more/new public infrastructure and trying to create and improve urban services. They act responsively with their identity as mayor very much analogous to the principal wishes and needs of the citizenry.

**Response and Self-efficacy:** Mayors are aware of the limited fiscal base for property tax in these districts, but they believe that citizens are willing to have property taxes increased. In the last few years new user charges were introduced in the districts of Ventanilla and San Juan de Miraflores concerning local security and public parks (Villa El Salvador has only recently introduced a user charge for local security, but for a few years it has had a user charge for public parks). Moreover, citizens of these semi-informal urban areas are (as characterized by the mayors) as astonishingly prone to paying their property tax because they receive, in turn, a kind of legal recognition for their property. Still, the mayors are well aware of the fiscal restrictions their citizens live in.

The management of the property tax is relatively weak and reduces the self-efficacy: The administration, which can use the mayor to fulfil its goals, is not as professional as it would be hoped for. And, as it was observable in Villa El Salvador and San Juan de Miraflores, it sometimes even lacks basic computer hardware. It is also important to note that the actualization of the property data isn't managed on a regular basis. Response and Self-efficacy is low to strong.

### ***Constraints Appraisal***

**Response costs:** The political cost to exercise fiscal pressure on their citizens is not seen as a main problem. Mayors argue that paying property tax is a legal obligation. Also due to the fact that CONATA is providing the valuation – they can feel or present themselves as mere administrators. Mayors also judge the benefits of improving public infrastructure or services as very important. Normally, they do not seem to recognize that there might be a big political cost in asking for due payments.

Through improving tax culture, assessing property values and reducing tax arrears the municipalities are trying to collect more property tax. Mayors have hardly any other option than to improve property tax revenues hand in hand with the collection of user charges. The potential tax base is increasing through the urban consolidation process that makes it feasible to increase revenues year for year. The administrative cost of introducing a better cadastre might be high but mayors are for the moment content with relatively homemade databases as a fiscal cadastre. The response cost is rather low.

**Institutional constraints:** The valuation given by CONATA is seen as a big problem. Mayors believe that assessed values compared to marked prices are between 30 to 100 % behind. In the interviews given, mayors mentioned that they looked for contact with this institution concerning reassessments but their solicitation was not received. The mayor of Ventanilla, as part of a selective assessment, is trying to make the huge facilities of an oil refinery inside the jurisdiction of his district pay more, but CONATA, which has to raise the valuation, is not following suit. The municipality was presenting this case to the Fiscal Court, but it is perceived by the municipality that the Court will favor the interests of the refinery.

Property tax exonerations for the pensioners in these districts, with the exception of San Juan de Miraflores due to their recent institutional nature, are of no big concern.

The municipalities are only partly complying with the legal obligations to transfer CONATA 0.3 % of the property tax revenues and to use five percent for the development and maintenance of the *cadastre*. Institutional constraints are perceived by mayors as hindering an increase in property tax.

**Synthesis:** These municipalities generally had their origins in the so called *pueblos jóvenes* (or informal urban settlements which are situated on the outskirts of the metropolitan area), since then they are in the process of consolidating themselves. Property tax does not generate big revenues but even these reduced revenues are very important for these municipalities. These districts still lack basic infrastructure and therefore receive relatively more fiscal transfers out of the FONCOMUN than their more developed neighbouring districts.

As part of the department of Callao, where all municipalities receive a share of the tariffs collected in the main harbour situated in this area, the district of Ventanilla has considerable revenues out of transfers (182 Soles per capita), but as mentioned, the mayor still perceives the fiscal gap as huge.

The mayors of these districts showed a continuous fiscal effort and they argued that while the tax potential is only rising slowly the necessity to increase revenues is so huge that literally every Sol counts. All municipalities assessed inside this group were able to show considerable increases in the revenues out of the property tax during the last few years. Mayors are putting a lot of emphasis in cultivating a tax culture and educating their citizenry about concepts of the property tax. These mayors were conscientious of the involved trade-off, trying to give incentives to their citizenry by prioritising public infrastructure works in sectors which complied with their tax obligations and, by the like, giving discounts for punctual payments. Their fiscal *cadastres* are incomplete and partial. In general, mayors mentioned preferring to exercise fiscal pressure on commercial or more developed areas in their jurisdiction (selective assessment).

The mayors of these districts pursue annual revenue increases, but are also aware that they can hardly shoulder the enormous infrastructural investments in their jurisdiction out of the financial means they have. Consequently they are betting (and trying to lobby) on the financing of basic infrastructure by line ministries as the only alternative to close the financial gap.

### **7.1.3 Type 3: Regional Centre, Modern Management Structures**

These municipalities are capitals of departments and were already constituted as provinces in the 19<sup>th</sup> century. They are less consolidated than their equivalents in Lima, but they have started to become once again increasingly

powerful regional centers of economic development. Ica, which is a regional centre a few hundred kilometres south of Lima, and Trujillo, a few hundred kilometres north, are watching a boom of export led growth, principally in the agricultural sector (grapes, asparagus, paprika etc.).

#### **Property Tax Revenues 2001–2005**

Municipality	Prov.	Dist.	2001	2002	2003	2004	2005
Huancayo	X		2,735,938	3,431,827	2,802,574	3,234,098	3,504,453
Ica	X		951,334	n. n.	1,433,877	2,220,563	2,127,370
Piura	X		4,928,686	5,667,923	5,880,250	5,863,814	6,100,549
Trujillo	X		7,726,386	8,217,429	9,011,060	9,216,524	10,179,607

#### ***Risk/Problem Appraisal***

**Severity:** These mayors have to master serious shortfalls in basic infrastructure. Municipal services have to be subsidized to be improved. Also, they have inherited a rigid budget structure, which is characterized by high administrative and provisional costs. Property tax does generate relatively important revenues for these municipalities. These municipalities receive fiscal transfers of relative importance but financial needs are far bigger. The severity is therefore very strong.

**Political Vulnerability:** Mayors do not seem to be confronted with a high political vulnerability as they are recognized as leaders in their jurisdictions. Citizens ask just as strongly for infrastructure projects as in other municipalities. Mayors mentioned they perceive a stronger rejection toward user charges than towards property taxes. The political vulnerability is rather low.

Until 2003, Ica was for years a struggling municipality with very poor public services, the administration 2003–2006 has been acknowledged with improving these conditions.<sup>75</sup>

#### ***Incentive Appraisal***

**Self-definition/Identity:** The mayors interviewed demonstrated skills as capable managers and are result orientated (to a lesser extent in Piura). They gave the impression that they wanted not only to be remembered as passing by the municipal chair but were personally interested in increasing

75 The backing of the citizenry was high. This mayor who campaigned in 2002 on an independent ticket was not looking for reelection at the end of 2006.

the performance of their municipality.<sup>76</sup> These mayors were also open to discussing (and actually were trying) contracting out municipal services as a possible way to enhance the quality of the services provided and reduce municipal liabilities (privatising is in Peru as in other LAC one of the more controversial and contentious issues). Their self definition is very supportive of reform.

**Response and Self-efficacy:** Mayors are well aware of the relatively reduced fiscal revenue base of their jurisdictions. Relative to the infrastructure gap which these municipalities face, the municipal revenues are far from satisfactory. Anyway, the strategy these mayors are undertaking consist of improving the financial management by increasing the cost recovery of user charges (reduce the need to subsidise them), raise the property tax revenues at the same time, favour private sector participation in local infrastructure investment and lobby for expenditure allocation by line ministries. These mayors can count on very important extra revenues out of the utilities made by the municipal owned saving banks (CMACs), another important innovation concerning municipal finances. Municipalities can withdraw up to 50 % of the annual utilities (in a trade-off between increasing capital stock and municipal investment needs). In the case of Huancayo, the CMAC transferred about 1.2 million Soles in 2005 and around 3.2 million Soles in 2006 to the municipality which are amounts comparable with their property tax.

The self-efficacy was increased in the case of these municipalities by a very interesting innovation: the creation of semi-autonomous tax agencies (SATs). For a more extensive discussion see Chapter 7.2.1). Mayors were well aware that the traditionally staffed municipal tax offices (low paid, bureaucratic, non-transparent, poorly qualified ...) were part of the problem. Through this management innovation these mayors greatly enhanced their self-efficacy by finally handing the responsibility over to the CEO of the SATs and paralleling this with powerful self-financing incentives. Moreover, they got rid of the political and administrative puzzle of being dependent on poor administrative organs and low paid public employees. Therefore the response efficacy can be rated as very high.

76 By chance or coincidence, the mayors of Trujillo and Huancayo were given credit for their administration. The former was elected as regional president of the department La Libertad. The latter is now heading the management of the huge and problematic National Security System.

### ***Constraints Appraisal***

**Response costs:** For these mayors the public policy chosen by creating SATs had several implications. The mayors were translating the administration of local taxes, fines and user charges to the SATs but still institutionally oversaw the SAT management (the CEO is named and sacked by the mayor). The administrative costs of the SATs (cf. Table N° 8), which are 5 to 10 %, are reducing the net revenues of the municipalities but when compared with the administrative cost of a line municipal tax office are still not too unfavourable. Mayors offered former employees of the tax offices the chance to be assessed in a competitive exam or to be taken over by other municipal departments. The response costs were high at the very moment of the creation of the SAT's, but now seem to be rather neutral.

**Institutional constraints:** The mayors declare that their self-efficacy is constrained by the restricted policy options concerning valuation and tax rates. The CEOs of the SATs were noted to have asked unsuccessfully in reiterated ways for reassessments by CONATA. The exonerations of pensioners are also somehow limiting the self-efficacy, as an estimated 20–30 % of households get a waiver. Sub-valuation is estimated to be 30–50 % of the commercial values. The mayor of Huancayo has also argued for giving municipalities the possibility to increase tax rates to improve autonomy. Mayors and CEOs of the SATs perceive that they are constrained in a similar way.

**Synthesis:** These provincial municipalities are important regional centres and demonstrate a rigorous fiscal effort concerning the property tax and also concerning user charges because of the profound fiscal needs they have. The basic infrastructure gap and the subsidizing of municipal services make property tax an utmost important revenue base. It seems that these municipalities were able to manage the fiscal strain in a given context rather well. Compared to the better-off metropolitan districts they still lack much basic infrastructure and therefore receive relatively more fiscal transfers out of the FONCOMUN. Property tax does generate relatively important revenues for these municipalities but it is still far away from being able to close the infrastructure gap. The fiscal transfers are not unimportant: in the case of Trujillo around the same amount is received in transfers as all the taxes the municipality is collecting together (fiscal transfers are 55 Soles per capita). Meanwhile Huancayo receives – with 145 Soles per capita – almost triple in

fiscal transfers. Ica is actually collecting with 69 Soles per habitational unit relatively little in property tax, but this is explained by the fact that this municipality was known for many years as particularly mismanaged (waste in the streets, interruptions in the providing of drinking water, corruption etc.). Ica's property taxes under the entrepreneurial minded mayor (2003–2006) were increasing year to year but, at the same time the mayor was mindful of the collective memory of his citizens.

These mayors are very much management orientated, reform minded and possess important skills as communicators. The mayors of these types of municipalities were pursuing a management reform, eg. by creating semi-autonomous tax agencies, mainly because they were aware of the particular weak municipal administrations. The municipalities were also at the forefront with another financing mechanism which consists of creating municipal owned local savings banks (share of utilities are almost as important as property tax in the case of Huancayo).

While the property tax of 133 Soles per habitational/commercial unit in the case of Huancayo, 103 Soles in the case of Piura and 153 Soles in the case of Trujillo are considerable revenues for Peruvian municipalities, mayors and the CEO of the SATs mention that there still exists a big potential for further increases but they are limited by different institutional constraints (cf. Box N° 2: Institutional Constraints).

All of the SAT's put much emphasis on cultivating a tax culture and being tough on outstanding payments, which is known in Peru as "*cobranza coactiva*." The constitution of an SAT may be taken as a strong signal alone concerning the will to exercise a fiscal effort, as it means for a given mayor to engage in significant public sector reform which might be unpopular to his citizenry and administration (this is especially true in the case of Trujillo where the mayor introduced a SAT as early as 1997).

The SAT's do not receive extra political alignments by mayors but rather are asked by them to comply with the tax collection conforming to the law. SAT's can manage their tax and user charge assessment in an independent way, but the fixed share of the collected revenues is an important incentive. The fiscal *cadastres* of the SAT's are comparable with those of metropolitan districts like San Isidro or Surco (permanently actualized).



#### 7.1.4 Type 4: Municipalities with Adverse Identity Incentives which Result in Little or no Important Tax Pressure

This group is formed by municipalities with little or no important tax pressure and with important or relatively important fiscal transfers. A few mayors state that increases in property tax are pursued, but in reality, local public policies show a different picture.

##### Property Tax Revenues 2001–2005

Municipality	Prov.	Dist.	2001	2002	2003	2004	2005
Arequipa	X		5,920,406	7,389,370	7,570,212	7,515,142	7,710,847
Cañete	X		874,061	773,702	941,088	939,789	998,039
Cusco	X		2,351,129	2,050,227	2,542,869	2,354,086	2,548,237
Imperial		X	334,269	339,894	331,084	403,379	361,000
Maynas (Iquitos)	X		2,702,949	2,781,247	1,838,950	2,140,349	2,668,703
Rupa Rupa (Tingo Maria)		X	595,322	544,503	525,676	655,609	481,489

##### *Risk/Problem Appraisal*

**Severity:** Some municipalities in this group have important revenues out of some unique source. Arequipa has extra revenues out of the local savings bank (revenues are about the same amount as property taxes) However, it has been negatively affected by a modification of the national tax code which changed the allocation formula and allowed one mining enterprise situated in the region to use accelerated investment write-offs, which resulted in reduced Canon transfers. Cañete is benefitting greatly by the property transaction tax *Alcabala*, as one district (called Asia) inside this province has been chosen as the new favourite summer residence for the upper class society of Lima. The provincial municipality receives the sprinkling of tax revenues out of many property transactions and this tax collects more than the property tax. Cusco, as an international tourism centre, collects about 4 Million Soles a year as a tourism charge which is about 50 % more than the very low property tax.

Nevertheless municipalities still have far stronger financial necessities, which can only be covered partly by these extra revenues. The basic infrastructure gap is as evident as in other municipalities; municipal services have to be subsidized and are in need to be improved. Mayors have acknowledged in the interviews that the severity is high.

**Political Vulnerability:** The political vulnerability in these municipalities does not differ much from the average Peruvian municipality. Citizens

ask chiefly for public investment by the municipalities. In Cusco and Arequipa, which are important traditional centres and are more consolidated in their urban development, the mayors are also more active in areas like regulating the inner city traffic, formalizing businesses and city planning. The political vulnerability is strong.

### ***Incentive Appraisal***

**Self-definition/Identity:** Most of the mayors of this group had all made the decision to campaign for re-election later on in the year when these interviews were held. They were, obviously, not big reformers nor output orientated managers. In their understanding they wanted to implement public infrastructure, but without harming voting citizens too much or at all. The delivery of public services for them was important, but not at any price. They were rather trying to satisfy needs. Therefore, it can be assumed that their self-definition or identity is not particularly helpful to exercise a fiscal effort.

**Response and Self-efficacy:** The interviewed mayors are heading municipal administrations which are riddled by low performance. In not one of these municipalities was a constructive far reaching public management reform implemented. Mayors declared that they were somewhat innocent as they had to live with overstuffed and poor professional capacities which they inherited from former administrations. The mayors are aware of a poor response efficacy and some of them help themselves with fatalism.

### ***Constraints Appraisal***

**Response costs:** The response costs are high as municipalities inside this group show a low performance concerning their tax administration and lack a proper *cadastre*. The mayors of the municipalities of Arequipa, Cusco, Iquitos, Tingo Maria and Cañete are avoiding a perceived political cost of collecting more property tax.

The actual tax revenue is low compared to the tax base and the commercial activities in these regional centres. In the fiscal year 2005, Cusco collected only 90 Soles in property tax/per person, Iquitos 84 Soles and Cañete 83 Soles. The fiscal transfers for these municipalities are in the range between 102 Soles (Cañete) and 195 Soles (Iquitos). A high response cost seems to negatively influence a decision to exercise a tax effort.

**Institutional constraints:** The valuation given by CONATA is seen as a serious problem only in the case of the municipality of Imperial, where the

valuation is apparently only 20 % of commercial values (the mayor mentioned that his municipality has no possibility in influencing valuation). The other mayors do not detect institutional constraints but rather argue that they are constrained by the low fiscal compliance by tax payers.

**Synthesis:** These provincial municipalities demonstrate a certain fiscal laziness concerning the property tax. This observation can also be made concerning user charges. Compared to the three types of municipalities described before, this group differs the most concerning the incentive appraisal. Mayors seem, due to their self-definition, not to be sufficiently eager to ask for more tax money because it is evident that the tax base would permit higher tax returns. The perceived political cost of exercising a fiscal pressure is not seen as sufficiently rewarding under the context that the municipalities may have more or less important revenues out of other sources (eg.: local saving banks in the case of Arequipa, Iquitos and Cusco; the Canon in the case of Iquitos; the property transaction tax in the case of Cañete; and a special charge on tourism in the case of Cusco).

Some mayors just might not be willing to make any decisions at all concerning fiscal effort; – they have inherited a poor functioning property tax regime and just continue with it, demonstrating apathy.

Arequipa which shows high property tax revenues per habitational unit at 451 Soles (in our sample only San Isidro is collecting more) still has more potential (their regional GDP is the highest in Peru after Lima, far exceeding that of other regions and the urban area of Arequipa is very prosperous). The municipality also transferred into its accounts twice the amount from its savings bank than it did from what it received from property tax in 2006.

Nevertheless, the mayor of Arequipa was interested in creating a SAT in his jurisdiction, he even contracted the services of another SAT to give technical assistance in the implementation period, but after protests by the local media and population he moved back from this policy, which might indicate that this mayor wished to exercise a stronger fiscal pressure, but was viewing his actual tax administration as of little help (response costs and self-efficacy is low). This mayor also started to charge his citizens from the fiscal year 2005 onwards for local security that was always delivered but not charged for.

Iquitos and Tingo Maria, as emerging municipalities in the Amazons basin, have some special features concerning political culture, identity of

mayors, etc. which can be taken as representative for other municipalities in this geographical region. Both mayors showed no real interest in exercising fiscal pressure.

### 7.1.5 Type 5: Municipalities with High Response Costs or Low Response Efficacy

Most municipalities in this group<sup>77</sup> do not have a *cadastre* as a tool to improve property tax and the tax administration is not very professionally orientated. Nevertheless, the mayors have stated a dedicated interest to improve property tax revenues.

#### Property Tax Revenues 2001–2005

Municipality	Prov.	Dist.	2001	2002	2003	2004	2005
Abancay	X		212,650	284,641	317,972	348,362	328,283
Chincha	X		681,513	816,320	885,508	1,114,425	1,139,467
Huamanga (Ayacucho)	X		581,817	731,470	864,702	899,956	992,577
Ferreñafe	X		193,318	201,168	424,435	299,824	n. n.
Huaraz	X		837,779	485,403	628,438	786,266	941,147
Mariscal Nieto (Moquegua)	X		251,195	295,958	491,260	360,610	476,903
Santa (Chimbote)	X		4,262,940	4,298,371	3,603,010	5,109,502	5,523,384
Tumbes	X		387,808	595,663	766,859	811,519	868,563

#### *Risk/Problem Appraisal*

**Severity:** The municipalities representing this type are located primarily in the Sierra (rather poor) or are secondary centres on the coast. The fiscal need is very high, as services are subsidized, recurrent expenditure is raising and the infrastructure is in a dire state. The severity is therefore very strong. In the case of Moquegua and Huaraz (relatively poorly developed cities but situated in booming mining regions), the fiscal stress has been greatly reduced from 2005 onwards, when windfall transfers greatly enhanced the municipal budgets within one year. In some municipalities the revenues out of the user charge for waste removal was higher than that for property tax. In Moquegua, the only municipal service which is charged is that of waste removal. It should be noted that a serious earthquake demolished much of

<sup>77</sup> Moquegua and Huaraz would have been able to subsume also inside the group “big fiscal transfers” but because the poor response and self-efficacy is more dominant, it made more sense to discuss them inside this group.

the infrastructure and housing sector of Moquegua a few years ago. Overall, the severity goes from high to neutral.

**Political Vulnerability:** It can be deduced that mayors of these municipalities are vulnerable relative to the political culture of these relatively uncomplicated municipalities. Citizens are as prone, as in any of the other cities, to ask for infrastructure improvements and to a lesser extent for improvements in municipal services. The political vulnerability is comparable to most municipalities: predominantly it is characterized as strong. A special case is Ayacucho, where the population suffered considerably during the period of terrorism (it was birth place and center of the Shining Path) and the mayor is aware of sudden outbursts of citizens' displeasure.

### ***Incentive Appraisal***

**Self-definition/Identity:** These mayors are heading local societies that can be described as still rather traditional. The mayors mentioned that they are aware of the principal expectation of their citizenry and their demands for the delivery of improved public infrastructure. Mayors of these municipalities can't be characterized as big modernizers, they are trying to reach their goals inside the given limitations of their local administration. Their management model is traditional and mayors are responsive to the preferences of their citizens.

The only exception inside this group might be found in the mayor of Ferreñafe, he was trying to modernize this rather rural municipality by trying to create a *cadastre*, a SAT and by outsourcing services.<sup>78</sup>

**Response and Self-efficacy:** The municipal administrations are weak and no *cadastre* exists. The self-efficacy is low because the tax base is very small (in some municipalities of this type the local population is very poor) and tax arrears are high. Mayors do not believe that the property tax is able to get them out of the infrastructure deficit but have little other means. Therefore the response and self-efficacy is low or negative.

78 After the presidential election in mid 2006 he was named agricultural Minister. Under his more traditional successor, who stepped in, the reform impetus slowed down or even rolled back.

### ***Constraints Appraisal***

**Response costs:** The costs for enhancing revenues compare unfavourably in relation to revenue prospects. Even with modern *cadastre*, updating of values and a reduction of tax arrears, the extra revenues the municipalities can expect are comparatively modest. The municipal staff would require a whole process of capacity development to make employees more competitive.

**Institutional constraints:** The valuation is not up to date but efforts to get in touch with CONATA are non-existent. In the case of Moquegua, the revenues are also negatively affected by tax exonerations. Constraints are not identified or perceived as a given and mayors do not search (or perceive that they are without) means to improve the institutional context.

**Synthesis:** In these municipalities the property tax generates relatively reduced revenues (25 to 80 Soles per habitational unit with Chimbote at 113 Soles doing fairly better). Nevertheless, property tax is an important source to finance the local budget. The principal difference to other municipalities consist in i) that the response and self-efficacy is low, having a negative impact on the incentive appraisal and ii) that the response cost due to the particular municipal context are perceived as high. Mayors are exercising a fiscal effort but are limited principally through a low fiscal base and low performance of the municipal administration. Constraints are not perceived as a big problem because missing fiscal base and low administrative capacities are predominant.

Huamanga (Ayacucho), as an example for other municipalities in this group, is situated in one of the poorest Peruvian regions with a very high incidence of poverty, but ironically, receives relatively low fiscal transfers. The mayor is aware of a political cost but has been trying nevertheless to raise property tax little by little because he urgently needs more revenues (apparently balancing between applying a fiscal effort and avoiding the often stated political cost).

#### **7.1.6 Type 6: Big Fiscal Transfers**

Municipalities inside this group may be characterized principally by receiving huge amounts of transfers which results in a particular appraisal structure.

### Property Tax Revenues 2001–2005

Municipality	Prov.	Dist.	2001	2002	2003	2004	2005
Baños del Inca		X	208,000	n.n.	233,063	250,629	367,814
Cajamarca	X		1,231,902	1,297,967	1,219,412	3,280,658	2,456,805
Ilo	X		1,338,239	1,876,134	2,324,919	2,372,093	3,567,870
Tacna	X		2,168,406	1,927,692	2,132,525	1,883,447	3,687,602
Talara	X		1,629,580	1,816,738	1,701,099	1,837,406	2,216,614

#### *Risk/Problem Appraisal*

**Severity:** Different to other municipalities these municipalities receive windfall transfers, linked to the extractive industry boom, from the national tax sharing system. The origins of these transfers have been existent for many years, but the huge amounts of revenue which municipalities receive have in fact never been seen before in the Peruvian municipal context. All the same, these municipalities which have received important transfers during the last few years are still working on closing the shortfalls in basic infrastructure. The municipal services are being subsidized by the FONCOMUN transfers or by the property tax. The municipalities in this group show a different budget structure. They have no need to collect property tax for investment (increasingly during the past three years and for the years to come) and they are legally allowed to dispose of more resources from the FONCOMUN transfer in recurrent expenditures, so that it could be argued that at the moment there is no need at all to exercise a fiscal effort concerning property tax or user charges. The severity is therefore low.

**Political Vulnerability:** Mayors of this type of municipality have to demonstrate the ability to use high transfers for investment in basic infrastructure and regional development and are questioned for their apparent incompetence to accelerate investment. Mayors are trying to calm citizens down by buying them off with an atomization of small infrastructure projects (participatory budgeting is also partly responsible for the prioritisation of small infrastructure projects). Through the high influx of transfers the media, mining companies and central governmental are also watching closely the on municipalities' performance. The political vulnerability is high.

#### *Incentive Appraisal*

**Self-definition/Identity:** The mayors interviewed in this group can best be described as rather traditional politicians with some management flaws,

who were only partly able to cope with the big and sudden influx of money in a reasonable way. It is logical for them that delivering public infrastructure comes first as the municipal bank accounts are rising faster than money can be invested. Asked for reasons to look for increased revenues by property tax (even if there is no financial need) they answered that they were conscious that the hay day of huge transfers are not permanent and that in future their municipalities need more of their own revenues. Moreover, it was mentioned that the citizens have to comply with their legal obligations. The management approach of the mayor of Talara can be described as populist, the municipality is seen by him as providing work opportunities for its citizens.<sup>79</sup> Therefore, the identity is neutral to strong.

**Response and Self-efficacy:** All mayors interviewed in this group are working on ways to collect more property tax. In the case of Cajamarca the mayor was doing so by institutionalizing an SAT. The response efficacy from the rural Andean municipality Baños del Inca is particularly low. The property tax collection in the past was not very important, but because land and property values were rising very fast, the mayor was able to see a case for taxing property. It was seen that these mayors lack planning capacities (or inducing their administration) to scale up investment projects (hassling with legal rules concerning contracting, preinvestment studies, execution and supervision of projects). The response and self-efficacy is reduced through a weak and overstaffed municipal administration and the lack of a sophisticated finance cadastre.

### ***Constraints Appraisal***

**Response costs:** The tax potential in these five municipalities is immense. Much money is pouring in through fiscal transfers with big impacts on land and property prices. Even agricultural land in Cajamarca is sometimes now valued US\$100.000/ha leaving these municipalities with big margins to increase their property tax bill year for year. A missing *cadastre* restrains the tax potential in Baños, while the other municipalities possess basic fiscal *cadastres*. The often stated political cost is acknowledged by mayors but they are totally convinced in the case of Ilo and Cajamarca that the effort is worthwhile or that they even have the duty. In the case of Baños, the mayor argued the same but with far less emphasis (due to the much lesser tax po-

79 He was reelected with his approach at the end of 2006.



tential). Upgrading the fiscal *cadastre* and the performance of local administration implicate relatively high response costs but with big potential to enhance property tax revenues.

**Institutional Constraints:** The valuation given by CONATA is seen as a principal problem as commercial values far outstrip obsolete assessed values. Interestingly, the mayor of Talara is using a selective strategy to make a dominant oil refinery in his district pay (they never used to pay) but is rather forgiving with the normal citizen. The oil refinery owes several years of property tax, according to the municipality, and is apparently not an easy target (The municipality and oil refinery have been fighting their case for several years in the central fiscal court). In his effort to make the refinery pay additionally because out-dated valuation, the Fiscal Court was perceived by the mayor as arbitrary (ruling in favor of the enterprise, similar to that what the mayor of Ventanilla claimed).

**Synthesis:** Property tax does not generate inside this group large revenues but even these reduced revenues are important for the municipalities. It is most striking that the leading politicians of municipalities which actually receive windfall earnings (Canon transfers), are trying to collect more property tax as they are aware that this bounty won't last forever. They know that the distribution modus might be changed (as in the past has happened various times), that mining enterprises might close business after depleted natural resources or that prices might fall to pre-boom levels. The property tax potential is also rising hand in hand with increasing land and house prices. Even in the case of Baños del Inca which had in the past a reduced tax base, the mayor was exercising fiscal pressure to collect more property tax. However, this fiscal effort has to be seen as an action with moderate intensity: the main concern of the municipalities like Cajamarca, Ilo and Baños del Inca is how they actually spend these enormous transfers in infrastructure projects. The mayors are under very intensive pressure and scrutiny by citizens and institutions to show fast and reasonable disbursement, but they are confronting serious problems in different areas of their local administration to comply with these expectations.

An interesting option taken by the mayor of Talara shows him using a selective fiscal effort in his coping strategy. The mayor of Talara mentioned that in his opinion it does not make sense to tax poor citizens when the potential is far bigger to tax the oil refinery. Apparently, in the case of Talara

and also with other municipalities, it shows that the presence of a totally dominant business (mining enterprises, refinery etc.) does not lead to a capture of local politics.

Tacna which receives very high transfers, is trying, with some success, to improve property tax revenues through the actualization of the property valuation by a more or less concerted action with CONATA, and moreover, the municipality is thinking about installing an SAT.

### 7.1.7 Type 7: Rural Municipalities

In this sample were included these rural municipalities primarily for comparison reasons and to extrapolate from these results to the great number of small rural districts. Property tax revenues are not significant and only produce a minimal share in overall revenues.

#### Property Tax Revenues 2001–1005

Municipality	Prov.	Dist.	2001	2002	2003	2004	2005
La Matanza		X	2,768	19,240	13,337	4,633	29,099
Monsefú		X	76,035	192,46580	74,130	66,752	n.n.
Túcume		X	10,726	18,088	25,780	10,198	19,187

#### *Risk/Problem Appraisal*

**Severity:** The rural municipalities in this sample have a huge deficit in basic infrastructure. User charges are at low levels and concentrate, if at all, on charging for waste removal. The severity is very strong.

**Political Vulnerability:** The political vulnerability in this group of municipalities is not as marked as in other municipalities. This is probably due to the fact that the citizens do not expect great things from their municipalities. Civil society in these remote areas is particular weak or non-existent. On the other hand, citizens request public infrastructure improvements. The political vulnerability is neutral to high.

#### *Incentive Appraisal*

**Self-definition/Identity:** These municipalities have traditional mayors who, of course, try to deliver public infrastructure which every citizen is asking for. Mayors are often relatively low ranking professionals and are well be-

80 The property tax revenue for this year is biased because included a scheme, “work for tax debt,” which was registered as revenue.

hind in absorbing all the normative changes introduced at the municipal level.

On the other hand, they are particularly prone in overselling some achievements like the inauguration of some public infrastructure, the eventual visit of an ambassador or national politician. The interviewed mayors were aware of the restrictions they face in virtually every field. Being a mayor in a rural town is often the best-paid job around and the representatives of this group are neither managers nor reformers. Implementing a performing public management culture is not part of their political agenda; they rather look on to staying in their post. Therefore, the motivation for change is relatively low.

**Response and Self-efficacy:** These municipalities have a very low fiscal base and even with a maximum effort their revenues would still be very low. These mayors have hardly any possibility to raise revenues in a substantial manner. Moreover, in these municipalities prevails a poor underpaid administration and, therefore, the response and self efficacy is low to negative.

### *Constraints Appraisal*

**Response costs:** The response cost is high regarding the perceived utility. Cadastres are until now non-existent and would require an important investment. Local tax payers are hesitant to pay. The local tax culture would require substantial improvements.

**Institutional constraints:** Mayors do not perceive that they are restricted by institutional constraints.

**Synthesis:** Property tax in these municipalities is between 4–10 Soles per habitational unit, which is mostly insignificant and the involved administration costs are probably higher than the return. Revenues out of property tax are also erratic; they have gone up and down during the last five years. It seems as if the taxpayers pay when they want to do which is sometimes correlated to the fact that before selling a property or taking on a mortgage the commercial banks ask for the due payment of the property tax. While the mayor of La Matanza had tried to exercise some fiscal effort, even contracting a private firm to collect tax money, he fell back into apathy after meagre results. The other mayors did not even try to improve tax collection. The mayor of Monsefú mentioned that in his municipality property tax is not enforced so as in order not to lose political support.

These rural municipalities also receive per capita more transfers out of the FONCOMUN than their more urban peers. The tax base, while not very favourable, would nevertheless allow a rise in the property tax revenues. But mayors and citizens alike accept an equilibrium on a very low basis.

### 7.1.8 Type 8: Contested Municipalities

These municipalities' main characterizations may be as contested jurisdictions and for showing serious problems of governance.

#### Property Tax Revenues 2001–2005

Municipality	Prov.	Dist.	2001	2002	2003	2004	2005
Chiclayo	X		5,251,249	5,854,079	3,847,544	5,323,963	6,616,245
Coronel Portillo (Pucallpa)	X		1,348,279	n.n.	1.376.474	1,523,693	1,272,539
Pisco	X		n.n.	1,130,982	730,026	847,624	n.n.

#### *Risk/Problem Appraisal*

**Severity:** The above mentioned municipalities have seen their population severely increase during the last few years. Pucallpa is receiving important transfers, which with 175 Soles per capita are almost double the amounts transferred to Pisco and Chiclayo. Basic infrastructure is the most important item on the agenda of every politician inside these types of municipalities. Municipal services are deficit prone and receive subsidies. In the case of Pucallpa municipal services are not even provided in the whole jurisdiction but only in the inner areas of the municipality. The severity is, therefore, perceived as very strong.

**Political Vulnerability:** Mayors have had to face judicial trials and/or were questioned by a significant part of his citizenry for the handling of municipal business. In the case of Pucallpa, the mayor was accused by one part of the population for being involved in the killing of a critical journalist. Pucallpa is also a special case because until a few years ago it was the centre of drug related businesses (and still has an important share in it). Correspondingly, in this particular place, every move had to be carefully assessed in regard to its impacts. Moreover, the political culture in the Amazon basin is also different: municipalities can probably be best described as emerging entities. It might be worth noting that the mayor Luis Valdez won, notwithstanding this questioning, with a comfortable majority of 36 % of valid votes in his re-election in November 2006, thus being one of the few mayors who have won a second term.

In the case of Pisco and Chiclayo at the date of the creation of the SAT, which can be used as a proxy for a demonstrated fiscal effort, the political vulnerability was still comparative to other median Peruvian municipalities, but later on things rapidly deteriorated. In the case of the municipality of Pisco, the mayor was ousted in 2005 and the following party member in the election list was totally unprepared to be the new mayor. The whole process and the period until the election in November 2006 was characterized by incompetent governance, conflicts, corruption, etc.

In the case of Chiclayo, a regional centre with rampant economic growth, the mayor had demonstrated serious flaws concerning leadership and was finally ousted by a “tragic” judicial split at the end 2005 between two central state organizations, the Jurado Nacional de Elecciones and the Constitutional Court. The former had withdrawn the then mayor Castillo’s legal credentials for exercising this duty, the latter challenged this verdict. His successor and former deputy, José Barrueto Sánchez, had taken over in-between and was unwilling to leave again. After many woes between party gang members, the municipal building was burnt down in June of 2006. The executive declared Chiclayo under emergency rule and took over. The newly elected mayor of Chiclayo inherited a file of about 1,000 lawsuits against the municipality and a huge pile of debt.

The political vulnerability, as the facts above show, was very high and resulted in the removal of two mayors.

### ***Incentive Appraisal***

**Self-definition/Identity:** In Chiclayo and Pisco, the mayors can be described as autocratic mayors but with some special personal features which probably were responsible for the governance disasters in the first place. Both have proved to be rather exclusive, alienating allies and adversaries alike. Their particular style of government was concentrated on themselves, with little respect for municipal institutions. Their technical and political management was weak and they were unable/unwilling to build municipal capacities, but in their political discourse they expressed a wish to do so. Concerning decision finding/making the personal attitude of these mayors are particular prone to be self-reliant. The mayors of this group might be best described as traditional but with impetus for change if they perceive it as useful.

**Response and Self-efficacy:** These municipalities have a relatively good fiscal base, which they are only partially using. The municipal administra-

tion is very weak because of long periods of bad management from these and former mayors. The autocratic organization of these municipalities (the mayor does not leave his administration any decision power) and permanent changes of key personal end up in low incentives for management and policy reform inside the administration.

In Pisco and Chiclayo, the mayors were trying to bypass inherent flaws in the municipal administration by the creation of a SAT, enhancing greatly the response and self-efficacy. The constant quarrels the mayors were involved in, reporting in media, questioning by opposition etc. affected negatively the performance of the SATs, finally reducing the response and self-efficacy.

### ***Constraints Appraisal***

**Response costs:** The response cost is, compared to lesser developed municipalities, relatively low. The tax potential should be significant in all three municipalities. In the case of Pisco and Chiclayo, the mayors were trying, by installing SATs, to invest in tax and user charge collection. The commission charged by the SATs and the trade-off with former employees in the tax area have had their cost, but apparently mayors were willing to see it through.

**Institutional Constraints:** The CEOs of the SATs of Chiclayo and Pisco identify the valuation given by CONATA as a principal problem as commercial values are far higher than assessed values. They also challenge the appropriateness of the legal instruments given to municipalities in case of outstanding debt, arguing that the mechanism of “cobranza coactiva” compares unfavorably with the far more forceful legal possibilities of the SUNAT. The municipality of Pucallpa identified no vital institutional constraints.

**Synthesis:** Property tax revenues are low: Pucallpa collected in the fiscal year 2005 only 27 Soles as property tax per habitational unit compared to 114 Soles in the case of Chiclayo and 63 in the case of Pisco. Pisco and Chiclayo, both installed under the leadership of their mayors an SAT, which might be granted as a demonstration of their willingness to exercise fiscal pressure. Mayors were not afraid of losing political support (maybe they were not afraid because they never had a broad based support). In the case of Pisco, the successor of the mayor was unable or unwilling to support the

SAT, which finally resulted in a virtual divorce between the SAT and the municipality. The SAT in Pisco was abolished by the new mayor in 2007. On the other hand, the SAT in Chiclayo was able to perform rather well until the burning of the municipal building. Of course, after this event property tax and other revenues collapsed. Two conclusions might be taken: First, the semi-autonomous tax agencies can't perform in a negative context of poor local governance. Second, it seems obvious that citizens are withholding tax payments in cases of contested governance structures. Inside these type of municipalities with contested leadership a differentiation can be made between – on the one hand, Chiclayo and Pisco where the principal authority was willing to exercise a fiscal effort, but due to the particular circumstances this was only partly reflected in the property tax revenues; on the other hand, the mayor of Pucallpa who has neither shown interest in the property tax nor was responsive to fiscal needs, due to a particular mix of incentives and constraints. In the contested municipalities of Chiclayo and Pisco the citizenry punished mayors by voting them out of office or asking the central state to intervene. Contrary to this can be seen the case of Pucallpa where a mayor, who was highly contested by some but popular with others, won the re-election by a big margin.

#### **7.1.9 Lima and Callao as Separate Cases**

Lima and Callao are cases so particular that by an individual analysis no demonstrative effect or enhanced knowledge should be interrelated. Therefore, this investigation is limiting itself to a brief illustration of their differences compared to other Peruvian municipalities.

Lima possesses a special legal status with particular functions and responsibilities for the Metropolitan capital (made up of 42 independent districts). It is not only a municipality but also a department (region) and a normal district municipality (which is the tax base of the property tax) for the inner circle of Metropolitan Lima. Because of these characteristics, Lima receives additional revenues or transfers.

El Callao also has a special status as a “Constitutional Province” and is the largest and most important port in Peru. Callao is part of the Lima Metropolitan Area as the municipalities have grown together. As part of the decentralization process promoted by President Alejandro Toledo in 2002, the Callao Region was created which is geographically identical with the municipal province of Callao (which consists of six districts).

### Property Tax Revenues 2001–2005

Municipality	Prov.	Dist.	2001	2002	2003	2004	2005
Callao	X		11,948,961	12,746,093	14,020,422	16,074,536	19,965,265
Lima	X		14,780,148	17,774,171	19,384,152	22,161,494	27,124,674

#### *Risk/Problem Appraisal*

**Severity:** The infrastructure gap in the jurisdictions of Callao and Lima is evident. Municipal services are still not cost recovering. The fiscal transfers are not unimportant: in the case of Lima they amount to 203 Soles per capita and in the case of Callao 122 Soles. Lima has other important revenues out of the property transaction and vehicle tax (which are assessed differently to the property tax in the whole metropolitan territory), out of the metropolitan savings bank and, most importantly, from toll charges on heavily-used roads. Lima has, relative to the gigantic metropolitan tasks it envisages, a relatively small budget (815 Million Soles in 2005); Callao receives high transfers from a share of import tariffs and had total revenues of 128 Million Soles in 2005. Municipal employees in Callao receive 18 salaries a year, these payments are a heavy burden for the municipality. The property tax is financing principally recurrent expenditure.

Property tax does generate relatively important revenues for these municipalities. The severity of the financial stress in both municipalities is strong principally because of the high investment needs.

**Political Vulnerability:** Visibility in the case of Lima and Callao is very high through media coverage. Normally every step is scrutinized by the media and this is due to the fact that both mayors of Callao and Lima are political hopefuls and always serious contenders for highflying public offices. The political vulnerability is very high.

#### *Incentive Appraisal*

**Self-definition/Identity:** The mayors of Lima and Callao demonstrate impressive communication skills and are result-orientated. In Lima, the mayor is acknowledged as a capable manager but criticized by some insiders as having the tendency to concentrate power and decisions into his own hands (little inclusive). The mayors of Callao and Lima are best described as modernizers and political engineers. Their self definition/identity is very supportive to reform. The mayor of Lima was re-elected by a wide margin at the end of 2006 and the mayor of Callao was elected as regional president of the Callao Region.



**Response-and Self-efficacy:** Both mayors were prone to reform the local public administration from inside but were also outsourcing local services via concessions. Similar to other mayors they are aware of the inherent flaws of their local administrations and try to bypass these limitations by the creation of specialized municipal enterprises to administer a particular policy area (in the case of Callao, *the Fondo Municipal de Inversiones del Callao* which is financing and executing public investment projects and *Eslimp* which is the municipal enterprise for waste removal; the municipality of Lima has several enterprises: *Empresa Administradora de Peaje, Fondo Metropolitano de Inversiones, Instituto Metropolitano Protransporte de Lima, Empresa Municipal Inmobiliaria de Lima* etc.).

In Lima, the property tax is raised only in the inner historic centre which unfortunately is in bad shape and, moreover, contains a lot of government buildings which are exonerated of payment. The self-efficacy in the municipality of Lima is especially high through the effective work of an SAT (it was the first one, created in 1994). In the case of Callao, the mayor is stalled in his response efficacy through a relatively meager performing administration.

### ***Constraints Appraisal***

**Response costs:** The response costs were high at the very moment of the creation of the SATs but now seem to be rather neutral. Lima has a well-functioning *cadastre* and Callao would have to update in a more regular basis. The mayor and the SAT argue that the tax base would allow far higher revenues.

**Institutional constraints:** The CEO of the SAT in Lima and the mayor of Callao declared that their response-efficacy is constrained by the restricted policy options concerning valuation and tax rates. The SAT in Lima has made several attempts to negotiate a reassessment of property values with CONATA (subvaluation is estimated to be around 50 %). About 30 % of properties are exonerated because they belong to central state agencies or pensioners.

In Callao, the last reassessment of property values by CONATA was undertaken in 2002 and the chief of the tax department estimated that the valuation was 50 %–70 % below the market value. About 20 % of the properties inside this municipality district were owned by pensioners.

The mayor and CEO of the SAT perceive that they have relevant constraints.

**Synthesis:** These municipalities demonstrate a rigorous fiscal effort concerning the property tax and also concerning user charges. Both municipalities have to counter a huge infrastructure gap, relative to the expectations citizens and the media have, and the municipal revenues are far below necessity. Property tax is a very important source for recurrent expenditures. The property tax collection is 343 Soles per habitational unit in the case of Lima and in the case of Callao 227 Soles which is more than transfers. Nevertheless, in Lima because of other revenue sources the property tax contributes only around 5 % to the overall budget.

The existing SAT in Lima was the first of its kind (created in 1994) and demonstrates a strong fiscal effort. Even as close as last year the SAT received a lot of bad press concerning the harsh handling of people with late payments. The mayor of Callao was thinking about installing a SAT in his jurisdiction as well. The fiscal effort is clearly demonstrated in the municipality of Callao. The relatively broad based support of the mayor in the citizenry did not hold him back to ask for more tax money and he successfully ran for the position of regional president for Callao in 2006.

#### **7.1.10 Election Results and its Implication on Property Tax Management**

In our sample no correlation could have been established between the election results and its implication on property tax management. Strong hierarchical structures in (public) organisations and a long tradition and culture of presidentialism on the central stage (which might be as strong at the local level) might make the election result of little importance for property tax management. Mayors might react to other incentives as shown above.

Electoral rules, as mentioned, mean that the mayors who are elected on a relative majority in elections (The winning list gets automatically half of council members plus one seat and, moreover, the incomplete power sharing between executive and legislature – through the fact that the mayor presides over the local council where he also has a voting right. In cases of vote balance his vote counted for double until 2006) do effect policymakers' behaviour, as they are unbounded by party coalition building.

Of our sample only 4 mayors were elected by more than 40 % of his citizenry, 13 mayors were elected with a participation of 30–40 % of the citizenry,

16 mayors between 20–30 % and three mayors below 20 % (cf. Table N° 13). Those below 20 % nevertheless possessed a majority in the local council.

It is noteworthy, the three mayors, who were elected with less than 20 % of the electoral vote and therefore supposedly have a reduced backing for policy changes, still demonstrated improvements in property tax collection.

Out of the five mayors who were elected by more than 40 % of the electorate, four were showing a remarkable fiscal effort. The mayor who got the highest score of votes in our sample, the district Coronel Portillo (Pucallpa), nevertheless showed fiscal laziness. His political style can be characterized as populist and paternalistic. Plus, the municipality also possessed other sources of revenue. This mayor was heavily questioned for his performance in his administration period 2003–2006, but was then re-elected for a new term.

**Table N° 13: Mayors of the selected municipalities elected in 2002 by % of citizens**

N°	MUNICIPALITY	Elected by
1	Abancay	23 %
2	Arequipa	23 %
3	Baños del Inca	30 %
4	Cajamarca	23 %
5	Callao	31 %
6	Cañete	22 %
7	Chiclayo	30 %
8	Chincha	28 %
9	Coronel Portillo	64 %
10	Cusco	28 %
11	Ferreñafe	33 %
12	Huamanga	15 %
13	Huancayo	24 %
14	Huaraz	23 %
15	Ica	31 %
16	Ilo	42 %
17	Imperial	26 %
18	La Matanza	31 %
19	Lima	40 %
20	Mariscal Nieto (Moquegua)	36 %
21	Maynas (Loreto)	28 %
22	Monsefú	32 %
23	Pisco	31 %

N°	MUNICIPALITY	Elected by
24	Piura	27 %
25	Rupa Rupa	22 %
26	San Isidro	29 %
27	San Juan de Miraflores	32 %
28	Santa (Chimbote)	30 %
29	Santiago de Surco	50 %
30	Tacna	16 %
31	Talara	17 %
32	Trujillo	42 %
33	Túcume	28 %
34	Tumbes	34 %
35	Ventanilla	26 %
36	Villa El Salvador	24 %

Source: ONPE (*Oficina Nacional de Procesos Electorales*)

### 7.1.11 Conclusion

The most important statement based on the analysis of empiric data, which argues that most municipalities in this sample exercise a fiscal effort (about 2/3 of the cases), is supported strongly by the interviews held with the mayors. The property tax revenues of all municipalities included in this survey were rising from 116 Million (2001) to 176 Million Soles in 2005 or on average 10 % per fiscal year and this in spite of the mentioned institutional constraints (cf. Table N° 12 in the Annex for the property listing of all municipalities). It is obvious that the property tax is an important revenue source in most urban cities and of little relevance in rural municipalities. The fiscal effort differs in respect to the perceived problem, incentive and constraint appraisal. The fiscal transfers in the majority of municipalities did not have a negative impact on their own resource mobilization. Even the municipalities which received high transfers nevertheless engaged in the use of property tax as an important revenue tool. Moreover, mayors do not show a tendency to interrelate or trade off fiscal transfers with property tax.

A systematization of the three appraisal strings (problem, incentive and constraint) which finally results in the coping strategy (here ranging between fiscal effort and fiscal laziness) is shown in the Table N° 14. The more threatening the mayors think the situation of local public finances are, the more intensively they look for coping strategies. A high perception of problems (relative to low perception) energizes both adaptive and maladaptive modes of coping. A mayor with a low impetus for change may just not

make any decision at all concerning fiscal effort. On the other hand, a very high constraint appraisal has a negative impact on exercising a fiscal effort. Low response efficacy (compared to high response efficacy) may lead to higher levels of fatalism and wishful thinking. And, correspondingly, high self-efficacy may lead to higher intentions to perform, meaning that mayors perceive that they are potentially well-prepared for coping (they know what they want) and conversely less susceptible to be influenced by other factors. Several elements are mutually reinforcing each other (positively and negatively): eg. low response efficacy because of poor administration will have an effect on response costs and even on the identity of the mayor, etc. However, the schematic depicting of the different categories undertaken here, should be not taken as absolute; inside them there are several municipalities which would also have been able to subsume into another group (borders are porous). If municipalities are responsive to local needs depends less on the size but rather on the incentives a given mayor reacts to.

In contested municipalities, compared to normal municipalities, the identity of the mayor together with a particular political vulnerability explains different approaches to property tax. Inside the incentive appraisal, the identity might be very supportive for institutional change but might be adversely affected by the response and self-efficacy.

Concerning the constraints appraisal it seems that out of the few mayors who were unwilling to exercise a fiscal effort, some have inherited a poor functioning property tax regime and were reluctant to change this apathic behavior. Low performance of tax administration and lack of a proper *cadastre* seem to negatively influence decisions to exercise a tax effort. Mayors argue that they are somewhat innocent because of the overstuffed and poor professional capacities that they inherited from former administrations. Aware of the inherent flaws of their local administrations, some mayors, are trying to bypass these limitations by the creation of specialized municipal enterprises to administer a special policy area.

Table N° 14: Systematization of appraisal strings (different colors refer to scale of fiscal effort, see legend)

N° type of	Problem		Incentive		Constraints	
	Severity	Political Vulnerability	Identity	Response-efficacy	Response costs	Institutional constraints
type 1: well advanced, consolidated metropolitan municipalities	very high	neutral to strong	strong impetus	high	low	big problem
type 2: metropolitan municipalities in urbanization process	very high	rather high	responsive to infrastructure gap	low to strong	low	problem
type 3: regional center, modern management structures	very high	low	moderniser	very high	neutral	relevant
type 4: municipalities with adverse identity incentives	high/very high	strong	looking for reelection, no reformer	low performance	high	neutral
type 5: municipalities with high response costs or low response efficacy	very high to rather low	strong	traditional but responsive	low or negative	high in relation to revenue prospects	are not identified or perceived as non-existent
type 6: big fiscal-transfers	rather low	high	neutral to strong	neutral	high but with big potential	relevant
type 7: rural municipalities	very high	low to strong	low impetus for change	low to negative	high	not perceived
type 8: contested municipalities	very high	very high	traditional but some with impetus for change	mixed	low	neutral to relevant
type 9: Lima and Callao	high	very high	moderniser; political engineer	neutral to strong	neutral	big problem

	no tax effort
	some tax effort
	tax effort
	huge tax effort

The severity of the problem appraisal consists in the perceived difference between fiscal needs and fiscal means, in most cases resulting in a situation which might be described as fiscal stress.

One important reason for fiscal effort is that mayors are conscious that fiscal transfers are volatile (especially in the case of the canon transfer). Almost all mayors wholeheartedly agreed that fiscal needs are still far bigger than the rising transfers (which are regionally concentrated). Moreover, municipalities benefiting from windfall transfers have still to cover recurrent expenditure through their own revenue collection. Higher investment spending is matched by an increasing need for recurrent spending (maintenance costs, preparation of projects etc.). The property tax is (in difference to the canon transfer, the special assignment for the basic food program or the assignment for basic social infrastructure) completely free to be used for whatever the municipal administration prioritizes, constituting the main source for discretionary expenditure.

Peruvian citizens can participate through legal dispositions like “Participatory Budgeting”, “Local Development Plan” or “Participatory Councils” in municipal policymaking in a way that their fellow citizens in more developed countries are not able to do, but these instruments did not conduce until now a stronger discussion of property tax in the local sphere. Mayors perceive that citizens’ requests are concentrated on public infrastructure which is articulated in local media, meetings or informal channels.

Hardly any mayor in this investigation argued that they did not try to exercise a fiscal effort, meaning that it is perceived by mayors to be politically correct to ask their citizens for due payment of their property tax bills and try to enhance revenues out of broadening the tax base. Most mayors declared that an important aim for them is to be financially more autonomous.

Mayors also demonstrate that they are responsive regarding citizen priorities. In a country with a high deficit of basic infrastructure, it is small wonder that mayors define themselves overwhelmingly over the implementation of public works. In some municipalities a fiscal pact was literally established where mayors give, concerning their administration and expenditure, detailed information to citizens and ask taxes and charges as part of a common project.

As already demonstrated, the political and administrative structures of local governments in Peru are dominated by the mayor. A powerful factor is the personality or identity of a given mayor. The personalities of most politicians consist of a combination of various factors (but probably dominated by one or another), in our sample we differentiate between:

- Populist, patronage, authoritative type: probably best exemplified by the mayor of Chiclayo, who is a typical mix of a traditionalist and populist politician. He was ineffective in service delivery and had a confrontational style of management. When he was ousted the city had 1,000 lawsuits, bank accounts were blocked, etc. Yet, nonetheless, he created a SAT which in itself powerfully demonstrates that he wanted to collect more tax money.
- Reformer/modernizer with emphasis on impacts without losing political power. These mayors might using their term as a platform to further political ambitions. The best example is the municipality of Trujillo which had a long serving mayor who was uncontested by his citizenry, inclusive in his governance model, had good management skills, was providing leadership and was open to innovations.
- Private sector, enterprise background. These mayors are output-orientated and are more prone to abrupt unconventional changes (eg. case of Ica, Ilo, Huancayo).
- Traditionalist. These mayors are ineffective in service delivery and generally do not try innovative management models (eg. case of Cusco, Huamanga).

The fiscal court is seen by some municipalities which had cases resolved there (not all are familiar with the fiscal court) as arbitrary, although mayors argue that the Court is always tending to rule against municipal interests.<sup>81</sup>

Mayors mentioned that while the tax base of urban settlements in the outskirts is very low, the citizens of these areas are sometimes astonishingly prone to pay their low property tax bills because they receive, in return, a

81 The Fiscal Court has only seven chambers (*salas*) and the increase of cases are congesting the work output as unresolved files are growing. Especially in 2005, almost 12,000 legal suits concerning municipal legalization were brought to the Fiscal Court, which signifies in pure numbers even more cases than against the national tax agency SUNAT.



legal recognition of their properties. After 10 years of property tax payment an individual has the possibility to ask for a legalisation of his claim, even if he lacks a proper property title.

The valuation given by CONATA is identified by most mayors as the principal problem as commercial values are far higher than assessed values. They also challenge the appropriateness of the legal instruments given to municipalities in case of outstanding debt, arguing that the mechanism of *cobranza coactiva* compares unfavorably with the far more compellingly legal possibilities of the SUNAT.

Some of the municipalities which show no tax effort in our sample but nevertheless have big fiscal needs are not exactly those which have no potential to increase tax revenues: e.g. Cusco, Arequipa and Cañete which might all raise property tax in a substantial way. Apparently these mayors, based on adverse incentives, are not inclined to raise property tax, which ends up, if at all, exercising fiscal pressure with a low intensity.

It was illustrated that municipalities of our sample react (concerning the triple appraisal of problem, incentive and constraint) with a specific coping strategy. The favourable treatment of residential property over commercial and industrial properties is described in academic literature as a common characteristic for the property tax in various countries (eg. in several municipalities mayors have demonstrated a selective assessment strategy). Like in the municipality of Talara, that is home to both a big oil refinery and to an impoverished citizenry (due to a big lay off in the 90s), the mayor frankly mentioned that business has to bear a greater burden than residential property. Mayors can shift their attention to specific sectors and opt for selective assessments to counter political cost. Mayors who don't like to harm citizens by taxing them, but on the other hand, need revenues urgently are more prone to exercise a selective assessment or raise the fiscal pressure until equilibrium is gained.

Apparently, in the case of Talara and other municipalities, the presence of a totally dominant business (mining enterprises, refinery etc.) in these districts did not lead to a capture of local politics.

Some mayors find certain types of strategies more feasible than others, which are based more on just individual choice, but are also dependent on the incentive structure (political culture in a given municipality and other external factors might be parameters inside the appraisal). Mayors overwhelmingly prefer that the valuation is undertaken by the central government, as they are probably unwilling to face the political fallout from raising valuations. Local officials and politicians are mainly (with some exceptions) fine with the fact that the central government bears the responsibility in setting tax rates. Tax rates concerning property are perceived as suitable and they have mainly no wish to increase it.

Mayors do not lobby the central government for extra transfers, due to their formula based character, but they may ask for focalised investment by central sector ministries.

Some mayors did not seem to have much knowledge concerning the whereabouts of the property tax or broadly speaking about local finances, arguing out of context or simply being unaware of the history. Strikingly, even these mayors with little knowledge were nevertheless embarking on a serious tax collection campaign.

Taking academic literature into account – which makes a point for increasing user charges – normally one would expect that mayors confronted with the erosion of the property tax base (especially with the linkage to the fast raising UIT) and with hardly any possibility to improve values above the given index by CONATA, would be eager to concentrate more on the user charges. Nevertheless, the response of the mayors was surprisingly unanimous that they prefer to tax rather than to charge. Most mayors were arguing that this is principally due to the difference in the legal character between these two financing sources: as the citizenry perceives a tax as a stronger legal obligation than a charge. Some mayors pass the same argument to their constituency, hiding behind the legal obligation that they have to collect the property tax. Important is that revenues out of charges may not be used for other than the financing of the services while property tax can be used to pay recurrent expenditure.

Fiscal laziness by municipalities in this sample was principally caused by a low tax potential (adverse incentive structure) or by mayors who do not see a problem in reducing tax revenues to pursue other policy goals. In extreme case it could be assumed that local governments distort downward property

tax in order to reduce the stake for tax evasion. The tax arrears differ vastly from 5–10 % in the case of San Isidro or Lima to 60–70 % in the case of Monsefú or Talara.

The institutional history also matters, so mayors who inherited a well functioning property tax administration from the former administration are eager to preserve this.

Wishful thinking (given the nature of taxes actually managed and correspondingly the high dependency of most Peruvian municipalities concerning fiscal transfers) can be identified also as an important incentive: several mayors mentioned that they want to be the owner of their own destiny and therefore needed to be more financially autonomous (eg. Cajamarca, Trujillo).

Imperfection in local democracy and accountability may be tempting some local politicians by passing the bill to the next incumbent (by the way of judicial charges, unpaid providers etc.) The Peruvian legislation, which is well aware of this problem, tries to combat these problems by the obligation to create a so called commission of transference where the exiting authorities are meeting their successors, but this institutional construct is still in the beginning stage. The financial software SIAF-GL at least will resolve the greatest flaws (eg. that a new mayor sometimes did not find any information or document at all in his first day in office because the outgoing mayor took everything with him.)

While most of the appraisal strings can't be influenced by the central government, the mayors in this sample mentioned that constraints are negatively affecting the incentives for local governments regarding the exercise of a fiscal effort. The central government which is responsible to enable the local government can still do a lot to strengthen the incentive setting. Taken together the (institutional) constraints appraisal show that many municipalities but not all are negatively affected by central government policies (the most important being CONATA, the Fiscal Court, and tax rates).

At the first view, the problem appraisal is influenced only by the mayor or the municipal context. However, if we remember that the MEF was changing the conditionality of the main transfer scheme FONCOMUN in 2003, then they probably alleviated local governments in a formidable man-

ner because they were then free to use this transfer for recurrent expenditures. In praxis the impact was not as harmful for their own revenue collection, but the point here is that the policy change had an impact on the real or perceived severity inside the problem appraisal.

The low compliance with legal obligations also stems from the lack of effective oversight mechanisms, including the reduced institutional capacity of the Comptroller General (with an annual budget of around US \$ 50 Million) to supervise the legality of local government spending and the actions of municipal institutions under its control.

The central government can enhance accountability by providing better instruments (for example the SIAF-GL database which is still not online) and once these are available it will strengthen civil society control of local governments.

## **7.2 Innovative Strategies**

It can be noted that policy choices for local governments concerning property tax are somehow limited through the given legal framework compared with other countries. Furthermore, there is a general perception that municipalities have undertaken varying degrees of effort to raise property tax collection. There are specific encouraging local experiences: positive innovations at the municipal stage (like the successful reduction of administrative barriers in the municipality of Piura and Lima, CMACs or PPP) being copied by other local authorities. Through the decentralization process there will be in future even more room for increased innovation (cf. Clark, 1996 claiming this as an important by product of decentralization). “Innovative strategies in resource mobilization would be expected to either improve the efficient use of a local government’s current base or expand the fiscal base of sub-national government” (cf. Campbell & Fuhr, 2004: 32).

Concerning tax incentives the municipality of Surco (Lima) has not had a tax amnesty for 8 years; in “normal” Peruvian municipalities an amnesty happens on an annual basis. The districts of Surco, Villa El Salvador, El Agustino and San Borja are setting incentives (premiums, special offers in restaurants or hotels etc.) to the citizens, who are up to date with their tax obligations. In the last few years, these municipalities have been able to raise the timely paid tax revenue by double-digit figures. Other municipalities are

giving the punctual payer an incentive in the form of a tax rebate. Some municipalities in Peru like Ilo and Villa El Salvador have introduced with some success a scheme that allows poor tax debtors to exchange their debt for community work. To reduce the compliance costs for taxpayers and the collection costs for tax administration it is becoming increasingly possible (mainly in the districts of Lima) to do your property tax payment online. The districts of San Isidro and San Borja have been outsourcing the maintenance or construction of the municipal *cadastre*.

In chapter 7.2.1 the creation of semi-autonomous Municipal Tax Agencies (*Servicios de Administración Tributaria* – SATs) are discussed: SATs function separately from the local administrations and have several features that enhance their autonomy, including self-financing mechanisms (retaining a share of their gross revenues). SATs appoint and promote their employees on merit and have pay salaries that are comparable with those in the private sector.<sup>82</sup>

The central government is trying through performance orientated management contracts (CARs) to enhance local management capacities. Concerning the topic of this investigation, most interesting are the CARs which enhance tax revenues and user charges at the local governmental level. In the case of the CARs signed with the municipalities, employees theoretically receive a monetary incentive for successfully complying with the indicators negotiated in advance, see chapter 7.2.2.

### **7.2.1 Semi-Autonomous Municipal Tax Agency as a Best Practice in Peruvian Municipalities**

Most interestingly, from the point of public management, is the creation of the semi-autonomous Municipal Tax Agencies (SATs) which can also be

82 Another older innovative instrument for resource mobilization which should be mentioned just for complementary reasons was the creation of local saving banks (*Cajas Municipales de Ahorro y Crédito* – CMACs) by municipalities in the late 80s and the beginning of the 90s. These local banks are a real success story in Peru. Up to now there have been twelve CMACs and with the municipalities as their only shareholder they are now reaping the fruits. Also, utilities are partly contributing with hefty sums to the local budget. Some important municipalities in our sample – like Chiclayo and Cajamarca, did not create a CMAC until today, missing the possibility to enhance policy opportunities in this way.

seen as a management innovation within an adaptation process to the changing institutional environment created by national policies (in this case, the reduction of revenues of urban municipalities in the mid 90s and consequently the necessity at the local stage of pursuing enhanced revenues out of their own resource mobilization). The mayor of Trujillo explicitly cited the negative impacts of the Local Tax Code of 1994 for his city and the consequent reaction which was the creation of the SAT. In Metropolitan Lima revenues were reduced then by over 30 %. The first SAT was created in Lima in 1995.

Favourable performances shown by the three existing SATs of the provincial municipalities (SATL of Lima starting in 12/1996, SATT of Trujillo (12/1998), and SATP of Piura (12/1999)) have led to an intent to replicate them. Recently similar agencies were installed in municipalities like Ica (5/2003), Huancayo (10/2003), Cajamarca (2004), Chiclayo (2004), Pisco (2005) and Ferreñafe (2005).

It seems obvious that this specific management innovation was caused, for the first movers (SATL, SATP and SATT), by specific incentives/disincentives and for the municipalities which recently introduced a SAT also by successfully copying the existing best practices. Copying the best practice is apparently helped by party membership (Piura, Huancayo, Trujillo, Cajamarca, Ica, Ferreñafe were all in the hands of APRA). In Arequipa, the mayor (also APRA) tried to create an SAT but after heavy protests he moved back. In the case of Talara (APRA as well), the ORTT (Oficina de Recaudación Tributaria de Talara) had already been created (the ORTT was basically an SAT, but with a different name) and then abolished for political reasons (political back-tracking as a reaction to citizen protests). It was assumed before the interview was held with this municipality that one reason for this would probably be the particular high transfers the Municipality of Talara is receiving. But, in reality, the mayor who was re-elected at the end of 2006 still favours an SAT but was not wishing to push it on his electorate.

The common patterns in all of these SATs are that they are separated from the local administrations and they are granted the legal status of semi-autonomous authorities. In the past SATs followed either one of two governance models: the chief executive officer (CEO) model or the board of

directors (BOD) model. In the CEO model, the mayor of the municipality appoints the director. Under the BOD model, on the other hand, the board is responsible for overseeing the SAT's management but does not intervene in the day-to-day activities. SATs are responsible for the collecting of all their own revenues (taxes, charges and fees). They are designed with a number of autonomy-enhancing features, including self-financing mechanisms, which is derived from a share of its gross collections plus its own-income from user fees. This share varies from 5 % for the SATL (this share was raised to 9 % between 8/2004 and 2006) and SATT, over 6 % for SATP and the SAT of Ica, to 10 % for the SATHuancayo. SATChiclayo was created recently in 11/2004 and is getting an 8 % share; the now deactivated SATPisco got 14 % (see Table N° 15).

**Table N° 15: Starting dates of SATs and their Commission Charge**

	In operation since	Commission Charge
SATL (Lima)	1996	5 %
SATCh (Chiclayo)	2003	8 %
SATHuancayo	2003	10 %
SATPisco	2005	14 %
SATIca	2003	6 %
SATT (Trujillo)	1998	5 %
SATCaj (Cajamarca)	2004	6 %
SATFE (Ferreafe)	2006	10 %
SATP (Piura)	1999	6 %

A traditional tax department in a given municipality under the name of “*Direccion General de Rentas or Direccion General de Administracion Tributaria*” is a line department (and sometimes even only a sub-department) and, therefore, as part of the wider municipal administration has to comply with public sector norms. The SATs, on the other hand, are legally public decentralised entities “*Organismo Público Descentralizado*” and this enhances the administrative, budgetary and economic autonomy (see Annex: Figure N° 4 and 5: Organisational structure of a typical municipality and a SAT). The organization chart of an SAT shows a greater differentiation concerning the services provided as a tax collector. Several functions like the reclamation department, internal control or legal council are in traditional tax offices, if at all institutionalized, but only in an informal manner. The more detailed structure seems to make this institution more feasible for

bigger municipalities as SATs are, for the moment, only created in Provincial municipalities.

SATs can handle operational procedures (e.g. contracting, employing, working hours) with much more flexibility, bypassing problems of the municipal administration. SATs select staff according to meritocratic competitions and are contracted under the more flexible private sector regime. The employees are relatively better paid than their public colleagues (the wage structure in local administrations is severely depressed and is far from being competitive in relation to private sector salaries). Employees are regularly trained in technical and legal issues which are framed in a code of ethics.

Anecdotic evidence suggests that there exists some bribe taking in the traditional tax offices concerning tax exemptions or assessment of property tax. SATs argue that through the institutional structure, the code of ethics for all employees and a strong internal audit unit, the inherent institutional opportunities of corruption are heavily reduced and accountability improved.

SATs are also well ahead in the modernisation of technological hardware and software (specialised software was developed under the oversight of SATs). The SAT Lima lately implemented one of the fastest running fibre networks in Peru. Attention to the public is provided in modernized buildings with modern infrastructure, visually changing the face of traditionally overcramped and poorly equipped tax departments. The transaction costs are reduced, office hours extended and payment via the Internet is feasible.

The change of attitude towards the culture of service provisions, following new public management approaches, is a strategic paradigm developed to break up the old system of simple legal compliance. The taxpayer, in the SAT concept, has to be shown respect (he is complying with a duty as a citizen, asking for advice or having a well-founded or unfounded reclamation) and should be given all available facilities to get reduced compliance costs and a well working service. Moreover, SATs handle information in a very transparent manner, publishing an annual report and having most data on their website. This compares very favourably with most other municipalities where hardly any information is available at all.

In municipalities with SATs, property tax collection has been rising annually well above the average increase of around 10 %. Overall collection has been increasing even faster (fees, charges, fines). Detracting from an



apparently strong growth performance is, however, the fact that growth has started from an extremely low base. Some “traditional” Municipal Tax Offices are not necessarily stagnant and some have had successful experiences in Lima. They have shown that by partly using the same features as the SATs they have increased their revenues in a similar way.

SATs are in some way copying the best practices of the Peruvian national tax agency (SUNAT) which also functions on a semi-autonomous basis (the tax to GDP ratio rose from nine percent in 1987 to 15 percent in 1997). Some SATs copy even the strategy of the SUNAT by concentrating on the big taxpayers (selective assessing) and therefore in comparison non-residential properties (industrial or commercial) are often over-taxed relative to benefits received.

At the central level the model of semi-autonomous revenue authorities appears to be a trend in the last 20 years among many developing countries in order to replace their existing tax collection agencies<sup>83</sup> – from Latin America (Bolivia in 1987, Argentina and Peru in 1988, Colombia in 1991, Venezuela in 1994, Mexico in 1997, Guatemala and Guyana in 1999) to Africa (Ghana in 1985, Uganda in 1991, Zambia in 1993, Kenya in 1995, Tanzania in 1996, South Africa in 1997, Rwanda in 1998 and Malawi in 2000) to Southeast Asia (Singapore in 1992 and Malaysia in 1994) and even to Europe (Spain in 1991), cf. Manasan (2003). Taliercio shows that semi-autonomous revenue authorities have had uneven impact not only in combating corruption but also the record in improving tax effort is mixed. His paper argues that from a public management perspective autonomy can be used to enhance bureaucratic performance in low capacity public sectors but remarks that the issue of autonomy should not be dealt as a question of principle.

Success should not be taken for granted, as SATs are not immune to changing priorities as is shown clearly in the deactivation (after the municipal election in December 2006) of two SATs. SAT Pisco was deactivated in March 2007, as a direct backlash to the municipal election. The SAT Pisco as part of a local government with a contested political culture and with a

83 In regard to an international comparison of semi-autonomous revenue authorities at the national level, see Taliercio (2004).

very bad municipal administration from 2003–2006 is probably paying the bill. The new mayor of Ferreñafe, a small town with predominantly small agriculture landholders and related businesses, deactivated the SATFE as one of his first actions once in office. The new mayor, while recognizing the success of other SATs, argued that the SATFE did not live up to its expectation, had a poor administration and that, in general, a rural town has no need for a pricey independent tax agency. He also mentioned publicly that every tax agency is aiming to collect more taxes, but that this was not viable and not wanted in his province.

Clearly, having the SATs budget as a fixed percentage of actual tax collections is in theory a strong incentive to enhance revenue performance and create autonomy. In practice, it is noted that mayors were renegotiating the commission share: eg. if revenues were increasing sharply (once the starting investments were undertaken or just if the municipality was in need of money). Also, the organisational chart may suffer changes if necessary: the SAT Lima was given a board of directors in 2006, including five functionaries of the Metropolitan municipality, to oversee the SAT – which can be seen as a fake BOD. The reorganisation may be seen as the result of the SATL getting (at the end of 2005) a lot of bad press for being in some cases overly coercive (and also for discrediting other SATs. By installing the board, the mayor of Lima was reducing pressure (election was imminent) with this institutional rearrangement.

Trying to extend best practices further and as an intention to reduce fixed costs, the SAT Lima signed two agreements to provide the tax collection for some other metropolitan districts (the districts of Ate and La Victoria) but this experiment failed and both municipalities are again in charge of their own tax collection.

The experiences with the SATs are on the whole positive, but should also be carefully compared with insights from academic literature (cf. Taliercio). A reformed local tax institution might end up being an island of excellence while the wider local administration still follows traditional administrative models, as is demonstrated in the experiences of the SATCh and SATPisco which were working in contested municipalities and which arguably had a direct relation to revenues.

A recently created (June 2006) association of SATs (Asociación de Servicios de Administración Tributaria – ASAT), is working on standardising procedures, serving as a platform for inter-dialogue and is trying to pursue policy advice on the national level.

### **7.2.2 Performance orientated Management Contracts**

Another interesting approach concerning public management reform, this time on an initiative of the central level, has been undertaken for some years now by the DNPP (*Dirección Nacional de Presupuesto Público*) of the MEF. Principally it is expected to enhance performance of different governmental entities by the subscription of Management contracts (*Convenios de Administración por Resultados*).

Management contracts are a common instrument in administration reform. This approach was concentrated in most countries in the beginning on the central governmental level (eg. Only in 2000 did the UK introduce a pilot at the local government level: the so called “Local Public Service Agreements – LPSA” are contracts between the central government and local authorities that are intended to deliver improvements in key outcomes for local residents. In return for a potential reward grant, the councils agree to deliver more services or improved services; the incentive normally consists of an extra donation or fiscal transfer of up to 2.5 % of the local budget.). While international experience shows a rather favourable picture concerning the results (eg. in the British case LPSAs are acknowledged for being helpful in achieving across local governments measurable improvements in education, transport or social services) it might be difficult from a theoretical point of view to distinguish a system based on management contracts from a purely discretionary system.

In Peru, the DNPP focussed in the past entirely on the pure financial aspects of the budget execution process, but was trying increasingly to relate financial resources to efficient public policies (output instead of input orientated). The overall number of signed CARs stayed during the five years of experimenting was more or less constant. The number only increased in the fiscal year 2006 because it included for the first time the regional governments (see Table N° 16). The sectoral division of the CARs is focused on public services which are in an especially bad shape, namely education, health and public security.

The CARs which enhance tax revenues at the local governmental level and are, therefore, relevant to the topic of this investigation, have been analyzed. In the case of the CARs signed with the municipalities, they receive – for successfully complying with the indicators negotiated in advance (which are put into a formal contract) – a “*Bono de Productividad*”, a onetime extra allowance. This monthly extra allowance consists of up to 25 % of the salaries and has to be taken out of the potential savings of the recurrent expenditures. Employees directly involved inside the area of the management reform, are legally entitled to receive at least 30 % of the overall allowance. Saying that, the Peruvian CARs theoretically give sufficient incentives to municipal employees to enhance performance, but they are limited in the fact that the amount to be disbursed has to come from savings inside the recurrent expenditures.

At the local level, management contracts were signed especially with several municipal owned enterprises in the water/sewage sector (SEDAM Huancaayo, EMUSAP Abancay, EMUSAP Amazonas, EPS Chavin, EPS SEDACAJ, EPS SEDAPAR and EPS Tacna). In 2006, compared to previous years, CARs were not signed anymore with the municipal saving banks.

**Table N° 16: N° of Management contracts (CARs) signed with governmental entities**

	2006	2005	2004	2003	2002
<b>CARs total</b>	<b>86</b>	<b>38</b>	<b>42</b>	<b>40</b>	<b>44</b>
<b>Central Government total</b>	<b>50</b>	<b>23</b>	<b>16</b>	<b>18</b>	<b>16</b>
Police stations	22	9	3	2	0
Public Hospitals	14	4	1	1	0
Public Schools/Universities	14	0	0	0	0
Regulating/Supervising agencies	0	7	7	8	7
Other	0	3	5	7	9
<b>Regional Governments</b>	<b>26</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>
Public Hospitals	11	4	0	0	0
Public Schools	15	0	0	0	0
<b>Local Government</b>	<b>10</b>	<b>15</b>	<b>26</b>	<b>22</b>	<b>28</b>
Provincial Municipalities	3	2	0	0	0
Municipal owned enterprises	7	9	13	12	21
Local Saving Banks (CMACs)	0	4	11	9	7
SATs	0	0	2	1	0

Source: MEF

In the fiscal year 2005, two CARs were directly signed with the provincial governments of Azangaro and Chucuito (both located in the Puno region), and in 2006 a CAR was additionally signed with the municipality of Tayacaja (located in the Huancavelica region). The agreements are very simple and concentrate on only some policy areas. The indicators in the contracts require that the local administration enhances tax revenues and provide better local services, especially:

- a) in the case of Chucuito: to increase property tax and provide a better waste removal service,
- b) in the case of Azangaro: to increase waste removal, reduce the time citizens need to receive legal certification out of the local *cadastre* and minimize the number of overdue tax payers,
- c) in the case of Tayacaja: to increase cost recovery for user fees, introduce the vehicle tax, actualize the tax base, provide better waste removal service and actualize the provincial development plan and organization charts of the municipality.

In the years with an active CAR, the municipalities were showing mildly positive results concerning tax revenues, cf. Table N° 17. However, these results look somehow less impressive if compared to the years before. It should be mentioned that the fiscal year 2006 was also an election year. It is unclear if reduced fiscal effort in the case of the municipalities of Azangaro and Chucuito is the result of strategic behavior of the mayor (looking for reelection) or if citizens paid taxes in a strategic way (which in this case would mean either that they minimized their tax payments to a leaving administration or they were sure to benefit under the expected tax amnesty under the next administration).

**Table N° 17: Property tax collection of selected municipalities (colored in grey are fiscal years with an active CAR)**

	2006	2005	2004	2003	2002	2001
Azangaro	72,427	78,005	66,021	89,712	48,882	24,926
Chucuito	47,555	56,125	44,093	54,963	37,149	n. n.
Tayacaca	243,400	14,936	131,934	54,645	147,839	n. n.

Source: Contaduria, MEF

One previous evaluation undertaken by the MEF itself (MEF, 2006) states that important public management reforms have been initiated: eg. a con-

ceptual change to measure output, positive impacts on process optimization, modernization of the infrastructure, reorganization of office hours, information campaigns, implementation of new management systems and increased motivation of municipal employees to comply with well established goals.

On the other hand, it seems obvious, that the DNPP only lightly monitored these three CARs with the local government level (due to shortage of human resources or low policy importance). Moreover, some theoretical insights like that the CARs should be accompanied by accountability enhancing features (publication of contract, involvement of citizenry etc.) to break constraints, did not happen in the praxis. The sequencing of the implementation of the CARs was also inappropriate because it did not correspond to the budget making process. Importantly, regarding employee motivation is that for not fulfilling all criteria municipalities did in fact not have access to the productivity bonus. Mainly, they did not revise the local development plan or implement the municipal organization charts (ROF, MOF, CAP), which is a legal obligation but has side effects which many municipalities are shying away from (like: employees have to be given formal labor contracts). The political backing by the mayors was ambivalent: it seems that the mayor of Azangaro was not involved very much, while the CAR with Tayacaca was signed primarily on the initiative of the mayor. On the technical level inside the municipalities, the CARs received support primarily from the municipal budget office (natural counterpart of the DNPP), while other municipal areas were sparsely integrated. In the Peruvian case of results-oriented contracts the central government is not providing extra funds, which is often the case in other countries.

Everything summed up, it might be reasonably argued that the local governmental CARs, while they achieved some better performance, lacked rigorous assistance and therefore did not reach their full potential. International practice shows that management contracts are a valuable instrument to deliver improvements (cf. Sullivan & Gillanders 2005), but this only happens when local governments are given the freedom to decide how best to deliver priority outcomes (indicators are negotiated), while the central government provides the enabling framework and sets the incentive structure.

The MEF recently decided to implement results-based budgeting. In the fiscal year 2007, it started with pilots limited to the central level and to pri-

mary education, the national identity register, nutritional programs and maternal health sectors.<sup>84</sup> While results-based budgeting is coming forcefully onto the political agenda (occasionally pushed by WB and IADB), the MEF temporarily suspended the CARs for the budget year 2007 (but is planning to continue with an improved form of management's contract in the following budget year). Even under result-based budgeting, CARs will be used as an instrument which is setting an incentive frame in public administration reform.

84 Another intended reform was made by the Ministry of Finance by integrating into the financial management the software system SIAF-GL that was compulsory for municipalities, a *cadastre* module which was essentially a database and might raise property tax. This module was assessed as a pilot in some municipalities between 2003–2006 and has been abandoned.

## 8. Synthesis

### 8.1 Examination/Comparison of the Main Research Hypothesis with Empirical Results

In this chapter the empirical results are examined/compared to the research hypotheses elaborated in Chapter 1.2.

1) Results of previous investigations finding a substitution process may be flawed –for the familiar reason – that correlation does not prove causality and because the effort was not undertaken to make a qualitative assessment. One could not sense too much reluctance of mayors to commit themselves psychologically to a project of raising more tax money.

While property tax is very low in comparison with other countries, municipalities have shown, on average, steady increases concerning the collection of more revenues on property tax and some municipalities have shown impressive results. The data available does not show a substitution effect for the last five years. The yield on property tax remains low, but there are no signs that increases in transfers have on average had a negative impact so far. Mostly, mayors have not shown in the survey a tendency to interconnect transfers and property tax. Property tax has risen by 10 % a year since 2001 and there still exists great potential for increased property tax collection.

The fiscal base of local governments in Peru remains small for the municipalities for various reasons. The reasons include insufficient local capacity for revenue generation in the majority of municipalities, excessive central control over bases and rates, and missing incentives from the central government.

For the time being it would have been considered – if not a reasonable but understandable behaviour – for local authorities in Peru not to engage considerable resources to the enforcement of property taxes because bases are narrow and have modest yields. The tax base has eroded in the past due to the double link to a) the valuation of property by a central governmental entity, which was even offset by moderate inflation, and b) the indexing of the progressive property tax rates to a fast rising reference value (UIT).

Passively accepting whatever revenue happens to come in would be considered the most reasonable approach, but the empirical findings of this



investigation show that even then the municipalities engage in property tax collection.

Because Peruvian municipalities can't raise the rate for property tax (nor the rates for the other taxes they are administering) and because they are not involved in the valuation, the only option left as a policy choice is to actualize the property values beyond the annual raise in values given by CONATA for a given square meter by a) further taxing improvements and b) by minimizing tax evasion.

Mayors have to live up to a constrained local tax tradition: in the end of 2006 (change of administration) there were tax amnesties in around 50 % of Metropolitan municipalities, forgiving mainly the interest payments, but sometimes even reducing the principal (up to 30 % in the case of La Victoria), see Annex Figure N° 6: a typical municipal note concerning Tax Amnesty).

Up to now the revenues out of property tax are, at 8 % of total local revenues, quite low by themselves, and internationally, comparing yields to GDP, at the bottom end. Measured in relation to the fast rising Peruvian GDP, in 2007 the projected property tax collection will only be 0.15 % of the GDP. Peru, therefore, should give serious thought to raising more revenue out of property taxes, especially in view of the difficulties of raising other local revenues. Some argue that for a local government setting its own tax rate is a crucial part of local democracy. The property tax can enhance accountability at the local level. And, it is also important due to the fact that most charges or transfers are earmarked so that property tax yields can cover discretionary finances. Recently introduced legal changes in the Municipal Tax Code are only marginally improving the potential of property tax revenues, but further steps are needed.

It is hard to find citizens who are well informed about the reasoning of property tax, or that the taxes they pay represent equitable contributions to a larger purpose and social entity with which they can positively identify (cf. Schneider et al.: 2004 on social contracts and fiscal pacts). In this context it is not very helpful that Peruvians do not, in general, understand their property tax receipt.

2) Revenue performance depends not only on the degree of coercion involved in tax enforcement (for sub-Saharan Africa cf. Fjeldstad & Rakner,

2003) but also on institutional constraints. Property tax has to be seen as a part of a fiscal system with dependencies and interactions: national laws and regulations (Congress, MEF and sectoral ministries) are affecting municipal revenues. Institutional constraints at the central and local level, as well as by line ministries/entities, hindered local governments to improve and municipalities had little policy choice to increase revenues out of property tax due to the setting of rates and valuations at the central level. The central government largely dominates intergovernmental fiscal relations, including the design and implementation of local fiscal policy matters. Local representation bodies are mainly missing on the central stage and those that exist have little bargaining power. Institutional constraints are an important reason why property tax collection is not very substantial, cf. Box N° 2.

From the macroeconomic point of view, municipalities in Peru have hardly counted in regards to revenues, transfers, expenditure, and debt. As in most shared administration systems, low incentives from the central government indicates that property tax probably comes last in policy preferences for the Ministry of Finance (if not be taken into account on benevolent grounds). It is also observable that the MEF seems not to be too familiar with the local fiscal situation/tax code. Only recently, through windfall transfers, that municipalities got into the flashlights.

#### **Box N° 2: Institutional Constraints**

MEF, Sector Ministries, Congress (legal framework and regulation):

- Little interchange of views with municipalities, which in turn leads to legal surprises for the municipalities (residual centralist approach). Rules of the games are changed again and again. The MEF is taking care in ensuring fiscal stability, but it was sometimes harming, while other times strengthening, the fiscal incentives for resource mobilization of local governments.
- The structure of transfers provides no incentives.
- There is limited interest in giving municipalities more policy choices.<sup>85</sup>

<sup>85</sup> In most developing countries, local government autonomy is often heavily constrained when it comes to taxation. One explanation is simply that central authorities are reluctant to grant such autonomy to local governments (Ebel and Taliercio 2005).

- There is no real supervision if municipalities are complying with the law (eg. a share of property tax is to be invested in *cadastre*).
- Enforcement mechanism “Cobranza coactiva” is legally given by the central government, but is ineffective and a very slow instrument to enforce citizens unwilling to pay, comparing unfavourably to the much more effective enforcement mechanism of the national tax agency (SUNAT).
- Tax base erosion by raising UIT.

#### Specialized Central Institutions

- SUNARP (property registry): exchange of information with municipalities is less than optimal.
- CONATA (valuation index setting): valuation does not reflect commercial value, struggling to increase valuation above inflation.
- PETT and COFOPRI (land/property titling) did not show much contact with municipalities.
- Tribunal Fiscal (Fiscal Court) is slow or overburdened by assessing cases, perceived by municipalities as arbitrary.

#### Municipalities

- Low administrative performance (poor local civil service, tax amnesties, bureaucracy etc.).
- Cadastres are often inexistent and mostly not updated, municipalities are not complying with the legal disposition to invest 3 % (now 5 %) of property tax in maintenance of the cadastre.
- Some municipalities are not complying with the 3/1000 share of property tax revenues which should get CONATA.
- Disincentives caused by the political cost of the property tax.

Given the inherent political liabilities of the property tax, disincentives at the local level must also be addressed. In the Peruvian case there exists little reason to believe that mayors have at their hands other more politically attractive means of increasing resources. Mayors may lobby for extra expenditure by central governmental institutions which might prove a hard bargain job given the prevailing policymaking process in central institutions (it has little to show concerning bottom-up decision making or coordination). Concerning fiscal transfers, there exist little expectation to change the allocation because most are formula based, than to receive a general increase of transfers linked to raising GDP.

Partially freeing the main fiscal transfer FONCOMUN from earmarking (a legal obligation to invest in infrastructure) was seen by some as going in the wrong direction, as being counterproductive for resource mobilization. But, it can be argued that this legal change was a matter of adapting to the reality that small municipalities paid and are paying overwhelmingly their expenses by using the FONCOMUN. On the other hand, while property tax was used traditionally more for recurrent expenditures rather than investment and the citizenry therefore did not see the use of paying their bill, the reduction of conditionality permits in theory a substitution of transfers by property tax as a source for investment (at least for propaganda reason).

Given the reduced policy options for municipalities, the central government is responsible for the enabling conditions (promoting and facilitating revenues from property taxes). But, because municipalities have only a restricted voice at the central level, it is observable how the central government institutions are changing time after time the rules of the game (Canon, Foncomun distribution and use, regulation concerning fines etc.).<sup>86</sup>

3) Mayors are very dominant in Peruvian local politics. The civil society and other interest groups may be stakeholders concerning other policy issues but do not interact concerning property tax. Since the central government has responsibility for tax regulation and partially with valuation there has been little debate about financial issues on the local political agenda. Most council members are therefore not familiar with tax issues and therefore do not intervene on the political stage (and not only in small rural municipalities) reducing the whole issue more to an administrative procedure. Without the tax and valuation setting by the central government there would probably be a more vigorous public debate and an electorate that was better informed about local politics.

Elected mayors (as political and administrative leaders) are not counterbalanced and held in check by an active council and/or by vigorous local political parties. Party politics at the local level are hardly existent and it is observable that more and more independent candidates have come to the surface. It can be stated, following the argumentation of Morón (2005: 12),

86 The last legal surprise came in 2004 when the distribution of the Canon was changed in the middle of the budget year, benefiting some whilst harming others.

that the fragmentation of Peruvian parties is due to a series of factors, including ideological and strategic disagreements, personality clashes of leaders a succession of crises, and to the electoral rules which made the situation worse.

Because the municipal council is dominated by the mayor through the fact that the mayor presides over the local council (incomplete separation between the executive and the legislative body) where he also has a voting right Plus, the electoral rules give the winning list automatically half of the council members plus one seat meaning that the mayors are elected on a relative majority and that greatly enhances their power. The mayors, sometimes with their principal tax officers or some advisors, make almost all the important property tax decisions.

The reduced participation of civil society in policy issues has led to an institutionalization of participatory elements in local governance (combining aspects of representative democracy with participatory democracy in an attempt to provide legitimisation by participation, accountability and effectiveness with equal weight). Some mayors inside the sample of this investigation demonstrated a far more participatory approach, going beyond the pure complying of legal obligations of participatory budgeting and installation of civil society advisory bodies. Decisions are also supposed to be made in line with an overall policy framework that the whole constituency has agreed on, the so-called "*Planes de Desarrollo Local*."

Even concerning other issues the broader concept of local governance (understood as the proper functioning of institutions, their acceptance by the public and coordination with stakeholders) in Peru is still in its very beginnings. Research results translate into a governance-oriented model that is structured in a predominant hierarchical way. It is acknowledged that Peruvian mayors do have advisers and act as part of municipal political and institutional structures, but the decision process is concentrated clearly upon them.

The election outcome was not a decisive reason for pursuing fiscal pressure. In our sample no correlation was established between the election results and its implication on property tax management.

The visibility of the executive at the local level is generally good as citizens hold the mayor accountable for all local issues. The concentration of

power in the mayor also comes with being responsible for everything. Local media coverage is normally given in bigger municipalities and most mayors in our sample are scrutinised by some local press.

4) Mayors have their own objective functions that they seek to maximize in a given context that provides the incentives/constraints on their behaviour. Mayors make their decisions by rationally calculating the different appraisal strings, resulting in the coping strategy which they perceive most convenient. Decisions are weighted inside a broad band of personal and programmatic long or short term policy goals. To take into account the welfare of their constituents may be, depending on identity, one factor in the appraisal string. What for one mayor might be an incentive in one municipality, might not be very relevant for other local politicians in another municipality.

The hypothesized fiscal stress for local governments is a reality: mayors suffer from a severe shortfall in resources which is a powerful incentive to look for increased property tax.

Mayors receive big political reward for public works as the population mainly rates a mayor depending whether he has or has not implemented public infrastructure. It seems logical then that mayors respond to these given preferences by overwhelmingly mentioning that this is exactly the policy area that is most important for them.

It is most striking that even the mayors of municipalities which receive windfall transfers, are trying to collect more property tax as the incentives provide a (strong) impetus for them to do so (supporting the case for denying a substitution effect, as one would at least require to find in these types of municipalities a fiscal substitution).

5) Property tax revenues are highly concentrated on urban areas and especially the metropolitan area (high heterogeneity of municipalities). It is also noteworthy that the geographical areas of the Sierra and the Amazon basin have on average much lower revenues from property taxes (correlating with the higher incidence of poverty). Rural properties might not have big revenue potentials, and in fact, these are often taxed at a marginal rate or even excluded (informality in semi-urban and rural areas). It was noted that in several municipalities businesses bear a greater burden than residential properties.

It can be taken for granted that property tax is not levied at a revenues-maximizing level. Notwithstanding the reduced policy options at the local level there are a couple of innovative examples on how municipalities can increase their own revenues. Most of the existing semi-autonomous tax agencies (SATs) of the provincial municipalities show favourable performances. Several other municipalities are apparently impressed and are trying to replicate the relative success of these SATs (mayors go through a learning curve; innovations like the SATs or CMACs are copied but take time).

In the past, even identifying a well working innovation at the local level was difficult because there was no media coverage, no interchange of ideas and few policy areas where municipalities could prove that they are able to implement far reaching resource mobilization innovations. The particular experience of the creation of semi-autonomous tax agencies can be seen as a result of an adaptation process in the 90s to bypass negative impacts created by national policies.

Concerning some municipalities in our sample, it can be argued (in accordance with Campbell, 2003 in his book “The Quiet Revolution”), that the most striking item is the reconstruction of a “contract of governance” between elected officials and the voter-taxpayers. He argues that in this reconstruction, the contract of governance has been renewed and reinvigorated by voter taxpayers who have shown willingness to allow local, elected leaders to take actions on their behalf in areas of public life in which the same voters show much less trust in national officials. He mentioned that in cities all across the region, voter-taxpayers have generally agreed to new tax burdens when elected officials can demonstrate through concrete improvements that tax revenues are at work in visible and verifiable ways.

6) The theoretical model used here (adaptation of the PMT) can apparently be applied successfully to describe and analyze local policies and therefore contributes a relevant input to scientific advancement. Survey techniques concerning the often stated substitution effect and fiscal effort were not used prior to this investigation and the results confirm that conclusions based solely on aggregated data do not deliver an adequate picture.

Some mayors decided to tax based less on deliberate elements than on intuition – even the mayor of the small Andean town Baños del Inca with huge transfers or the mayor of rural La Matanza with effectively little to tax where intuitively (identity) trying to exercise a tax effort. The research re-

sults demonstrate that a combination of intuitive and deliberate elements shape decision making.

While some changes in the appraisal structure are dependent on long-term development, others might be addressed rather through short term improvements. As a practical consequence, policy makers at the central level would need to set the right type of incentives and they would have to be more aware that local politicians react to a mix of different incentives and constraints.

The popular assertion that people or mayors in developing countries are assumed as being less rational might be seen under the theoretical model elaborated in this research as a simple result of a different cognitive approach to the inherent changing appraisal and constraint structure; meaning that incentives are of different kinds.

## **8.2 Results and Perspectives**

An evolving local institutional environment – as manifested in new laws, stronger public awareness towards local administration and increased responsibilities – has come up against serious flaws – incentive structure, institutional parallelism, poor local administration performance and no real voice for municipalities on the central stage which results in legal surprises (residual centralist tradition). The degree of centre-state policy fluctuation is high, the changing institutions and incentives are generating continuous policy modifications with delayed or unwelcomed outcomes (cf. Gómez, 2003).

Whether the results of fiscal transfers have positive or negative implications depends upon the incentives that transfer systems create for both regional and local governments. The complexity and ambiguity of the relationship between fiscal transfers and tax revenues is one of the main causes why research sometimes, even in the same country, comes to different results. The conclusions of this investigation are not biased by concentrating on the bigger municipalities. However, as it should be taken for granted that rural municipalities in Peru have almost no tax base for applying a property tax and these municipalities will continue – quite naturally – to be dependent almost entirely on fiscal transfers.



The central government has access to broad-based taxes with high revenue potential, whereas local governments have much more modest revenue instruments, though the property tax does have substantial revenue potential. Actually, it is especially difficult to make a plea for increased own revenue when the municipalities are going through a transfer bonanza.

Property tax as the main source of own revenue generation for Peruvian municipalities does not get altered directly by transfers. Reality lies, as usual, somewhere in between: mayors are neither pure revenue maximizers nor show fiscal laziness, but they try to balance the inherent incentives/constraints in their policy making approach. On an individual basis there exists mayors who are revenue maximizers, others who are substituting revenues and others who show apathy. Many engage in property tax. Importantly, mayors do not easily relate transfers and taxes. The decision to exercise a fiscal effort comes sometimes before a transfer or is autonomous, which constitutes an important reason why a numeric relation between transfers and self-generated revenue is difficult to construct.

The Peruvian government has given preference to a cautious decentralization process rather than to a 'big-bang' reform. Until now the budget discipline was not put under hard pressure or negatively influenced by the decentralization. The current decentralization process in Peru will strengthen the position of municipalities and support local administrative capacities through the transfers of new responsibilities and resources. Even if Peruvian municipalities have until now not received a significant functional increase through the decentralization process; important transfers are still to come. Up to now only some of the municipalities have benefited by the transfer of some projects of the food program PRONAA and of the projects (and budgets) of the Social Fund (FONCODES), but even those are supervised through framework contracts and central monitoring. Structural adjustment at the central level is hardly dealt with: an example of this being FONCODES laying off personnel, but the opposite in fact happened under the Toledo government where the total number of employees did in fact rise.<sup>87</sup>

87 It can be said that Peru does not differ much from the typical pattern that countries which are embarking on decentralization often struggle with – the decisions about

The distribution of some principal responsibilities between levels of government are still not finished and there are overlapping responsibilities between the provincial and district municipalities. The sectoral transfer to the regional governments is far from being substantial and, in reality, very little was transferred until the end of 2006. The regional level stayed the same because these limited financial and functional transfers were far behind the expectations of the population.

Several times in the republican history constitutional and/or legal provisions concerning a mandatory process of devolution were ignored. Every incoming president changed the rules of the game and the local government level was never a substantial part of their agenda. The sequencing of decentralization policies, which is an important determinant of its success, was changed again and again.

A stronger participation of the civil society was institutionalized by the recent decentralization process: a) in the newly created “Consejos de Coordinación” consisting of a representation of the organized civil society and council members, which at the regional and local level act as participatory bodies to the respective Councils b) the obligation to elaborate regional or local development plans with the implicit participation of the population c) the participatory elaboration of local and regional budgets (Presupuesto Participativo). These legal obligations will improve the democracy deficit over time even if the present reality looks somewhat hollow.

Property tax reform in Peru has to be seen from the broader background of this recently initiated decentralization process and a legacy of weak local institutions. Underlying poor local governance, however, are political liabilities from the autocratic Fujimori regime (1990–2000) and other harming public policies. Peru is an important counterpoint to the stories of its neighbours. Decentralization proceeded tentatively during its early years of democracy, but many of its decentralizing reforms were either nullified or significantly rolled back during Fujimori’s presidency. This left elected local governments with few fiscal resources. Most local policymakers

the essential components of decentralization. Once the legal framework is established the real problem starts with the implementation. Line ministries show adverse reactions and the sub-national governments are ill prepared to manage transfers and functions.

had to maintain vertical and politicized relationships within the public sector to receive a share of expenditure allocation.<sup>88</sup>

Notwithstanding the difficult institutional context and weak incentives to improve public sector performance during this autocratic regime, some municipalities had already experimented with and implemented public policy reforms (effectively using the restricted scope for local initiatives).

Concerning fiscal decentralization it can be stated that this is proceeding in a cautious and fiscally sound manner. The municipal level is at the moment only slightly benefiting from new revenue sources through the ongoing decentralization process. While the revenues of the local government level were rising strongly in the last few years, this was principally linked to the formula transfers prior to the move to decentralize. If at all, fiscal decentralization is up to now concentrated on the regional level, but has been halted due to the negative outcome of the referendum in October 2005 not to merge into macro-regions. Under the actual design fiscal mismatches at the regional level (their own revenue collection is minimal in comparison to expenditure) can be expected to continue as horizontal imbalances are substantial and will, in the case of the creation of macro regions, still subsist.<sup>89</sup> Some regions will not merge into macro regions meaning they will depend for a longer time horizon entirely on transfers. Revenues of tax share arrangements for the macro-regions (if created) will be lower than expenditures (in most cases even far lower), meaning that the revenues would still be complemented by additional transfers. In general, the design for tax sharing with regional governments will preserve the central government's fiscal management capability and it is not expected to raise tax pressure for individual agents<sup>90</sup> – if accompanied with the transfer of expenditure responsibilities (for the moment there exists rather vague rules for the as-

88 Local governments during the autocratic Fujimori years found themselves often in the dismal situation in which they had to bargain political support for vague or real expectations of allocation decisions. This political maneuvering sometimes took bizarre forms eg: in 2000 after the illegal re-election of Fujimori many mayors in the department of Lambayeque which were campaigning forcefully on an anti-Fujimori ticket, signed a public letter of support for him after the election results.

89 In the literature on fiscal decentralization it is assumed that a sharing arrangement is preferable than a pure transfer system.

90 It might be especially tempting for the central government to raise taxes which are not shared eg. corporate income tax.

signments of expenditure responsibilities for the regional governments (as mentioned in the Organic Decentralization Framework Law as shared responsibilities)). It would make more sense to tailor expenditure responsibilities to conform to the administrative capacity of regional governments.

While it is a stated goal that the decentralization process is keeping neutral fiscal balances and is assumed not to exacerbate geographical disparities, in reality the structure of transfers in Peru have become increasingly heterogenic. Few of the transfers take into account population needs in a comprehensive manner, although different aspects are addressed in different programs. For example, FONCOMUN and FONCOR are distributed among municipalities and regional governments respectively based on poverty indicators, demography and un-met basic needs. However, the overall effects of the individual transfers need to be assessed in an integrated framework. In principle these transfers should contribute to the reduction of regional inequalities (but at the moment there are some departments that are more developed and get extra high transfers). Other automatic transfers, such as the Canon, clearly lead to larger geographical disparities and limit the capacity of the central government to “equalize” access to public services across areas. Some very careful consideration should be made on whether or not these municipalities/regions should redistribute their windfall transfers to poorer ones or if the central state should instead increase transfers to poorer ones, so to make homogenous development of all Peruvian regions more feasible. Actually the constraints on fiscal resources at the central level of the Peruvian government are low, which theoretically makes it feasible to close the urban fiscal gap through increased transfers to local governments (giving one percent more of VAT to municipalities or regions should be possible but would not be enough to cover the still much higher need; if the central government is hesitant to transfer more money a local development fund could be established instead).<sup>91</sup> In many countries, the establishment of an equalization transfer system is an integral part of the design of an

91 Some financial institutions might argue in favor of financing major urban infrastructural investments through improved access to capital markets – which might be feasible but has to be carefully assessed against repayment possibilities (local officials might be tempted to take credit and leave the next administration to pay for it and, moreover, the debt would have to be financed by local taxes or fiscal transfers).

effective decentralization program. Best practices (from Denmark to China) suggest that consideration should be given to a mechanism that takes into account the differential costs of the provision of services (particularly important in a country with the extreme topography differences of Peru), as well as the capacity to raise own-source revenues (cf. Ahmad & García-Escribano, 2006). It is important to mention that not only the transfers but also the public expenditure in the country is highly heterogenic, primarily caused by a multitude of patchwork historical decisions (eg. the teacher/pupil ratio in the 25 departments is without obvious reasons very unequal correlated with the corresponding budget assignment).

Peruvian big cities are much less dependent on transfers than smaller municipalities or rural local governments. The smaller share out of the FONCOMUN distribution may be justified on a number of grounds, in particular, that the cities have a greater fiscal capacity and more revenue-raising authority, but poverty while still concentrated in rural areas is also evident in urban areas. The fiscal gap between infrastructure needs and resources available is becoming worse through migration.

One problem induced by the transfers, in general and especially with the minimum transfer assigned to each municipality, is that it motivates the creation of districts to benefit directly from central subsidies. The number of districts in Peru has been rising fast and there are about 2,000 *centros poblados* (minor villages), all of which may aspire to upgrade to district municipalities (which would result in an automatic share of the transfers), thus demonstrating that fiscal incentives sometimes (if big enough) are indeed working well at the local level. In this context it is important to recognize the high heterogeneity of municipalities in Peru, “local government” equally covers urban districts with more than one million inhabitants and sparsely populated rural areas. Successful decentralization might require more differentiated focalization.

It is an open issue how to relate in a feasible manner the transfers (FONCOMUN but also others) to the local fiscal effort (a not enacted disposition of the Municipal Tax Code, which normally should have required at the beginning of the budget year 2006 municipalities with fiscal and/or investment efforts should have received extra funds, encountered technical prob-

lems). The strengthening of local revenue collection through the introduction into the transfer scheme of some sort of incentive to sub-national entities is a subject still without a lot of investigation. Some countries like Colombia introduced a similar incentive mechanism, but so far there exists no reliable assessment concerning international experience. Accurate statistical databases are one of the main problems in developing countries to make such an incentive mechanism work well.

The incentives of the intergovernmental transfer system and the central valuation of property which face local Peruvian governments are problematic. Even though there are these negative impacts, many mayors are trying to make a real difference. Property tax is a stable source of revenue in Peru and does not easily break away (people get used to paying or not to paying it). The Peruvian property tax will primarily increase unless the tax base erodes – (if everything is left static, the property tax bill in a given municipal will be reduced by an average of 3 % a year). Given the reduced policy choices Peruvian mayors have concerning the property tax, the only measures which would have an impact would be to lobby CONATA, to reduce tax arrears and to actualize the value of property using the given parameters (eg. a recently built third floor will have a positive impact, because value is determined by using a square meter index and the materials used). Anecdotic evidence suggests that in some municipalities not even this policy option is used.

This investigation shows that the relation between local tax revenues and intergovernmental transfers should be analyzed more carefully to the extent in which local governments control their own revenue sources. If local governments have no control over tax bases and rates the concepts of local accountability and responsiveness are restricted. Reduced revenues at the local level might be correlated to hesitations at the central level to allow more influence of municipalities to determine their tax rates and bases (especially the flexibility to set rates – probably best inside a given frame – might induce some tax competition).

With the reduced policy options facing municipalities no readymade exists for extended revenue out of the property tax (permanently fighting against base erosion and exonerations): Mayors might, at best, endorse a strategy where citizens have to be educated regarding the property tax and

the benefits of local services on home values (tax capitalization). The local tax culture has to be reinforced and sanctions have to be enforced.

Especially noteworthy is that Peruvian municipalities with windfall revenues did not show the institutional capacities to manage these resources effectively, meaning in essence they possess huge bank accounts and adapt only slowly to new and different ways of investment. These municipalities which were used to small infrastructure investments had to and still have to counter a veritable shock of fiscal transfers and were not prepared concerning processes, human resources, planning instruments nor mentality (tellingly, bureaucrats who were used to underwriting checks of small amounts were hesitant to do the same with – in their understanding – incredibly high amounts with no reference of past experiences). The central level did not provide any guidance to municipalities concerning the huge incoming transfers and no projections of revenues were transmitted in a systematic way to the local government level. They were rather left alone. Building-up the institutional capacities of the local level will be one of the major challenges in the ongoing decentralization process.

Willingness of the citizen to face their fiscal obligations was not the subject of this investigation, but it can be assumed that it is essential for local politicians to show positive impacts through quality of investment<sup>92</sup> and service delivery accompanied by reduced administrative costs. Because charges and fees are collected for almost every service provided by the municipalities, it is especially difficult for citizens to identify specific benefits for which they are paying property tax. It seems to be evident that there exists, for the normal Peruvian citizen, no association between service delivery (availability and quality) and property tax rates. In fact, that is not only the case for local taxes, but the same can be said concerning VAT, excise taxes and in-

92 Quality of investment in Peru is a big issue: municipalities have shown abundant investments with little impact, little sustainability and/or cost overruns (the same can be said about the central level). A national system for public investment (the so called SNIP) is protecting against major flaws and local governments until a certain level were first exempted to go through this process, but will progressively be integrated. Concerning administration costs, in Peru the local council members got serious money, eg. a provincial town like Chiclayo with 15 council members (so called *regidores*), each had an allowance of about 5,000 Soles a month, meaning almost 1 Million Soles/year or about 18 % of property tax yields.

come taxes at the central level. It is sometimes joked that the Peruvian formal sector is paying European tax levels and is getting African standards of services provided for by it. Citizens seem to possess little understanding of the whereabouts of property tax.

There exists no data concerning an assessment of the cost for administering the entire property tax, but the fees that the SATs are charging (between 4 % and 12 %, with an average of 6 %) might give some hint. Additionally, the cost for CONATA of 4 Million Soles or around 1 % of property tax receipts has to be taken into account. Anyway, these costs seem to be high compared with figures for the centralized property tax system in Chile, where the cost was estimated at only 2.2 % (Strasma, 2000).

Underassessment of property is a common feature all over the world but a particular liability in the developing world. It was shown that improving property tax collection would fall short of reforming if not including the CONATA. Providing the valuation with a central institution might not make sense because local governments are normally in a better situation to assess property value. However, mayors perceive CONATA in an ambivalent manner: they are aware of technical shortfalls, criticize the lack of responsiveness concerning highly inaccurate out of date valuation, but rather prefer a national agency to undertake the valuation business (for technical reasons or as they can use it as a scapegoat!). In the recent past, CONATA has made different attempts to increase the rates (with up to now little success).<sup>93</sup>

Some academics have argued that the given property tax system with its exemptions, deductions, special treatment and tax erosion is the result of a series of political compromises and benefits, favouring those with the most political power. It seems more appropriate to view the Peruvian property

93 A change of calculations of the assessed value from a multi based index to a more simplified valuation method based on m<sup>2</sup> and area index have shown good experiences in some cities e.g. Santa Cruz in Bolivia (Rojas 2004). And modern techniques of valuation like the manual mass valuation approach, and use of CAMA (computer assisted mass appraisal) techniques are still not used in Peru but have shown in other countries that they can produce more equitable, up-to-date values in a transparent, cost effective, timely and sustainable manner



tax system in the light of its own history with little vested interference from interest groups but rather a general agreement to pay reduced amounts for this tax. Rather, the investigation has been able to show that property tax is particularly affected by the likelihood of communication bottlenecks between local and government levels. Some legal changes in the Municipal Tax Law introduced in the last three years are potentially improving the tax revenue of the municipalities but there is still plenty of room for reform.

The decision to tax may be taken not only as proof for fiscal stress but also it has important implications on local governance. Mayors who ask for tax money have to be more accountable than someone who finances his budget entirely by transfers. Mayors get reelected by demonstrating management capacities, improvement in service deliveries and most important of all (at least in Peru), by implementing public infrastructure projects. Mayors might seek equilibrium in the tax pressure, sometimes accompanied by a selective strategy to assess eg. an industry branch or commercial properties. The perceived unwillingness of local governments to enhance local revenues contrasts with evidence that local citizens are charged by municipalities for almost everything, sometimes even for registering births which normally is exempted (some quarrels about why and if this specific service should be exempted was resolved in 2006, again by central government intervention).

This investigation borrowed heavily from the PMT, adapted for the purpose of this study. The model used has the advantage to introduce in the analysis of a policy making process several appraisal strings. From the theories looked at to guide the conceptual approach, the PMT was chosen because it was possible to put emphasis on the fact that mayors in the Peruvian context are the relevant policymakers, making decisions predominantly by themselves (this may be true for much of the developing world). PMT works with a personal approach, justified by the prevailing local governance model in Peruvian municipalities. The prevailing organizational culture in municipalities is best characterized for being bureaucratic and very hierarchical. The PMT has shown itself to be an appropriate methodology to understand local processes or decision taking. It is especially helpful that the methodology integrates aspects of the century old twist between Rousseau (“if it is reason that makes mankind and feeling which leads him”) and Kant (“the ideal of pure reason”). The theoretical approach by adapting the PMT to the

purpose of this investigation is innovative and might be applied in other studies.

The empirical results of this investigation indicate that mayors behave in a strategic way, well aware of the benefits and costs involved, and constrained and encouraged by a given contextual framework. On the other hand, this investigation revealed that there is a remarkable lack of knowledge about technical issues of property tax amongst Peruvian mayors. An often stated fiscal competition between municipalities is, for the given reasons, not an issue in the Peruvian context. The performance of property tax administration depends on the appraisal of mayors, which varies enormously among cities. The methodology used in this sample shows different patterns of property tax management as a result of a specific mix of incentives and constraints.

Leaders in a developing country like Peru are apparently less constrained in one way and more constrained in another way to make a decision than their peers in developed countries: less constrained, because as already noted, there is less media coverage, public perception is more wobbly (sometimes the public even expects that their mayor is going to be corrupt!), the election modus in Peru guarantees a wide majority for the mayor, the prevailing political culture etc; and more constrained, because he has less autonomy (the central government is the dominant actor), has no real representation at the national level and has little possibility to communicate or work with other levels of government. Despite the plethora of rules which underlie the local government level the capacity of the central state to monitor is limited and primarily the control mechanism is reduced to backward looking and, not very frequent, auditing processes.

The sample used in this investigation shows that local political leaders do attend to the wishes of their constituents. Local governments can be more responsive and accountable than upper tiers of government to citizens' demands. This responsiveness is one reason why the system of local governments in Peru should be strengthened, as it is the crib of democracy. Monitoring is expected to be more intense when the services are (partly) financed through property taxation rather than from grants from the central governments.

The results of this investigation support the findings of Blankart & Borck (2005) who argue that the Leviathan model was originally proposed as a tool for developing guidelines for a fiscal constitution and less as a positive model of government decision-making. As such, maximizing tax revenue is no doubt just as an extreme a government objective as welfare maximization. Most likely, government objectives are somewhere in the middle, thus, the government does not act without constraints, and in particular, needs to be re-elected. Voter welfare will thus enter into the objective function of government officials.

It is shown that institutional arrangements (rules of the game) are an important factor: the structural feature of local government, the legal constraints imposed by central government are decisive (Clingermayer & Feiock, 2001). In the Peruvian case, the constant change of rules and the low or wrong incentives have been a deterrent to longer-term municipal institutional building (municipalities are losing predictability). Since rapid institutional change has been the norm rather than the exception, the horizon of all participants are fairly short. In the past, this meant that a mayor probably did not expect to win easily a second term (correspondingly the mayor will perceive a supposed trade-off between the public interest and electoral prospects in a different manner). A rational thinking mayor who in the past has seen his tax efforts eroded by CONATA, who was impacted by the changing design of transfers and with an institutional short term orientation, may have been tended to hold back any pronounced fiscal effort.

Some incentive instruments to enhance local revenues from the central level, like the CARs, have shown limited results until now. It is important to note that this is due not so much because of some inherent limitation of the CARs but more to their inappropriate handling (overstretched capacity in the MEF, inappropriate design, communication etc.). The cadastre module of the SIAF-GL was implemented in some pilot municipalities by the MEF, but was taken recently out of the agenda. Looking on both instruments gives munition to the argument that the central stage might (still) be ill prepared to handle – or better said – coordinate with the local level. On the other hand the SATs, based on municipal initiative, worked well and are a true success story which was (and is being) copied by several more municipalities.

While an improved collection of municipal taxes is highly welcomed, it might make sense to take user charges also into account (under the wider background that a higher cost recovery of those is highly welcomed) and not only tax revenues (leaving the municipalities the policy choice of how to raise revenues). In the theory, it is stated that relying too much on user charges can lead to inefficient levels of service provision and because of their “public goods” nature some municipal services would be underprovided. User charges rose strongly in some cities partly because they were not constrained by an erosion of the tax/charge basis of a fast rising UIT (these were not indexed to the raising UIT and municipalities were accustomed to assess user charges as a relation to the value of a property). Some researchers would argue that the user charges were a hidden property tax because their values were calculated until 2005 on the basis of property values. This assessment shouldn’t be followed because the user charges in Peru are used to directly finance the service provided (waste removal, maintenance of parks/green areas and increasing local security). In Peru, user charges mostly do not cover the real cost of services provided, as was recognized by the mayors in this sample. Moreover, municipalities are not allowed to use revenues from this source to finance other activities. Probably as a result of fewer constraints user charges, as measured relative to revenues, are more important to local governments than the revenue made from taxes. It was expected that decision makers would consequently prefer, even in rural municipalities, user charges as a revenue source for public service, but the responses in our sample demonstrated the opposite. Mayors replied in this sample overwhelmingly in favour of property tax.<sup>94</sup> The reasons for that preference of the mayors is that the citizens are more likely to pay property tax, the discretionary use of the property tax, and also, just as important, is that it is a tax and not a user charge. They argue that user charges remain what they are, a fee charged for the providing of a given service.

The wish for better services in Peru seems not to be as pronounced as normative theory and development literature state. Often citizens seem to be happy with a low equilibrium: to receive rather inappropriate levels of service delivery if they only have to pay a bargain for it. User charges for drink-

94 Some mayors even explained that because the quality of services was indeed so poor in their municipality they could hardly ask their citizens’ money for it.

ing and irrigation water may give the best clues in this respect because while the benefit is direct and explicit, still citizens are unreliable clients, who are used to low user charges and are resistant to pay for increases in a quality supply. The citizenry is apparently not able/not willing to assess real cost (in theory known as fiscal illusion).

In the Peruvian context, the commentaries made by Inman (1989) and Sørensen (2002) are of great interest. They favour a soft constraint rather than the absolute constraint on the tax rate. While the “hard” constraint means for local governments applying a given rate, a soft tax limit would require particular administrative procedures or voter approval before taxes can be raised (Pommerehne, 1978 showing this in the case of Swiss municipalities). With more local tax discretion, central authorities can partly free themselves from being the scapegoat for local politicians. It would be possible to argue that local governments have their own means to deal with unsatisfactory service supply, budget deficits and local debt.

It seems obvious that institutional design and political culture plays a crucial role in determining the degree of influence that citizens and associations have upon collective decision-making at the local level. Peruvian institutions are quite passive, by setting the institutional incentives right they can instead modify the way in which decisions are made and implemented. There exist some discussions about reforming the rules of the local election system, especially under the context of the prevailing political culture which might be described as paternalistic and conflictive – the local parliamentary system causes atomization of parties (building of coalitions are not needed) and severely reduced representation of voter preferences. Into the local governance structures in Peru which concentrated in the past (and still concentrate) on the executive, were attempted to integrate elements of civil society and interest groups by participatory budgeting, advisory bodies, recall referendums, transparency modules etc.

Considering that it is normally not recommended to increase municipal resources while the given revenue is not used satisfactorily, it should be noted that in some selected circles it is discussed whether the small business tax (Régimen Único Simplificado – RUS) should go to municipalities to enhance local revenues beyond property tax, transfers and charges. A most important argument in its favor is that municipalities would benefit directly

by local economic development. Another tax recommendation that is derived here include a need to assess a betterment levy (taxing gains of increased property value through urban development considering that the providing of public services are being capitalized into housing prices and market rents). This levy is in some countries successfully used as an innovative finance capture at the local level and could be an option for Peruvian urban areas.<sup>95</sup>

Peru is far away from the theory of having government services paid for at the level of government closest to the benefiting population. A healthy property tax system is supported by the public finance literature. Matching consumer preferences for government services with tax sources should become ever more attractive. Higher rates or actualization of property valuation would also convert municipalities into “silent partners”, a conceptual change with big impacts. Municipalities would participate eventually into introduced urban improvements (if a betterment levy is not an option). Despite being a reiterated stated goal of fiscal policy to make local government fiscally more independent, surprisingly little is actually done. While rural municipalities will have to continue to receive transfers to finance their budgets, at least it should be made possible for urban cities to collect – through policy/legal changes – increased revenues of an actual unused potential. The property tax should be given more room to perform its function as a local fiscal choice. Tax policy changes are possible as the recently introduced royalty on mining enterprises is powerfully demonstrating.

The dictum that ‘no one size fits all’ is especially relevant when it comes to property taxes because the level, structure and effects of these taxes depend both on the nature, development and distribution of property rights and on the extent to which local governments have real decision-making power. Experience suggests that to move forward with property tax reform one must not only be modest with respect to the real potential for change but also careful to get some critical details right. In some countries, property tax

95 An interesting further research work might also encompass not only the strategic behavior of the mayor (political business cycle) but also if citizens do not pay local taxes in a strategic way: either by reducing tax payments to a leaving administration or in anticipation of benefitting by the expected tax amnesty under the next administration.

reform was part of an overall reform of local government structure and finance. In others, it was part of a reform of the overall tax system. In others still, property tax reform has been carried out on its own without being part of other government initiatives. As Bird & Slack (2007: 204ff.) note “with a highly visible tax such as the property tax, increasing taxes is not likely to prove easy anywhere.”

Local governments should of course be the proponents of reform, but they have in Peru reduced policy clout/bargaining power. The municipal associations are dispersed and are without investigations/information concerning important policy issues. Municipalities have to make a big effort to make significant inputs concerning the political agenda and the modification of laws which involve their responsibilities. Given the actual Peruvian state of affairs, it seems there is still a lot which can be done, even if some recent normative changes at the subnational level are inducing gradual and progressive improvements in the incentive system. Taken all together, it can be expected, nevertheless, that the local level in Peru will catch up and will see a positive evolving institutional environment.

## 9. Bibliography

- Aguilar Andía, Giovanna & Morales Saravia, Rosa: Las transferencias intergubernamentales, el esfuerzo fiscal y el nivel de actividad. Documento de Trabajo N° 144, Instituto de Estudios Peruanos, Lima 2005.
- Ahmad, Ehtisham & García-Escribano, Mercedes (2006): Fiscal Decentralization and Public Subnational Financial Management in Peru. IMF Working Paper WP/06/120, Washington.
- Ahmad, Junaid & Bird, Richard & Litvack, Jennie: Rethinking Decentralization in Developing Countries, Poverty Reduction and Economic Management Network, The World Bank, Washington DC. 1998.
- Alcázar; Lorena; Lopež Cáliz, Jose Roberto & Wachtenheim, Eric: Las Pérdidas en el Camino. Fugas en el Gasto Público: Transferencias Municipales, Vaso de Leche y Sector Educación Instituto Apoyo. Lima, 2003.
- Alvarado, Betty: Relaciones Fiscales – Entre el gobierno central y los gobiernos locales. Lima 1994. Fundación Friedrich Ebert.
- Alvarado, Betty: Transferencias Intergubernamentales en las Finanzas Municipales del Perú. Lima 2003.
- Aragon, Fernando M. & Gayoso, Vilma J. (2005): Intergovernmental Transfers and Fiscal Effort in Peruvian Local Governments. Online paper at Social Science Research Network (SSRN) <http://ssrn.com/abstract=773666> (February 2006).
- Arnott, Richard & Petrova, Petia (2006): The Property Tax as a Tax on Value: Deadweight Loss. In: International Tax and Public Finance, N° 13, pp. 241–266.
- Bahl, Roy & Martinez-Vazquez, Jorge (2007): The Property Tax in Developing Countries: Current Practice and Prospects. Working paper WP07RB1, Lincoln Institute of Land Policy.
- Bahl, Roy W. & Linn, Johannes (1992): Urban Public Finance in Developing Countries. Oxford University Press.
- Bahl, Roy (2006): Sequencing Fiscal Decentralization. World Bank, Policy Research Working Paper WPS3914, Washington.
- Bardhan, Pranab (2002): Decentralization of Governance and Development. In: The Journal of Economic Perspectives, Vol. 16, No. 4, pp. 185–205.
- Becker, G.S. (1993): ‘Nobel Lecture: The Economic Way of Looking at Behavior’, *Journal of Political Economy*, 101(3), 385–409.
- Bell, Michael E., (1999): An Optimal Property Tax: Concepts and Practices (notes for Intergovernmental Fiscal Relations and Local Financial Management Course). Washington DC: World Bank Institute.
- Beniers, Klaas J. & Dur, Robert (2007): Politicians’ motivation, political culture, and electoral competition. In: International Tax and Public Finance 14:29–54.
- Besfamille, Martin & Sanguinetti, Pablo (2004): Exerting local tax effort or lobbying for central transfers? *Econometric Society 2004 Latin American Meetings* 249, Econometric Society. Online: <http://repec.org/esLATM04/up.16682.1082059515.pdf> (December 2005).
- Besley, T. (2004): Paying politicians: Theory and evidence. In: *Journal of the European Economic Association*, 2(2–3), 193–215.
- Bird; Richard (1999): Fiscal Federalism. In: *The Encyclopedia of Taxation and Tax Policy*. Urban Institute Press, edited by Joseph J. Cordes, Robert D. Ebel, and Jane G. Gravelle.



- Bird, Richard: Subnational Revenues: Realities and Prospects. Paper for the World Bank Institute on Intergovernmental Fiscal Relations and Local Financial Management, Kazakhstan 2000.
- Bird, Richard M. & Smart, Michael (2001): Intergovernmental Fiscal Transfers: Some Lessons from International Experience. International Tax Program, Rotman School of Management, University of Toronto. Online paper: <http://info.worldbank.org/etools/docs/library/128782/Bird&Smart.pdf> (December 2005).
- Bird, Richard M. & Smart, Michael (2002): Intergovernmental Fiscal Transfers: International Lessons for Developing Countries. In: *World Development*, Vol. 30, No. 6, pp. 899–912.
- Bird, Richard; Martinez-Vasquez, Jorge & Torgler, Benno (2004): Societal Institutions and Tax Effort in Developing Countries. ITP paper 04011. International Tax Program, University of Toronto.
- Bird, Richard & Slack, Enid (2004): Land and Property Taxation around the World: A Review. In: *The Journal of Property Tax Assessment & Administration*, Volume 7, Issue 3.
- Bird, Richard M. & Slack, Enid (2007): Taxing Land and Property in Emerging Economies: Raising Revenue...and More? In: Ingram, Gregory K. and Yu-Hung Hong (Editors): *Land Policies and Their Outcomes*. Lincoln Institute for Land Policy, USA.
- Blankart, Charles B. & Borck, Rainald (2005): Local Public Finance. In: Backhaus, Jürgen G. & Wagner, Richard E. (eds.): *Handbook of Public Finance*. Kluwer, Boston.
- Blume, Ernesto (1998): La Defensa de la Constitución a través de la Ordenanza Municipal. In: D’Acevedo, Martín (ed.): *Temas Municipales*, Gazeta Jurídica-CAL.
- Blom-Hansen, Jens; Monkerud, Lars Christian & Sørensen, Rune (2004): Do Parties Matter for Local Revenue Policies? A comparison of Denmark and Norway. Online: [http://home.bi.no/a0110709/Local\\_revenue\\_rev\\_sept25.pdf](http://home.bi.no/a0110709/Local_revenue_rev_sept25.pdf) (December 2005).
- Boekh, Andreas & González, Mónica Rubiolo (1999): Finanzkrisen, Steuerblockaden und Finanzreformen in Lateinamerika, in: *Peripherie* 19: 73/74 (April), S. 53–76.
- Bordignon, Massimo; Cernigliab, Floriana & Revellic, Federico: In search of yardstick competition: a spatial analysis of Italian municipality property tax setting,” *Journal of Urban Economics*, 2003, 54, 199–217.
- Borge, Lars-Erik & Rattsø, Jørn (2003): Property taxation as incentive for cost control: Empirical evidence for utility services in Norway. Online paper: <http://www.ersa.org/ersaconfs/ersa03/cdrom/papers/219.pdf> (January 2005).
- Bosch, Núria & Solé, Albert (2004): Yardstick competition and the political costs of raising taxes. An empirical analysis of Spanish municipalities. Institut d’Economia de Barcelona. Online paper: <http://www.pcb.ub.es/ieb/seriee/2004/2004-5ex.html> (December 2005).
- Break, George F. (1980): *Financing Government in a Federal System*. Washington, D.C.: The Brookings Institution.
- Brennan, Geoffrey, and Buchanan, James (1980): *The Power to Tax: Analytical Foundations of a Fiscal Constitution*. Cambridge: Cambridge University Press.
- Brueckner, Jan K. & Saavedra, Luz A.: Do Local Governments Engage in Strategic Property-Tax Competition? Online paper: <http://www.igpa.uiuc.edu/publications/workingPapers/WP56-PropTax.pdf> (December 2005).
- Brueckner; Jan K. & Hyun-A, Kim (2003): Urban Sprawl and the Property Tax. In: *International Tax and Public Finance*, Volume 10, Number 1.

- Brunori, David (2003): *Local Tax Policy: A Federalist Perspective*. Washington D. C.: The Urban Institute Press.
- Bryson, P. J. & Cornia, G. C.: Moral Hazard in Property Tax Administration: A Comparative Analysis of the Czech and Slovak Republics. In: *Comparative Economic Studies*, Volume 45, Number 1, March 2003, pp. 44–62.
- Buchanan, J. M. (1967): *Public Finance in Democratic Process*. Chapel Hill: University of North Carolina Press.
- Burki, S. J., et al. (1999): *Beyond the Center: Decentralizing the State*. World Bank, Washington.
- Cadena Ordóñez, Ximena: ¿La Descentralización empereza? Efecto de las transferencias sobre los ingresos tributarios municipales en Colombia. CEDE 8/2002.
- Calderon Cockburn, Julio A. (2001): Las contribuciones municipales como instrumentos de captura de plusvalor en Perú. In: Smolka, Martim & Furtado, Fernando: *Recuperación de Plusvalías en América Latina*. Lincoln Institute of Land Policy, USA.
- Campbell, Tim (2003): *The Quiet Revolution: Decentralization and the Rise of Political Participation in Latin American Cities*. University of Pittsburgh Press.
- Campbell, Tim & Fuhr, Harald: Context of Change: Decentralization and State Reform in Latin America. In: Campbell, Tim/Fuhr, Harald: *Leadership and innovation in sub-national government*, World Bank Institute, Washington DC. 2004.
- Carranza, Luis & Tuesta, David: *Consideraciones para una Descentralización Fiscal: Pautas para la Experiencia Peruana*. BCR-CIES, Lima 2003.
- Chaudry-Shah, Anwar (1988): Capitalization and the Theory of Local Public Finance: An Interpretive Essay. In: *Jornal of Economic Surveys*, Vol. 2, N° 3.
- Citrin, J. (1979): Do people want something for nothing? Public opinion on taxes and government spending. In: *National Tax Journal*, 33, 1–20.
- Clark, Terry Nicols (1996): *Urban Innovation*. Beverly Hills: Sage Publications.
- Clingermayer, James C. & Feiock, Richard C. (2001): *Institutional Constraints and Policy Choice: An Exploration of Local Governance*. New York: S U N Y Series in Public Administration.
- Courant, P., Gramlich, E. & Rubinfeld, D. (1980): Why voters support tax limitation amendments: The Michigan case. In: *National Tax Journal*, 33, 1–20.
- Cutler, David M., Douglas W. Elmendorf, and Richard J. Zeckhauser. “Restraining the Leviathan: Property Tax Limitation in Massachusetts.” NBER Working Paper 6196. Cambridge, MA: National Bureau of Economic Research, September 1997.
- Economist Intelligence Unit (2005). *Country Profile Peru*, London.
- De Mello, L. (2004): Can fiscal decentralization strengthen social capital? In: *Public Finance Review* 32, 1, 4–35.
- Djafari, Nassir (2001): Fiskalische Dezentralisierung und dezentrale Finanzierung in Entwicklungsländern. In: Thomi, Walter; Steinich, Markus & Polte, Windfried (eds.): *Dezentralisierung in Entwicklungsländern*. Nomos Verlagsgesellschaft, Baden-Baden, pp. 173–186.
- Dillinger, William: *Urban Property Tax Reform – Guidelines and Recommendations*. World Bank, Infrastructure and Urban Development Department, WPS 710, June 1991.

- Downes, Thomas A. "An Examination of the Structure of Governance in California School Districts Before and After Proposition 13." *Public Choice*, 86 (1996): 279–307.
- Durand, Francisco (2002): Desarrollo Institucional de la SUNAT – Factores de éxito y fracaso. In: Aportes al Debate N° 6, Fundación Friedrich Ebert, Lima.
- Dye, Richard F., and Therese J. McGuire. "The Effect of Property Tax Limitation Measures on Local Government Fiscal Behavior." *Journal of Public Economics*, 66 (1997): 469–487
- Eaton, Kent (2001): "Political Obstacles to Decentralization: Evidence from Argentina and the Philippines." In: *Development and Change* 32: 101–127.
- Ebel, R. D. & Taliercio, R. (2005): Subnational Tax Policy and Administration in Developing Economies. In: *Tax Notes International*, March 7: 919–936.
- Engel, Christoph (2007): Institutions for Intuitive Man. Max Planck Institute for Research on Collective Goods. Working paper N° 2007/12 Available at SSRN: <http://ssrn.com/abstract=1015765>
- Enticott, Gareth; Entwistle, Tom & Martin, Steve J. (2005): Leadership and service improvement: Dual elites or dynamic dependency? In: *Local Government Studies* Volume 31, Number 5. Routledge.
- Faguet, Jean-Paul (2005) "Decentralization and Local Government in Bolivia: An Overview from the Bottom Up." Crisis States Programme Working Paper No. 29. Online at SSRN: <http://ssrn.com/abstract=397721> (June 2006).
- Figlio, David N. & O'Sullivan, Arthur (1997): Do Local Governments Respond Strategically to Tax Limits. University of Oregon. Mimeo.
- Fischel, William ed. (2006): The Tiebout Model at Fifty. Essays in Public Economics in Honor of Wallace Oates. Cambridge, MA: Lincoln Institute of Land Policy.
- Fiva, Jon H. & Rattsø, Jørn (2005): Decentralization with Property Taxation to Improve Incentives: Evidence from Local Governments' Discrete Choice. Norwegian University of Science and Technology. Online paper: [http://www.svt.ntnu.no/iso/Jorn.Rattso/Papers/fiva\\_rattso\\_iipf05.pdf](http://www.svt.ntnu.no/iso/Jorn.Rattso/Papers/fiva_rattso_iipf05.pdf) (December 2005).
- Fjeldstad, Odd-Helge & Rakner, Lise (2003) Taxation and tax reforms in developing countries: Illustrations from sub-Saharan Africa. Chr. Michelsen Institute. *Development Studies and Human Rights, Bergen, Norway*.
- Flores, Alberto (2005): El Sistema Municipal y la Superación de la Pobreza y Precariedad Urbana en el Perú. Series: Medio Ambiente y Desarrollo, N° 120. Publisher: United Nations, Economic Commission for Latin America and the Caribbean, Santiago.
- Floyd, Donna L., Prentice-Dunn, Steven & Rogers, Ronald (2000): A Meta-Analysis of Research on Protection Motivation Theory. In: *Journal of Applied Social Psychology*, N° 30, pp. 407–429.
- Fuhr, Harald (1999): Reforma del Estado y modernización administrativa: acerca del nuevo papel del Estado en América Latina. In: Maihold, Günther et. al (eds.): *Sociedad civil en América Latina: representación de intereses y gobernabilidad*. FES (Nueva Sociedad), Caracas.
- Garzón, Hernando & Vazquez, Jaime: Columbia: La Perspectiva del Impuesto Predial en Areas Rurales. Chemonics International Inc., Washington DC., May 2004.
- Giugale, M. & Webb, S. eds. (2000): Achievements and Challenges of Fiscal Decentralization. Lessons from Mexico. Washington DC: The World Bank.
- Glaeser, Edward L.: The Incentive Effects of Property Taxes on Local Governments. NBER Working Paper N° 4987, January 1996.

- Gómez, Eduardo J. (2003): Decentralization and municipal governance: Suggested approaches for cross-regional analysis. In: *Studies in Comparative International Development (SCID)*, Volume 38, Number 3.
- Hall, Luis J.; Arce, Gilberto E. & Monge, Alexander (2002): Bailouts in Costa Rica as a result of Government Centralization and Discretionary Transfers. Inter-American Development Bank, Research Network Working paper #R-475.
- Harrison, Glenn W.; Humphrey Steven J. & Verschoor, Arjan: (2005): Choice Under Uncertainty in Developing Countries. *University of Nottingham: CeDEx Discussion Paper N° 2005-18*.
- Haus, M. & Heinelt, H. (2004): How to achieve governability at the local level? Theoretical and conceptual considerations on a complementarity of urban leadership and community involvement, in: Haus, M. & Heinelt, H. (eds): *Democratic choices for cities*. Routledge: London.
- Heady, Christopher: Tax Policy in Developing Countries: What can be learned from OECD experience? OECD, Centre for Tax Policy and Administration, Paris 10/2002.
- Hines, J. & Thaler, R. (1995): The Flypaper Effect. In: *Journal of Economic Perspectives*, 9(4), pp. 217–226.
- Hofstede, Geert (2001): *Culture's Consequences, Comparing Values, Behaviors, Institutions, and Organizations Across Nations*. Thousand Oaks CA: Sage Publications.
- Howard, Joanna & Sweeting, David (2004): Addressing the legitimacy of the council-manager executive in local government. Paper presented at the City Futures Conference, Chicago, USA, 8th–10th July 2004. Online paper: [http://www.uic.edu/cuppa/cityfutures/papers/webpapers/cityfuturespapers/session8\\_2/8\\_2addressing.pdf](http://www.uic.edu/cuppa/cityfutures/papers/webpapers/cityfuturespapers/session8_2/8_2addressing.pdf) (January 2006).
- Humphrey, Steven J., "The Common Consequence Effect: Testing a Unified Explanation of Recent Mixed Evidence," *Journal of Economic Behavior & Organization*, 41, 2000, 239–262.
- Hunter, J. S. H. (1977): *Federalism and Fiscal Balance*. Canberra: Australian National University Press.
- IMF: *Government Finance Statistics Yearbook – December 2006*. International Monetary Fund. Statistics Department, June 2007.
- INEI (2005): *ENAHOPobreza 2001–2004*. Lima.
- INEI (2006): *Censos Nacionales 2005, X. de Población y V. de Vivienda*. Lima.
- Inman, Robert P. (2003): Transfers and Bailouts: Enforcing Local Fiscal Discipline with Lessons from U.S. Federalism. In: Rodden, J. et al. (eds): *Fiscal Decentralization and the Challenge of Hard Budget Constraints*, Cambridge, MA: MIT Press.
- Inman, R. P. (1989): The Local Decision to Tax. In: *Regional Science and Urban Economics* 19: 455–91.
- Johnston, Donald J. (2002): Tax and wealth creation. In: *The OECD Observer*, Paris.
- Kaljee, L. M. et al. (2005): Alcohol use and HIV risk behaviors among rural adolescents in Khanh Hoa Province Viet Nam. In: *Health Education Research*, Vol.20 No.1, Oxford University Press.
- Kaufman, S. (1991): Decision making and conflict management processes in local government, in Bingham, R. et al.: *Managing local government: Public administration in practice*. Sage Publications, USA.
- Kay, Bruce (1996): 'Fujipopulism' and the Liberal State in Peru, 1990–95. In: *Journal of Interamerican Studies and World Affairs*, 38(4).

- Kim, Sung Han (1992): The political process of decentralization in Peru. In: *Public Administration and Development* 12(3) August. London: John Wiley & Sons.
- King, David. *Fiscal Tiers: The Economics of Multi-Level Government*. London: George Allen and Unwin, 1984.
- Leibovich, Jose & Nunez, Jairo (2002): El Impuesto a la Tierra en Colombia. Mimeo. Bogota.
- Lledo, Victor, Schneider, Aaron & Moore, Mick; (Paper presented for the Inter-American Development Bank): Social Contracts, Fiscal Pacts and Tax Reform in Latin America. Online <http://www.ids.ac.uk/gdr/cfs/drc-pubs/IDBSocConChap7Feb04.pdf> (November 2005).
- Lewis, Blane D.: Property Tax in Indonesia: Measuring and Explaining Administrative (Under) Performance. In: *Public Administration and Development* 2003.
- Lohse, Uwe: Improving Municipal Finance – a global challenge. In: *Habitat Debate*, April 2003.
- Manasan, R. G. (2003): Doing It Right for Tax Administration Reform: (Semi-) Autonomous Revenue Authority Anyone? PIDS Policy Notes, No. 2003–12.
- Mann, Arthur: Are semi-autonomous revenue authorities the answer to tax administration problems in developing countries? A practical guide, USAID, August 2004.
- March, JP. & Olsen, JP. (1989): *Rediscovering institutions: The organizational basis of politics*. Free Press New York.
- Martinez-Vazquez, Jorge & Timofeev, Andrey (2005): Choosing between Centralized and Decentralized Models of Tax Administration. Andrew Young School of Policy Studies Research Paper Series No. 06–49. Available at SSRN: <http://ssrn.com/abstract=901821>
- Matkin, David: Perceptions of Property Tax Pressure in Local Government Administration. Draft paper, Department of Public Administration, University of Kansas, 2004.
- McGuire, Therese (2003): Do Taxes Matter? Yes, No, Maybe So. *State Tax Notes*. 28(10): 885–890.
- McLure, Charles E. (1993): *Vertical Fiscal Imbalance and the Assignment of Taxing Powers in Australia*. Stanford: Hoover Institution.
- McLure C. (1986): Tax Competition is What's Good for the Private Goose is Also Good for the Public Gander”, *National Tax Journal* 33, pp. 341–48.
- Melo, Marcus Andre (2007): Institutional weakness and the puzzle of Argentina's low taxation. In: *Latin American Politics and Society*, v. 49, p. 115–148.
- Menzel, Susanne & Scarpa, Riccardo (2005): Protection Motivation Theory and Contingent Valuation: Perceived Realism, Threat and WTP Estimates for Biodiversity Protection. Fondazione Eni Enrico Mattei, Turin. Online: <http://www.feem.it> (January 2006).
- Merat, Jacques (2004): taxation and Local Government Accountability in a Clientelist Context: Colombia. In: *Public Administration and Development*, 24, 247–254.
- Mill, J. S. (1848/1994): *Principles of Political Economy*. Oxford: Oxford University Press.
- Mikesell, John L.: *International Experiences with Administration of Local Taxes: A Review of Practices and Issues*. World Bank, draft from July 2003.
- Ministerio de Economía y Finanzas, Dirección Nacional del Presupuesto Público (2006): Evaluación Rápida de la Implementación de Convenios de Administración por Resultados en Gobiernos Locales. Online paper: [http://www.mef.gob.pe/DNPP/documentos/Eval\\_ImplementacionCAREnGLs2006.pdf](http://www.mef.gob.pe/DNPP/documentos/Eval_ImplementacionCAREnGLs2006.pdf) (June 2007)
- Ministerio de Finanzas: *Marco Macroeconomico Multianual 2005–2007*, Lima 2004.

- Mintz, Alex (2004): How Do Leaders Make Decisions? A Poliheuristic Perspective. In: *Journal of Conflict Resolution*, Vol. 48, No. 1, 3–13 (2004), SAGE Publications.
- Moreno, Carlos L.: Fiscal Performance of Local Governments in Mexico: the Role of Federal Transfers. CIDE, Mexico 2003. Online: <http://www.presupuestocide.org>
- Morón, Eduardo & Sanborn, Cynthia (2006): The pitfalls of policymaking in Peru: actors, institutions and rules of the game. Inter-American Development Bank, Research Network Working paper; R-511.
- Mouritzen P. E. and Svara J. H. (2002) *Leadership at the apex. Politicians and administrators in Western local governments*. Pittsburgh: University of Pittsburgh Press.
- Mostajo, R., 2004, *Prospects for an Integral Tax Reform with Equity: Towards a Fiscal Covenant for Peru*, Lima: DFID.
- Mullins, D. & Joyce, P. (1996): Tax and expenditure limitations and state and local fiscal structure: An empirical assessment. In: *Public Budgeting and Finance*, 16(1), 75–101.
- Muñoz Chirinos, Paula (2005): El diseño institucional municipal 1980–2004 y sus implicancias para las zonas rurales. Asociación Servicios Educativos Rurales, Lima.
- Musgrave, Richard A. (1959): *The Theory of Public Finance*. New York: McGraw Hill.
- Nickson, Andrew (1995): *Local Government in Latin America*. Boulder and London: Lynne Rienner Publisher.
- North, Douglass (1991): Institutions. In: *Journal of Economic Perspectives*, 5:1, pp. 97–112.
- O'Donnell, Guillermo (1999): Horizontal Accountability and New Polyarchies. In: eds. Schedler, A. & Diamond, L.: *The Self-Restraining State. Power and Accountability in New Democracies*. Boulder: Lynne Rienner.
- Oates, Wallace E. (2006): On the Theory and Practice of Fiscal Decentralization. In: Institute for Federalism and Intergovernmental Relations (IFIR), Working Paper Series. Online: [http://www.ifigr.org/publication/ifir\\_working\\_papers/IFIR-WP-2006-05.pdf](http://www.ifigr.org/publication/ifir_working_papers/IFIR-WP-2006-05.pdf) (June 2007).
- Oates, Wallace E. (2005): Toward A Second-Generation Theory of Fiscal Federalism. In: *International Tax and Public Finance*, 12, 349–373.
- Oates, W. E. (2002): Fiscal and Regulatory Competition: Theory and Evidence. In: *Perspektiven der Wirtschaftspolitik* 3, 377–390.
- Oates, Wallace E. (2001): Property Taxation and Local Government Finance: an Overview and Some Reflections. In: *Property Taxation and local Government Finance: Essays in Honor of C. Lowell Harriss*, ed. Oates, Wallace E. Cambridge, MA.
- Oates, Wallace E.: Taxation in a Federal System: The Tax-Assignment Problem. In: *Public Economics Review*, 1996. Vol. 1, I: 35–60.
- Oates, Wallace E. (1985): Searching for Leviathan: An Empirical Study. In: *American Economic Review*, 748–57.
- Oates, Wallace E. (1972): *Fiscal Federalism*. New York: Harcourt Brace Jovanovich.
- Peterson, George: *Decentralization in Latin America: Learning through Experience*. Washington, D. C.: World Bank 1997.
- OECD (2005): *Revenue Statistics 1965–2004*, 2005 Edition. Paris.
- Picciotto, R. & Wiesner, E. (1998): *Evaluation and Development: The Institutional Dimension*. Washington, D. C.: World Bank.
- Piza, Julio Roberto: Local Taxes: Lessons Learned on the Implementation of Real Property Tax, pp. 363–371. In: Burki, Shahid Javed et al. (ed.): *Annual World Bank Confer-*


- ence on Development in Latin America and the Caribbean 1999, Washington DC. 2000.
- Pommerehne, Werner W. (1978): Institutional Approaches to Public Expenditure: Empirical Evidence from Swiss Municipalities. *Journal of Public Economics* N° 9 (April): 225–280.
- Poterba, James M., and Kim S. Rueben (May, 1995): “The Effect of Property-Tax Limits on Wages and Employment in the Local Public Sector.” *American Economic Review*, No. 2, 384–389.
- Prud’homme, Rémy (1995): The Dangers of Decentralization. In: *The World Bank Research Observer* Volume 10, Number 2, August 1995.
- Rabanal Sobrino, Jean Paul & Melgarejo Castillo, Karl (2006): Perú: ¿Esfuerzo o Pereza Fiscal en los Gobiernos Locales? MEF, Documentos de Trabajo, DT N° 3. Online: [http://www.mef.gob.pe/DGAES/Documentos\\_trabajo/Esfuerzo\\_Pereza\\_Fiscal.pdf](http://www.mef.gob.pe/DGAES/Documentos_trabajo/Esfuerzo_Pereza_Fiscal.pdf) (June 2007).
- Raich, Uri: Impacts of Expenditure Decentralization on Mexican Local Governments. CIDE, Mexico. Documento de Trabajo 102, 2002. Online: <http://www.e-cide.com>
- Remmer, Karen & Wibbels, Erik (2000): The Political Economy of Decentralization in Latin America. In: *APSA-CP Newsletter*, Winter 2000. Online: <http://www.nd.edu/~apsacp/pdf/APSA-CP20Winter202000.pdf> (July 2006.)
- Rodden, Jonathan; Eskeland, Gunnar S. & Litvack, Jennie eds. (2003): *Fiscal Decentralization and the Challenge of Hard Budget Constraints*. MIT Press.
- Rodden, Jonathan Reviving Leviathan: Fiscal Federalism and the Growth of Government. In: *International Organization* 57, Fall 2003, pp. 695–729.
- Rodden, Jonathan & Rose-Ackerman, Susan (1997): Does Federalism Preserve Markets? *Virginia Law Review* 83: 1521–72.
- Rojas, Fernando: Partnering for Services in Santa Cruz, Bolivia. In: Campbell, Tim/Fuhr, Harald: *Leadership and innovation in subnational government*, World Bank Institute, Washington DC. 2004.
- Rogers, Ronald (1975): A protection motivation theory on fear appeals and attitude change. *The Journal of Psychology* N° 91, pp. 93 ff.
- Rühling, Markus: Constrained Property Tax Revenues in Peru: Do Fiscal Transfers Create a Substitution Effect? In: *Journal of Property Tax Assessment & Administration*, Volume 3, Issue 2, 2006.
- Isa Sagbas, Ğbafi & Naci Tolga Saruçş: Intergovernmental Transfers and the Flypaper Effect in Turkey. In: *Turkish Studies*, Routledge. Volume 5, Number 2 / summer 2004.
- Sánchez, Fabio; Smart, Michael & Zapata, Juan Gonzalo (2003): Intergovernmental transfers and municipal finance in Colombia. Online paper: <http://www.rotman.utoronto.ca/iib/ITP0403.pdf> (January 2007)
- Sausgruber, Rupert & Tyran, Jean-Robert (2005): Testing the Mill hypothesis of fiscal illusion. In: *Public Choice*, Volume 122, Numbers 1–2.
- Scarpa, Riccardo and Menzel, Susanne, “Protection Motivation Theory and Contingent Valuation: Perceived Realism, Threat and WTP Estimates for Biodiversity Protection” (February 2005). FEEM Working Paper No. 26.05.
- Schady, Norbert (2000): The Political Economy of Expenditures by the Peruvian Social Fund (FONCODES), 1991–1995. In: *American Political Science Review* Vol. 94, No.2.

- Scharpf, F. (1999) *Governing in Europe. Effective and democratic?* Oxford University Press: Oxford.
- Scott, Claudia et al. (2004): *Strategic Policy and Planning Decision-Making within New Zealand Local Government*. Online paper: <http://www.localfutures.ac.nz/papers/Local%20Futures%20Paper%202%20Literature%20Review.pdf> (June 2007).
- Sheffrin, S. (1998): *The future of the property tax: A political economy perspective*. In: Brunori, D. (Ed.): *The future of state taxation*. Washington, D.C.: The Urban Institute Press. Snyder, N. M.
- Schmidt, G. (2004): *Peru: The Politics of Surprise*. DeKalb, United States: Northern Illinois University. Mimeographed document.
- Shadbegian, R. J. (1999): *Fiscal federalism, collusion, and government size: Evidence from the states*, *Public Finance Review* 27:262–281.
- Shah, Anwar: *Issues in Tax Assignment*. In: *Decentralization Briefing Notes*, edited by Jennie Litvack & Jessica Seddon, *Poverty Reduction and Economic Management Network*, The World Bank, Washington DC, 1999.
- Shah, Anwar & Thompson, Theresa (2004): *Implementing Decentralized Local Governance: A Treacherous Road with Potholes, Detours and Road Closures*. World Bank Policy Research Working Paper 3353, Washington.
- Shah, Anwar (2006): *A Practitioner's Guide to Intergovernmental Fiscal Transfers*. World Bank Policy Research Working Paper 4039, October 2006.
- Simon, Herbert A. (1997): *Models of bounded rationality*. Vol. 3, *Empirically grounded economic reason*, MIT Press.
- Simon, Herbert A. (1985): *Human Nature in Politics: The Dialogue of Psychology with Political Science*. In: *American Political Science Review* 79:293–305.
- Slack, Enid (2001): *Property Taxation*. In: Freire, Mila & Stren, Richard (eds.): *The Challenge of Urban Government – Policies and Practices*. The International Bank for Reconstruction and Development, Washington.
- Spahn, Paul Bernd (2004): *Intergovernmental Transfers: The Funding Rule and Mechanisms*. Georgia State University: Andrew Young School of Policy Studies. Working Paper 04–17. Online: <http://isp-aysps.gsu.edu/papers/ispwp0417.pdf> (March 2007).
- Spahn, Paul Bernd (1995): *Local Taxation: Principles and Scope*. In: Roy, Jayanta (ed.): *Macroeconomic management and fiscal decentralization*. The International Bank for Reconstruction and Development, Washington.
- Sørensen, Rune J. (2002): *Should the “little Leviathan” be constrained? Tax policy in Norwegian local government*. Online paper: [http://home.bi.no/fag89001/Paper%20to%20Local%20Government%20Studies%20\(May%202002\).pdf](http://home.bi.no/fag89001/Paper%20to%20Local%20Government%20Studies%20(May%202002).pdf) (December 2005).
- Stein, Ernesto (1999): *Fiscal Decentralization and Government Size in Latin America*. In: *Journal of Applied Economics* 2, 357–91.
- Stein, E. (1998): *Fiscal Decentralization and Government Size in Latin America*, in Fukasaku, K. and Hausmann, R. (ed.) *Democracy, Decentralization and Deficits in Latin America*, OECD.
- Strasma, John: *Chile-economic aspects of Chile's land use*. In: *The American Journal of Economics and Sociology*. Dec. 2000.
- Sullivan, Helen & Gillanders, Gillian (2005): *Stretched to the limit? The impact of Local Public Service Agreements on service improvement and central – local relations*. In: *Local Government Studies* N 31.




- Svara J.H. (1990): *Official leadership in the city. Patterns of conflict and cooperation*. Oxford: Oxford University Press.
- Taliercio, Robert R. (2004): Designing performance: the semi-autonomous revenue authority model in Africa and Latin America. World Bank Policy Research Working Paper 3423.
- Tanzi, Vito (2002): Pitfalls on the Road to Fiscal Decentralization. In: Ahmad, Ehtisham & Tanzi, Vito (eds.): *Managing Fiscal Decentralization*. Routledge.
- Tanzi Vito (1996): Fiscal Federalism and Decentralization: A Review of Some Efficiency and Macroeconomic Aspects. In: Annual World Bank Conference on Development Economics, 1995. Washington, D.C.: World Bank.
- Ter-Minassian, Teresa (1997): Intergovernmental Fiscal Relations in a Macroeconomic Perspective: An Overview. In: Ter-Minassian, Teresa (ed.): *Fiscal Federalism in Theory & Practice*, IMF and Washington.
- Thiedeck, Franz & Buller, Eduardo (1995): Descentralización de la Administración en el Peru. In: Sociedad Alemana de Cooperación Técnica (GTZ)/Programa de Gestión Urbana, ed. *Descentralizar en América Latina?* Quito, Ecuador (pp. 195–236).
- Torgler, Benno & Schaltegger, Christoph A. (2005): Tax Morale and Fiscal Policy. Center for Research in Economics, Management and the Arts (CREMA), Basel. Working Paper Series N° 30.
- Tuesta Cárdenas, David & Carranza Ugarte, Luis (2004): Consideraciones para una Descentralización Fiscal: Pautas para la Experiencia Peruana. In: *Economía y Sociedad* 53, CIES, Lima.
- Tyler Dickovick, James (2004): Intergovernmental Fiscal Relations in Developing Countries: Brazil, South Africa, Peru, and Senegal. Princeton University. PhD-Thesis. Online: <http://home.wlu.edu/~dickovickt/jtdWholeDoc1.pdf>
- Veiga, Linda Gonçalves & Veiga, Francisco José (2007): Political business cycles at the municipal level. In: *Public Choice*, Volume 131, pp. 45–64, Numbers 1–2 / April.
- Vickrey, W. S. & Solow, R. M. (1971). Land use in a long narrow city. *Journal of Economic Theory* 3, 1468–1488.
- Wellisch, D. (2000): *Theory of Public Finance in a Federal State*. Cambridge: Cambridge University Press.
- Wildasin, David E. (1991): Income Redistribution in a Common Labor Market. In: *American Economic Review* N° 81, pp. 757–74.
- Williamson, Oliver E. (2000): The New Institutional Economics: Taking Stock, Looking Ahead. In: *Journal of Economic Literature*, vol. 38, pp. 595–613.
- Willis, Garman & Haggard, Stephen (1999): “The Politics of Decentralization in Latin America.” In: *Latin American Research Review*, winter 1999 34 (1): 7–46.
- Willis, K. G. & Asgary, A. (1997): The Impact of Earthquake Risk on Housing Markets: Evidence from Tehran Real Estate Agents. In: *Journal of Housing Research*.
- Wilson, J. D. (1999): Theories of Tax Competition, In: *National Tax Journal* 52, 269–304.
- Winner, H. (2005): Has tax competition emerged in OECD countries?: Evidence from panel data. In: *International Tax and Public Finance* 12(5), 666–687.
- World Bank: *Estudio de la Situación de la Deuda Municipal*, 2004 (mimeo).

## 10. Question Guide concerning Qualitative Interviews



**L** LINCOLN INSTITUTE  
OF LAND POLICY



**UNICAM**  
UNIÓN DE GOBIERNOS MUNICIPALES

**ENCUESTA**

**A. INFORMACIÓN GENERAL**

1. Municipalidad

2. Persona entrevistada

Nombre

Cargo

3. Ubicación

Región Geográfica

Departamento

Provincia

4. Población

Total

5. Volumen Predial

N° Totales de Predios

**B. INFORMACIÓN FINANCIERA**

6. Transferencias Fiscales

Fondo de Compensación Municipal FONCOMÚN

2001	<input style="width: 80px;" type="text"/>	2002	<input style="width: 80px;" type="text"/>	2003	<input style="width: 80px;" type="text"/>
2004	<input style="width: 80px;" type="text"/>	2005	<input style="width: 80px;" type="text"/>	2006	<input style="width: 80px;" type="text"/>
<b>CANON</b>					
2001	<input style="width: 80px;" type="text"/>	2002	<input style="width: 80px;" type="text"/>	2003	<input style="width: 80px;" type="text"/>
2004	<input style="width: 80px;" type="text"/>	2005	<input style="width: 80px;" type="text"/>	2006	<input style="width: 80px;" type="text"/>

Investigación: "La Incidencia de los Gobiernos Locales en el Impuesto Predial en el Perú"

**ENCUESTA**

Investigador: "La Incidencia de los Gobiernos Locales en el Impuesto Predial en el Perú"

**7. Ingresos Propios**

**Impuesto Predial**

2001  2002  2003

2004  2005

**Impuesto Vehicular**

2001  2002  2003

2004  2005

**Alcabala**

2001  2002  2003

2004  2005

**Arbitrios**

2001  2002  2003

2004  2005

**Multas**

2001  2002  2003

2004  2005

**Otros**

2001  2002  2003

2004  2005

**Otros**

2001  2002  2003

2004  2005

**C. INFORMACIÓN SOBRE LA ADMINISTRACIÓN Y GESTIÓN.**

8. ¿De que órgano municipal depende la recaudación del impuesto predial?

Alcaldía  Oficina de Administración  Gerencia de Rentas

Sistema de Administración Tributaria SAT  Otro. ¿Cuál?

9. ¿Qué rango administrativo posee el área encargada de la recaudación del impuesto predial?

Gerencia  Sub Gerencia  Oficina  Otro. ¿Cuál?

ENCUESTA

10. La persona encargada de la recaudación del impuesto predial es:

Profesional Especializado  Profesional sin Especialización   
Técnico  Secundaria Completa  Otro ¿Cuál?

11. La persona encargada de la recaudación del impuesto predial es:

Funcionario de Carrera   
Funcionario de Confianza y cambia con cada gestión

12. ¿Se dispone de un software para el manejo de la información del impuesto predial?

Si  No

13. El impuesto predial se aplica a:

Predios urbanos  Predios urbanos y rústicos  Predios rurales   
Predios urbanos y rurales

14. ¿Con que frecuencia se actualiza la base de datos?

Se actualiza constantemente  Hubo alguna actualización   
Existen proyectos de actualización pero no se realizan   
No existen Planes de actualización

D. OPINIÓN DEL GOBIERNO LOCAL SOBRE EL POTENCIAL DE RECAUDACIÓN DEL IMPUESTO PREDIAL EN SU JURISDICCIÓN

15. ¿La población en su distrito solicitan más obras, mejores servicios?

Insistentemente  Regularmente  No solicitan

16. ¿La falta de infraestructura básica en su distrito es una principal barrera para el desarrollo?

Si   
No  ¿Por qué?

17. ¿A su municipio le falta financiamiento para mejoras en infraestructura y servicios?

Si  ¿Cómo lo piensan obtener?   
No

Investigación: "La Incidencia de los Gobiernos Locales en el Impuesto Predial en el Perú"

ENCUESTA

Investigación: "La Incidencia de los Gobiernos Locales en el Impuesto Predial en el Perú"

18. ¿Existe omisión importante del pago del impuesto predial en su municipio?

Si  ¿En que porcentaje?  ¿Por qué?

No

19. ¿Existe subvaloración importante de los predios en su municipio?

Si  ¿En que porcentaje?  ¿Causas?

No

20. Normalmente CONATA es la institución que da la valorización, principalmente a las grandes ciudades; 16. ¿Cómo es el contacto con esa institución?

Si  No

21. ¿Se está utilizando la facultad que tienen los municipios de cobrar un monto mínimo (0,6% de una UIT) como impuesto predial?

Si  ¿Dónde?

No  ¿Por qué?

22. ¿El incremento sustancial del impuesto predial afectaría a los ciudadanos?

Si  ¿Por qué?

No  ¿Por qué?

23. ¿Participa la población en la determinación del impuesto predial?

Si  ¿Cómo?

No  ¿Por qué?

24. ¿Existe resistencia por parte de la población para pagar el impuesto predial?

Si  ¿Por qué?

No

25. ¿La población de su municipio percibe que sus impuestos municipales están siendo usados para el beneficio de los contribuyentes?

Si

No  ¿Qué percibe la población?

ENCUESTA

E. PREOCUPACIÓN DEL GOBIERNO LOCAL POR ELEVAR LOS  
NIVELES DE RECAUDACIÓN Y SUS MARGENES DE DECISIÓN

Investigador: "La incidencia de los Gobiernos Locales en el Impuesto Predial en el País"

26. ¿El pago por los arbitrios es suficiente para cubrir el costo real del servicio de parques y jardines, limpieza pública, entre otros?

Si

No  ¿Cómo lo piensan compensar?

27. ¿Es preferible incrementar los arbitrios que el impuesto predial?

Si  ¿Por qué?

No  ¿Por qué?

28. ¿Se está tomando medidas para contar con ingresos propios sostenibles que no dependan de otras fuentes temporales como el canon?

Si  ¿Cuáles?

No  ¿Por qué?

29. ¿El impuesto predial debe ser el recurso principal para el financiamiento de su municipio?

Si  ¿Por qué?

No

30. ¿Se pone poco énfasis al impuesto predial porque se recibe transferencias importantes?

Si

No  ¿Entonces porque?

31. ¿En lugar de buscar más rendimiento de los impuestos prediales, cuáles son las otras fuentes que es preferible incrementar?

Transferencias fiscales (FONCOMUN)

Tasas, arbitrios

Otros ¿Cuáles?

32. ¿Existen ingresos importantes de la CMAC o Caja Rural a la municipalidad?

Si  ¿Qué porcentaje de las utilidades?

No es el caso

ENCUESTA

33. Si hubiera libertad en fijar la tasa del impuesto predial, sería conveniente:

- ¿Incrementarla?  ¿Por qué? \_\_\_\_\_  
¿Mantenerla?  ¿Por qué? \_\_\_\_\_  
¿Reducirla?  ¿Por qué? \_\_\_\_\_

34. ¿Se está gestionando el incremento del impuesto predial?

- Si  ¿Cómo? \_\_\_\_\_  
No  ¿Por qué? \_\_\_\_\_

35. ¿Se está gestionando los recursos necesarios para la administración del impuesto predial?

- Si  ¿De que tipo? \_\_\_\_\_  
No

36. ¿Del rendimiento del impuesto, se está destinando el 5 por ciento al desarrollo del catastro y el 3 por mil como transferencia a CONATA?

- Si, ambos   
Solo el 5 por ciento  ¿Por qué? \_\_\_\_\_  
Solo el 3 por mil  ¿Por qué? \_\_\_\_\_  
Ninguno

37. ¿Se han hecho gestiones ante la CONATA para que suban los aranceles?

- Si  ¿Cuándo? \_\_\_\_\_  
No  ¿Por qué? \_\_\_\_\_

F.OPINIÓN DEL GOBIERNO LOCAL SOBRE OTROS ASPECTOS  
CIRCUNSTANCIALES QUE INFLUYEN EN LA RECAUDACIÓN DEL  
IMPUESTO PREDIAL.

38. ¿Existen limitaciones y/o restricciones para recaudar más por impuesto predial?

- Si  ¿Cuales? \_\_\_\_\_  
No

39. ¿En su municipio es alto el porcentaje de predios exonerados de pagar impuesto predial?

- Si  ¿Qué porcentaje? \_\_\_\_\_ ¿Por qué? \_\_\_\_\_  
No  ¿Qué porcentaje? \_\_\_\_\_

**ENCUESTA**

Investigación: "La Incidencia de los Gobiernos Locales en el Impuesto Predial en el Perú"

40. ¿Es un gran problema en el ámbito de su municipio las exoneraciones a las comunidades campesinas e indígenas?

Si  ¿Por qué? \_\_\_\_\_  
No  ¿Por qué? \_\_\_\_\_

41. ¿Es un gran problema en el ámbito de su municipio las exoneraciones a los jubilados?

Si  ¿Por qué? \_\_\_\_\_  
No  ¿Por qué? \_\_\_\_\_

42. ¿Se puede lograr avances en el incremento de la recaudación por impuesto predial, si consideramos que CONATA emite la valoración y la Ley de Tributación Municipal regula las tasas de 0,2 a 1 por ciento de la valoración?

Si  ¿Cómo? \_\_\_\_\_  
No  ¿Por qué? \_\_\_\_\_

43. ¿Usted piensa que los penancos entienden como se calcula el impuesto predial?

Si  ¿Qué porcentaje? \_\_\_\_\_  
No

44. ¿Quiénes participan en las decisiones con respecto al impuesto predial?

El Alcalde  El Concejo  El Alcalde y sus colaboradores   
El Gerente Municipal  Otros. ¿Quiénes? \_\_\_\_\_

45. ¿Está de acuerdo que lo más importante de la gestión municipal es ejecutar obras?

Si  ¿Por qué? \_\_\_\_\_  
No  ¿Por qué? \_\_\_\_\_

46. ¿Se cuenta con un tipo de catastro?

Si  Tipo \_\_\_\_\_ Año \_\_\_\_\_  
No



## 11. Annex: Tables, Figures and Graphs

Table N° 1: Motivations for Decentralization (cf. Shah, 2004)

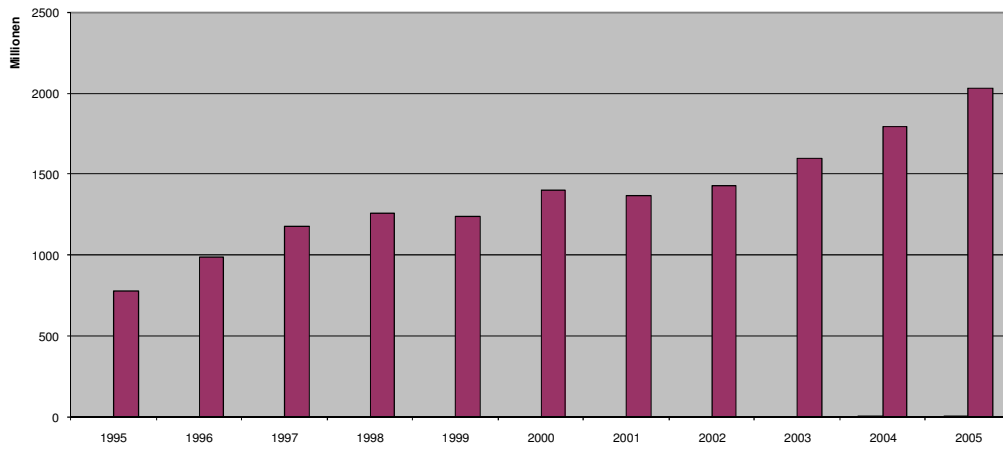
Motivation	Countries and/or regions
Political and economic transformation	Central and Eastern Europe, Russia
Political crisis due to ethnic conflict	Bosnia-Herzegovina, Ethiopia, Yugoslavia, Nigeria, Sri Lanka, South Africa, Philippines
Political crisis due to regional conflicts	Indonesia, Madagascar, Mali, Senegal, Uganda, Mexico, Philippines
Enhancing participation	Argentina, Brazil, Bolivia, Colombia, India, Pakistan, Philippines
Interest in EU Accession	Czech Republic, Slovakia, Hungary, Poland
Political maneuvering	Peru, Pakistan
Fiscal crisis	Russia, Indonesia, Pakistan
Improving service delivery	Chile, Uganda, Cote D'Ivoire
To centralize	China, Turkey, European Union
Shifting deficits downwards	Eastern and Central Europe, Russia
Shifting responsibility for unpopular adjustment programs	Africa
Prevent return to autocracy	Latin America
Preservation of Communist rule	China
Globalization and information revolution	Most countries

**Table N° 2: Regional Tax Collection**

REVENUES COLLECTED BY SUNAT-DOMESTIC TAXES BY POLITICAL DIVISION DEPARTMENTS: 1997-2006 (Millions of Nuevos Soles)										
	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Total Internal Tax Collection in all Departments</b>	<b>16,578</b>	<b>17,093</b>	<b>16,203</b>	<b>16,867</b>	<b>18,062</b>	<b>18,734</b>	<b>21,376</b>	<b>24,054</b>	<b>28,041</b>	<b>36,972</b>
Amazonas	6.3	7.4	6.3	4.2	4.1	4.1	4.2	4.6	5.5	7.3
Ancash	147.8	109.5	87.5	119.4	97.4	96.4	107.6	138.1	160.9	172.4
Apurímac	5.6	6.8	7.6	7.6	7.0	7.4	8.1	8.3	8.8	10.4
Arequipa	629.5	605.3	611.6	606.3	635.7	654.8	607.7	665.8	878.4	884.7
Ayacucho	16.6	18.3	17.4	17.2	14.5	13.8	15.1	16.5	18.0	20.6
Cajamarca	51.8	60.7	66.8	80.6	82.5	71.7	70.0	61.2	69.8	87.8
Cusco	150.1	135.7	127.9	116.9	113.4	112.7	127.5	147.4	249.7	671.4
Huancavelica	4.5	4.5	4.3	3.7	3.9	3.9	4.9	5.2	3.6	4.0
Huanuco	23.6	31.0	23.2	19.8	17.5	16.8	18.1	20.6	22.2	22.3
Ica	142.7	123.3	114.9	106.8	104.1	127.1	206.4	237.9	187.5	181.0
Junín	127.3	145.9	123.8	111.7	96.1	106.9	120.0	136.8	166.0	192.2
La Libertad	305.4	309.6	271.9	276.5	248.2	256.0	301.7	348.9	379.4	502.8
Lambayeque	130.3	124.6	127.9	113.5	113.3	110.0	136.8	126.2	150.3	181.4
Lima	14,103.1	14,688.0	13,945.8	14,612.9	15,821.7	16,505.0	18,908.6	21,298.9	24,734.1	32,867.2
Loreto	89.9	101.2	65.5	63.4	74.0	74.9	73.5	81.8	108.8	127.2
Madre de Dios	6.9	7.9	6.3	5.9	5.9	7.4	7.8	10.1	13.0	18.0
Moquegua	30.2	28.9	27.7	29.0	23.5	25.8	24.5	29.8	40.1	41.8
Pasco	11.6	12.4	12.2	13.0	14.2	11.3	13.6	13.7	17.0	18.7
Piura	237.4	184.3	211.6	250.4	312.8	261.0	307.7	330.9	399.2	520.9
Puno	47.5	51.2	49.3	40.2	50.3	50.4	61.6	56.6	63.5	79.1
San Martín	40.3	47.2	33.0	29.9	29.7	30.7	34.7	43.6	45.4	45.2
Tacna	158.2	157.2	147.0	126.4	86.5	70.4	90.9	109.5	110.5	99.1
Tumbes	14.5	16.6	15.5	8.0	10.6	10.7	13.3	15.6	19.1	23.2
Ucayali	96.9	115.2	97.5	103.4	94.8	104.8	111.4	146.2	189.8	193.3

Source: SUNAT, Nota Tributaria

**Figure N° 1: Transfers out of FONCOMUN (in S/. million)**



**Figure N°2: List of the selected Municipalities**

**Departamento de Piura**

1. Municipalidad Provincial de Piura
2. Municipalidad Provincial de Talara
3. Municipalidad Distrital de Matanza

**Departamento de Lambayeque**

4. Municipalidad Provincial de Chiclayo
5. Municipalidad Provincial de Ferreñafe
6. Municipalidad Distrital de Tucume
7. Municipalidad Distrital de Monsefú

**Departamento de La Libertad**

8. Municipalidad Provincial de Trujillo

**Departamento de Ancash**

9. Municipalidad Provincial del Santa (Chimbote)
10. Municipalidad Provincial de Huaraz

**Departamento de Junín**

11. Municipalidad Provincial de Huancayo

**Departamento de Arequipa**

12. Municipalidad Provincial de Arequipa

**Departamento de Huanuco**

13. Municipalidad Provincial de Leoncio Prado (Tingo María)

**Departamento de Cajamarca**

14. Municipalidad Provincial de Cajamarca
15. Municipalidad Distrital de Baños del Inca

**Departamento de Ucayali**

16. Municipalidad Provincial de Coronel Portillo (Pucallpa)

**Departamento de Loreto**

17. Municipalidad Provincial de Maynas (Iquitos)

**Departamento de Cusco**

18. Municipalidad Provincial del Cusco

**Departamento de Ayacucho**

19. Municipalidad Provincial de Huamanga (Ayacucho)

**Departamento de Apurímac**

20. Municipalidad Provincial de Abancay

**Departamento de Ica**

21. Municipalidad Provincial de Ica
22. Municipalidad Provincial de Pisco

**Departamento de Lima**

23. Municipalidad Provincial de San Vicente de Cañete
24. Municipalidad Distrital de Imperial
25. Municipalidad Provincial de Chincha
26. Municipalidad Distrital San Juan Miraflores
27. Municipalidad Distrital Santiago de Surco
28. Municipalidad Distrital San Isidro
29. Municipalidad Distrital Villa El Salvador
30. Municipalidad Provincial de Lima (Metropolitana)

**Departamento de Tumbes**

31. Municipalidad Provincial de Tumbes

**Departamento de Moquegua**

32. Municipalidad Provincial de Mariscal Nieto (Moquegua)
33. Municipalidad Provincial de Ilo

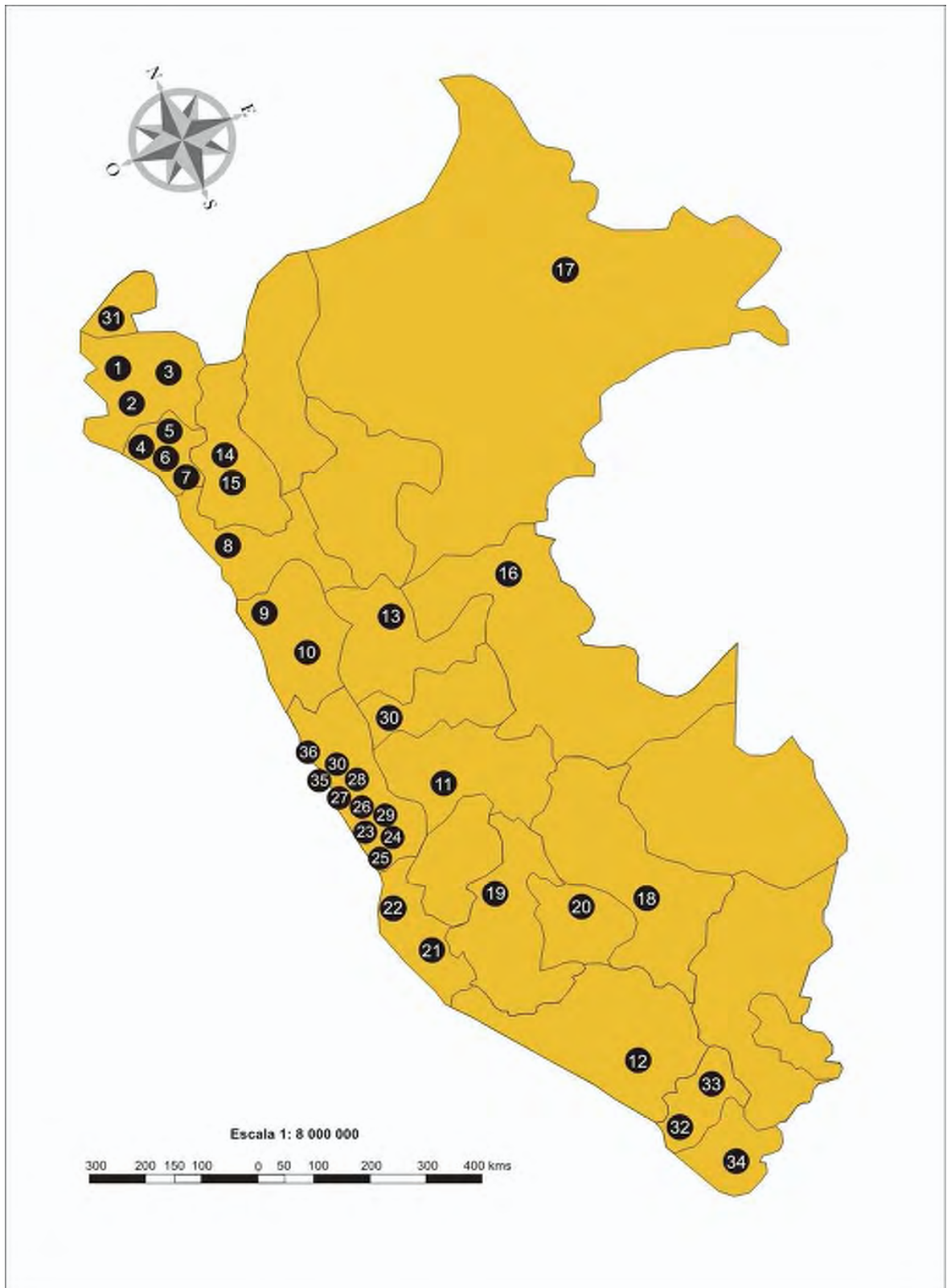
**Departamento de Tacna**

34. Municipalidad Provincial de Tacna

**Provincia Constitucional del Callao**

35. Municipalidad Provincial del Callao
36. Municipalidad Distrital Ventanilla

Figure N°3: Map or municipalities included in the survey



**Table N°12: Property Tax Revenues in municipalities participating in this investigation**

N°	MUNICIPALITY	PROV.	DIST.	2001	2002	2003	2004	2005
1	Abancay	X		212,650	284,641	317,972	348,362	328,283
2	Arequipa	X		5,920,406	7,389,370	7,570,212	7,515,142	7,710,847
3	Baños del Inca		X	208,000		233,063	250,629	367,814
4	Cajamarca	X		1,231,902	1,297,967	1,219,412	3,280,658	2,456,805
5	Callao	X		11,948,961	12,746,093	14,020,422	16,074,536	19,965,265
6	Cañete	X		874,061	773,702	941,088	939,789	998,039
7	Chiclayo	X		5,251,249	5,854,079	3,847,544	5,323,963	6,616,245
8	Chincha	X		681,513	816,320	885,508	1,114,425	1,139,467
9	Coronel Portillo (Pucallpa)	X		1,348,279		1,376,474	1,523,693	1,272,539
10	Cusco	X		2,351,129	2,050,227	2,542,869	2,354,086	2,548,237
11	Ferreñafe	X		193,318	201,168	424,435	299,824	n.n.
12	Huamanga (Ayacucho)	X		581,817	731,470	864,702	899,956	992,577
13	Huancayo	X		2,735,938	3,431,827	2,802,574	3,234,098	3,504,453
14	Huaraz	X		837,779	485,403	628,438	786,266	941,147
15	Ica	X		951,334		1,433,877	2,220,563	2,127,370
16	Ilo	X		1,338,239	1,876,134	2,324,919	2,372,093	3,567,870
17	Imperial		X	334,269	339,894	331,084	403,379	361,000
18	La Matanza		X	2,768	19,240	13,337	4,633	29,099
19	Lima	X		14,780,148	17,774,171	19,384,152	22,161,494	27,124,674
20	Mariscal Nieto (Moquegua)	X		251,195	295,958	491,260	360,610	476,903
21	Maynas (Iquitos)	X		2,702,949	2,781,247	1,838,950	2,140,349	2,668,703
22	Monsefú		X	76,035	192,465	74,130	66,752	n.n.
23	Pisco	X		n.n.	1,130,982	730,026	847,624	n.n.
24	Piura	X		4,928,686	5,667,923	5,880,250	5,863,814	6,100,549
25	Rupa Rupa (Tingo Maria)		X	595,322	544,503	525,676	655,609	481,489
26	San Isidro		X	15,677,781	17,410,701	21,034,788	22,619,954	25,172,008
27	San Juan de Miraflores		X	2,841,762	2,520,278	2,759,496	4,014,331	4,619,346
28	Santa (Chimbote)	X		4,262,940	4,298,371	3,603,010	5,109,502	5,523,384
29	Santiago de Surco		X	17,259,162	21,281,819	24,102,283	27,363,064	26,394,298
30	Tacna	X		2,168,406	1,927,692	2,132,525	1,883,447	3,687,602
31	Talara	X		1,629,580	1,816,738	1,701,099	1,837,406	2,216,614
32	Trujillo	X		7,726,386	8,217,429	9,011,060	9,216,524	10,179,607
33	Túcume		X	10,726	18,088	25,780	10,198	19,187
34	Tumbes	X		387,808	595,663	766,859	811,519	868,563
35	Ventanilla		X	1,407,776	1,340,982	1,872,489	1,864,960	2,054,055
36	Villa El Salvador		X	2,354,554	2,491,351	3,492,177	3,813,778	4,321,249
	Total muestra			<b>116,064,828</b>	<b>128,603,897</b>	<b>139,827,465</b>	<b>159,587,032</b>	<b>176,835,288</b>

Source: Contaduría

**Table N° 13: Property tax per habitational unit (in the sample of municipalities)**

N°	MUNICIPALITY	PROV.	DIST.	PROPERTY TAX 2005	N° OF HABITATIONAL UNITS	PROPERTY TAX PER N° HABITATIONAL UNITS
1	Abancay	X		328,283	14,987	22
2	Arequipa	X		7,710,847	17,101	451
3	Baños del Inca		X	367,814	9,351	39
4	Cajamarca	X		2,456,805	40,340	61
5	Callao	X		19,965,265	88,098	227
6	Cañete	X		998,039	12,075	83
7	Chiclayo	X		6,616,245	58,044	114
8	Chincha	X		1,139,467	14,287	80
9	Coronel Portillo	X		1,272,539	46,549	27
10	Cusco	X		2,548,237	28,388	90
11	Ferreñafe	X		299,824	8,010	37
12	Huamanga	X		992,577	25,254	39
13	Huancayo	X		3,504,453	26,397	133
14	Huaraz	X		941,147	14,810	64
15	Ica	X		2,127,370	30,896	69
16	Ilo	X		3,567,870	19,087	187
17	Imperial		X	361,000	8,677	42
18	La Matanza		X	29,099	3,015	10
19	Lima	X		27,124,674	79,118	343
20	Mariscal Nieto (Moquegua)	X		476,903	19,036	25
21	Maynas (Loreto)	X		2,668,703	31,904	84
22	Monsefú		X	66,480	7,015	9
23	Pisco	X		847,624	13,424	63
24	Piura	X		6,100,549	57,520	106
25	Rupa Rupa		X	481,489	13,598	35
26	San Isidro		X	25,172,008	19,906	1,265
27	San Juan de Miraflores		X	4,619,346	71,384	65
28	Santa (Chimbote)	X		5,523,384	48,868	113
29	Santiago de Surco		X	26,394,298	76,064	347
30	Tacna	X		3,687,602	31,632	117
31	Talara	X		2,216,614	20,713	107
32	Trujillo	X		10,179,607	66,521	153
33	Túcume		X	19,187	4,283	4
34	Tumbes	X		868,563	24,797	35
35	Ventanilla		X	2,054,055	88,098	23
36	Villa El Salvador		X	4,321,249	78,427	55

Source: INEI, Contaduria

**Table N° 14: Principal Peruvian urban agglomeration (in thousand inhabitants)**

<b>Lima and Callao</b>	7.764	Metropolitan Area and Harbour
<b>Arequipa</b>	861	Sierra
<b>Trujillo</b>	775	Coast
<b>Chiclayo</b>	738	Coast
<b>Piura</b>	642	Coast
<b>Maynas</b>	488	Selva
<b>Huancayo</b>	448	Sierra
<b>Santa</b>	390	Coast
<b>Cusco</b>	348	Sierra
<b>Ica</b>	297	Coast

Source: INEI, Census 2005

Figure N° 4: Orgainsation Chart representative for an urban municipality

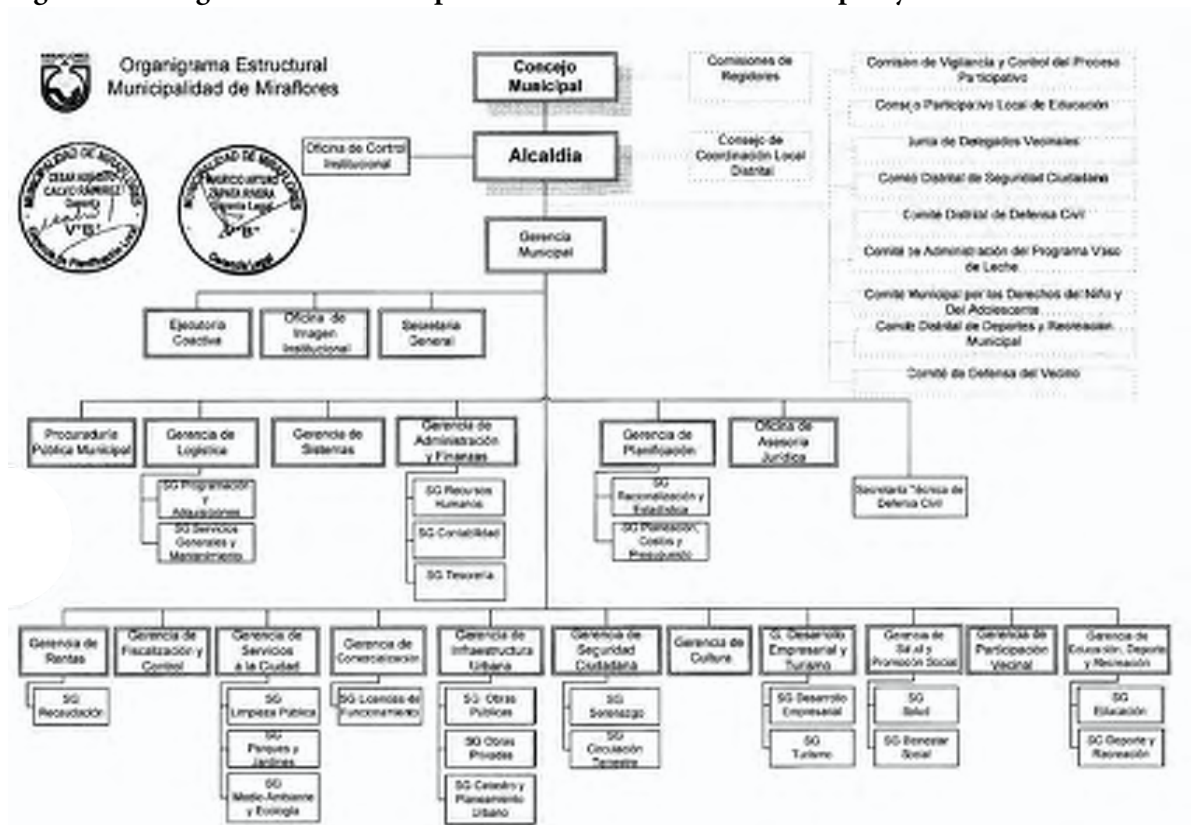
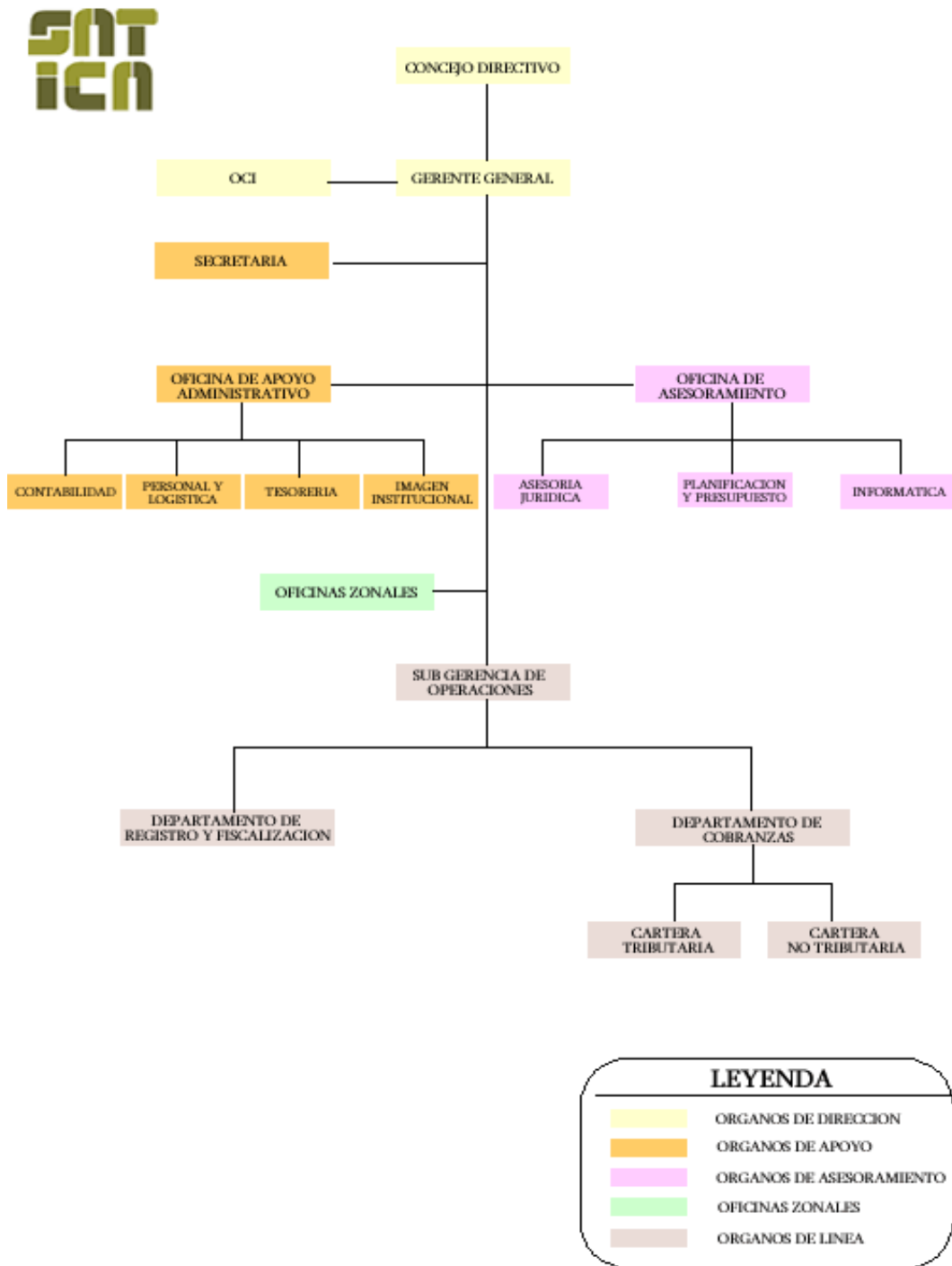




Figure N°5: Orgainsation Chart representative for a SAT



**Graph N° 14: Transfers to Local Governments in fiscal year 2006**

Name of transfer scheme	Amount
<b>TOTAL</b>	<b>5,559,212,406</b>
CANON MINERO	1,309,784,220
REGALÍA MINERA	309,123,690
FOCAM - FONDO DE DESARROLLO DE CAMISEA	76,159,891
CANON HIDROENERGÉTICO	95,722,587
CANON PESQUERO - IMP. A LA RENTA	22,532,869
VÍCTIMAS DEL TERRORISMO	3,188,542
IMPUESTOS DEROGADOS	13,654,000
PROYECTO TRANSPORTES RURALES PROVIAS	5,084,790
COMEDORES, ALIMENTOS POR TRABAJO, HOGARES Y ALBERGUES	45,159,965
FONCODES - INFRAESTRUCTURA SOCIAL Y PRODUCTIVA	73,168,812
FONCOMUN - FONDO DE COMPENSACIÓN MUNICIPAL	2,389,112,726
RENTA DE ADUANAS	126,221,454
CANON Y SOBRECANON PETROLERO	381,932,503
CANON FORESTAL	4,900,787
CANON PESQUERO - DERECHOS DE PESCA	14,605,702
PROGRAMA DEL VASO DE LECHE	363,000,000
CASINOS	4,456,115
TRAGAMONEDAS	26,000,881
CANON GASÍFERO - REGALÍAS	295,402,872

**Source: MEF**

Figure N° 6: A typical municipal note concerning Tax Amnesty



MUNICIPALIDAD DISTRITAL DE SAN JUAN DE MIRAFLORES

# SUPER AMNISTIA

*Comienzo el Año 2007 sin Deudas*

## CANCELA TU IMPUESTO PREDIAL Y ARBITRIOS CON EL

**0** **INTERESES Y  
MORAS**

**AMNISTIA TOTAL 2006**

**100% DE DESCUENTO**

**23** **DICIEMBRE**  
**ULTIMO**  
**DÍA**

**BENEFICIOS:**

- \* Descuento del 100% del Interés moratorio por pago al contado
- \* Descuento del 50% del Total de los Arbitrios Municipales
- \* 80% de Descuento en multas administrativas y tributarias
- \* Cancela Los Arbitrios del 2006 igual que el 2005

## Detailed Information of municipal revenues for fiscal years 2001-2006

(Source: MEF, Contaduria):

Estructura de Principales Ingresos Fiscales: Departamento de Apurímac, Provincia de Abancay						
	2001	2002	2003	2004	2005	2006
<b>Transferencias</b>						
Foncomun	3,074,316	3,015,082	3,441,452	4,533,987	5,490,835	5,537,119
Canon Minero	145	277	11,207	51,402	197,307	240,334
Derechos de Pesca						
Canon Hidroenergético						
Vaso de Leche	725,796	679,680	780,359	792,660	808,685	809,354
<b>Subtotal</b>	<b>3,800,257</b>	<b>3,695,039</b>	<b>4,233,018</b>	<b>5,378,049</b>	<b>6,497,027</b>	<b>6,586,807</b>
<b>Impuestos</b>						
Impuesto predial	212,650	284,641	317,972	348,362	328,283	
Alcabala	1,953	58,655	43,600	36,589	92,172	
Impuesto vehicular	0	327	5,021	9,409	15,816	
<b>Subtotal</b>	<b>214,603</b>	<b>343,623</b>	<b>366,592</b>	<b>394,360</b>	<b>436,272</b>	
<b>Arbitrios</b>						
Limpieza Publica	167,543	132,246	240,381	262,533	325,825	
Parques y jardines	27,221	25,579	27,594	32,342	28,731	
Serenazgo						
<b>Subtotal</b>	<b>194,764</b>	<b>157,825</b>	<b>267,975</b>	<b>294,875</b>	<b>354,556</b>	
<b>Saldos</b>						
Saldos de ejercicios anteriores	171,297	51,670	56,497	184,365	218,369	
<b>Suma Subtotales</b>	<b>4,380,921</b>	<b>4,248,157</b>	<b>4,924,082</b>	<b>6,251,649</b>	<b>7,506,224</b>	
<b>Ingresos totales</b>	<b>5,559,800</b>	<b>6,442,454</b>	<b>6,290,452</b>	<b>8,538,012</b>	<b>10,199,937</b>	
<b>Vivienda particular</b>						
Vivienda y Establecimiento				13,744	92%	
				1,243	8%	
<b>Población</b>						
				70,514		
<b>Partido</b>	<b>Alcalde</b>					
Movimiento Independiente "Apurímac Unido"	Marco Aníbal Gamarrá Samanez				Votos	23%

Provincia creada en: Epoca de Independencia

<b>Estructura de Principales Ingresos Fiscales: Departamento Arequipa, Provincia Arequipa</b>						
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Transferencias</b>						
Foncomun	6,980,368	6,817,812	7,796,094	8,948,630	11,824,017	13,733,623
Canon Minero	1,271,551	4,966,632	6,859,613	2,873,559	1,016,425	872,541
Derechos de Pesca			321,224	2,946	14,466	2,784
Canon Hidroenergético		954,713	1,218,082	409,463	60,933	28,115
Vaso de Leche	579,554	531,257	579,554	579,554	579,554	579,554
<b>Subtotal</b>	<b>8,831,472</b>	<b>13,270,414</b>	<b>16,774,567</b>	<b>12,814,152</b>	<b>13,495,395</b>	<b>15,216,617</b>

#### Impuestos

Impuesto predial	5,920,406	7,389,370	7,570,212	7,515,142	7,710,847	
Alcabala	323,097	1,479,266	1,835,081	1,446,630	1,651,441	
Impuesto vehicular	529,630	345,573	958,372	2,279,250	2,193,298	
<b>Subtotal</b>	<b>6,773,133</b>	<b>9,214,210</b>	<b>10,363,646</b>	<b>11,241,021</b>	<b>11,555,586</b>	

#### Arbitrios

Limpieza Publica	2,193,256	2,289,986	2,340,660	2,448,045	2,759,076	
Parques y jardines		563,275	846,536	1,082,154	1,353,892	
Serenazgo					61,364	
<b>Subtotal</b>	<b>2,193,256</b>	<b>2,853,261</b>	<b>3,187,196</b>	<b>3,530,200</b>	<b>4,174,332</b>	

#### Saldos

<b>Saldos de ejercicios anteriores</b>	<b>0</b>	<b>1,187,430</b>	<b>210,000</b>	<b>7,776,082</b>	<b>15,083,067</b>	
<b>Suma Subtotales</b>	<b>17,797,861</b>	<b>26,525,315</b>	<b>30,535,410</b>	<b>35,361,454</b>	<b>44,308,381</b>	

<b>Ingresos totales</b>	<b>29,483,778</b>	<b>40,311,521</b>	<b>51,087,105</b>	<b>64,818,891</b>	<b>69,643,020</b>	
-------------------------	-------------------	-------------------	-------------------	-------------------	-------------------	--

<b>Vivienda particular</b>				15,833	92%	
<b>Vivienda y Establecimiento</b>				1,268	7%	

**Población:** 93,502

<b>Partido</b>	<b>Alcalde</b>
PARTIDO AGRISTA PERUANO	Yamel Peyson Romero Peraltia

**Provincia creada en:** Epoca de Independencia

**Votos:** 23%

Estructura de Principales Ingresos Fiscales: Departamento Cajamarca, Provincia Cajamarca, Distrito de Baños del Inca						
	2001	2002	2003	2004	2005	2006
<b>Transferencias</b>						
Foncomun	1,766,799	1,742,151	1,983,773	2,049,362	2,323,125	3,078,722
Canon Minero	678,990	820,707	2,057,204	5,939,978	18,182,844	24,226,158
Canon Hidroenergético		23,127	40,608	39,045	33,464	37,797
Vaso de Leche	343,198	353,719	409,646	417,130	422,788	421,108
<b>Subtotal</b>	<b>2,788,987</b>	<b>2,939,704</b>	<b>4,491,231</b>	<b>8,445,515</b>	<b>20,962,221</b>	<b>27,763,785</b>

**Impuestos**

Impuesto predial	208,000		233,063	250,629	367,814	
Alcabala			23,641	59,710	95,106	
Impuesto vehicular						
<b>Subtotal</b>	<b>208,000</b>	<b>0</b>	<b>256,704</b>	<b>310,338</b>	<b>462,919</b>	

**Arbitrios**

Limpieza Pública	94,064		111,129	114,470	143,396	
Parques y jardines				1,522	2,820	
Serenazgo						
<b>Subtotal</b>	<b>94,064</b>	<b>0</b>	<b>111,129</b>	<b>115,992</b>	<b>146,215</b>	

**Saldos**

<b>Saldos de ejercicios anteriores</b>	<b>0</b>	<b>0</b>	<b>67,390</b>	<b>1,380,873</b>	<b>3,719,751</b>	
--	----------	----------	---------------	------------------	------------------	--

<b>Suma Subtotales</b>	<b>2,883,051</b>	<b>2,939,704</b>	<b>4,669,750</b>	<b>9,942,380</b>	<b>24,828,187</b>	
------------------------	------------------	------------------	------------------	------------------	-------------------	--

<b>Ingresos totales</b>	<b>3,958,284</b>		<b>5,885,077</b>	<b>12,280,801</b>	<b>25,325,952</b>	
-------------------------	------------------	--	------------------	-------------------	-------------------	--

<b>Vivienda particular</b>				9,146	97%	
<b>Vivienda y Establecimiento</b>				205	2%	

<b>Población</b>	31,764
------------------	--------

Partido	Alcalde
FUERZA DEMOCRATICA	José Manuel Pajares Abanto

<b>Votos:</b>	30%
---------------	-----

<b>Distrito creado en:</b> 1959
---------------------------------

Estructura de Principales Ingresos Fiscales: Departamento de Cajamarca, Provincia de Cajamarca						
	2001	2002	2003	2004	2005	2006
<b>Transferencias</b>						
Foncomun	9,432,713	9,205,289	10,530,080	11,648,170	13,596,221	16,882,673
Canon Minero	3,606,086	3,616,066	8,167,397	9,508,779	48,635,294	50,239,653
Canon Hidroenergético		85,136	149,846	130,679	112,842	114,090
Vaso de Leche	1,561,573	1,431,441	1,613,752	1,494,667	1,638,021	1,633,463
<b>Subtotal</b>	<b>14,600,372</b>	<b>14,337,932</b>	<b>20,461,074</b>	<b>22,782,295</b>	<b>63,982,379</b>	<b>68,869,879</b>
<b>Impuestos</b>						
Impuesto predial	1,231,902	1,297,967	1,219,412	3,280,658	2,456,805	
Alcabala	69,364	146,264	206,728	246,475	469,458	
Impuesto vehicular	60,906	265,260	248,314	508,102	605,379	
<b>Subtotal</b>	<b>1,362,172</b>	<b>1,709,490</b>	<b>1,674,455</b>	<b>4,035,235</b>	<b>3,531,641</b>	
<b>Arbitrios</b>						
Limpieza Publica	990,417	938,551	759,908	1,977,221	1,352,637	
Parques y jardines		75,734	167,620	460,396	234,239	
Serenazgo		78,434	198,313	529,476	260,578	
<b>Subtotal</b>	<b>990,417</b>	<b>1,092,719</b>	<b>1,125,840</b>	<b>2,967,093</b>	<b>1,847,455</b>	
<b>Saldos</b>						
Saldos de ejercicios anteriores	2,371,658	3,224,404	5,981,555	10,690,617	9,276,530	
<b>Suma Subtotales</b>	<b>19,324,619</b>	<b>20,364,546</b>	<b>29,242,924</b>	<b>40,475,239</b>	<b>78,638,005</b>	
<b>Ingresos totales</b>	<b>23,513,398</b>	<b>25,329,977</b>	<b>33,669,156</b>	<b>47,977,630</b>	<b>84,884,058</b>	
Vivienda particular				37,551	92%	
Vivienda y Establecimiento				2,789	7%	
<b>Población</b>				156,821		
<b>Partido</b>		<b>Alcalde</b>			<b>Votos</b>	23%
PARTIDO APRISTA PERUANO		Emilio Horna Pereyra				
<b>Provincia creada en:</b> Epoca de Independencia						

<b>Estructura de Principales Ingresos Fiscales: Departamento de Lima, Provincia Constitucional del Callao</b>						
<b>Transferencias</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Foncomun	11,508,779	11,226,440	12,844,571	12,204,463	13,280,615	13,961,575
Derechos de Pesca			240,951	209,267	724,912	430,752
Renta de Aduanas			19,530,360	27,384,529	29,782,465	28,770,032
Vaso de Leche	3,821,138	3,821,136	3,821,137	3,821,138	3,821,138	3,821,138
<b>Subtotal</b>	<b>15,329,917</b>	<b>15,047,576</b>	<b>36,437,018</b>	<b>43,619,397</b>	<b>47,609,130</b>	<b>46,983,497</b>
<b>Impuestos</b>						
Impuesto predial	11,948,961	12,746,093	14,020,422	16,074,536	19,965,265	
Alcabala	718,492	4,035,005	3,787,919	3,200,374	4,758,345	
Impuesto vehicular	536,890	1,117,149	1,342,992	1,590,070	1,411,535	
<b>Subtotal</b>	<b>13,204,343</b>	<b>17,898,247</b>	<b>19,151,334</b>	<b>20,864,981</b>	<b>26,135,145</b>	
<b>Arbitrios</b>						
Limpieza Publica	13,153,963	14,984,854	14,968,386	17,244,610	19,322,129	
Parques y jardines	2,030,837	2,304,225	2,488,665	2,630,483	3,461,642	
Serenazgo	3,745,615	4,139,515	4,541,646	4,739,134	5,159,908	
<b>Subtotal</b>	<b>18,930,415</b>	<b>21,428,594</b>	<b>21,998,697</b>	<b>24,614,227</b>	<b>27,943,678</b>	
<b>Saldos</b>						
<b>Saldos de ejercicios anteriores</b>	<b>9,228,291</b>	<b>8,310,715</b>	<b>2,810,230</b>	<b>669,587</b>	<b>3,442,856</b>	
<b>Suma Subtotales</b>	<b>56,692,966</b>	<b>62,685,132</b>	<b>80,397,279</b>	<b>89,768,191</b>	<b>105,130,810</b>	
<b>Ingresos totales</b>	<b>75,257,611</b>	<b>82,314,986</b>	<b>92,466,181</b>	<b>130,779,528</b>	<b>128,829,337</b>	
<b>Vivienda particular</b>				84,086	95%	
<b>Vivienda y Establecimiento</b>				4,012	5%	
<b>Población</b>				417,587		
<b>Partido</b>						
<b>Alcalde</b>						
Movimiento Político Independiente "CHIM PUM CALLAO"					Votos	31%
<b>Provincia creada en:</b>						1836



Estructura de Principales Ingresos Fiscales: Departamento Lima, Provincia de Cañete						
Transferencias	2001	2002	2003	2004	2005	2006
Foncomun	2,646,492	2,598,575	2,964,494	2,736,483	3,151,945	4,278,311
Canon Minero	34,477	15,229	655	68,927	232,549	757,528
FOCAM					987,710	1,574,628
Derechos de Pesca			497	45,718	119,573	88,559
Canon Hidroenergético		1,134	2,531	388,469	594,628	670,166
Vaso de Leche	386,722	354,495	390,461	391,806	391,806	391,806
<b>Subtotal</b>	<b>3,067,691</b>	<b>2,969,433</b>	<b>3,358,638</b>	<b>3,631,403</b>	<b>5,478,211</b>	<b>7,760,998</b>
<b>Impuestos</b>						
Impuesto predial	874,061	773,702	941,088	939,789	998,039	
Alcabala	13,632	308,662	466,261	1,424,186	2,615,916	
Impuesto vehicular	2,332	34,959	77,271	111,098	75,080	
<b>Subtotal</b>	<b>890,025</b>	<b>1,117,323</b>	<b>1,484,620</b>	<b>2,475,073</b>	<b>3,689,035</b>	
<b>Arbitrios</b>						
Limpieza Pública	247,901	209,350	384,390	365,185	365,075	
Parques y Jardines	44,549	33,474	62,695	58,749	59,416	
Serenazgo						
<b>Subtotal</b>	<b>292,450</b>	<b>242,824</b>	<b>447,085</b>	<b>423,933</b>	<b>424,491</b>	
<b>Saldos</b>						
Saldos de ejercicios anteriores	1,928,752	672,017	231,532	1,446,255	1,879,618	
<b>Suma Subtotales</b>	<b>6,178,918</b>	<b>5,001,598</b>	<b>5,521,874</b>	<b>7,976,664</b>	<b>11,471,354</b>	
<b>Ingresos totales</b>	<b>8,590,169</b>	<b>7,220,298</b>	<b>8,098,397</b>	<b>11,372,683</b>	<b>16,214,498</b>	
Vivienda particular				11,309	94%	
Vivienda y Establecimiento				766	6%	
<b>Población</b>				43,943		
<b>Partido</b>	<b>Alcalde</b>					
PARTIDO DEMOCRATICO SOMOS PERU		Rufina Lévano Quispe		Votos	22%	
<b>Provincia creada en:</b> Epoca de independencia						

**Estructura de Principales Ingresos Fiscales: Departamento Lambayeque, Provincia de Chiclayo**

Transferencias	2001	2002	2003	2004	2005	2006
Foncomun	11,552,265	11,268,775	12,893,051	14,537,844	17,558,592	20,676,039
Canon Minero						
Derechos de Pesca						
Canon Hidroenergético						
Vaso de Leche	2,352,912	2,156,835	2,352,911	2,156,000	2,352,911	2,352,911
<b>Subtotal</b>	<b>13,905,177</b>	<b>13,425,610</b>	<b>15,245,961</b>	<b>16,693,844</b>	<b>19,911,503</b>	<b>23,028,950</b>

**Impuestos**

Impuesto predial	5,251,249	5,854,079	3,847,544	5,323,963	6,616,245
Alcabala	443,863	1,368,349	1,020,349	1,314,844	1,846,148
Impuesto vehicular	190,827	436,589	316,728	384,258	935,477
<b>Subtotal</b>	<b>5,885,939</b>	<b>7,659,016</b>	<b>5,184,622</b>	<b>7,023,065</b>	<b>9,397,870</b>

**Arbitrios**

Limpieza Pública	4,590,159	5,307,966	4,110,441	5,688,384	11,494,322
Parques y Jardines	434,145	521,277	358,248	680,706	1,075,553
Serenazgo					
<b>Subtotal</b>	<b>5,024,304</b>	<b>5,829,243</b>	<b>4,468,689</b>	<b>6,369,090</b>	<b>12,569,875</b>

**Saldos**

Saldos de ejercicios anteriores	1,015,449	551,386	856,774	3,104,482	725,639
---------------------------------	-----------	---------	---------	-----------	---------

<b>Suma Subtotales</b>	<b>25,830,869</b>	<b>27,465,255</b>	<b>25,756,047</b>	<b>33,190,481</b>	<b>42,604,887</b>
------------------------	-------------------	-------------------	-------------------	-------------------	-------------------

<b>Ingresos totales de la municipalidad</b>	<b>39,034,968</b>	<b>36,849,933</b>	<b>34,249,907</b>	<b>43,255,339</b>	<b>56,900,593</b>
---	-------------------	-------------------	-------------------	-------------------	-------------------

Vivienda particular				53,891	93%
Vivienda y Establecimiento				4,153	7%

<b>Población</b>	275,360
------------------	---------

Partido	Alcalde	votos
PARTIDO ACCION POPULAR	ARTURO CASTILLO CHIRINOS	30%

**Provincia creada en:** 1874

Estructura de Principales Ingresos Fiscales: Departamento de Ica, Provincia de Chincha						
Transferencias	2001	2002	2003	2004	2005	2006
Foncomun	2,778,612	2,727,199	3,111,788	3,741,697	4,445,402	5,380,182
Canon Minero	8,706	31,847	69,184	97,095	181,063	549,877
Derechos de Pesca			97,488	16,455	83,058	88,607
Vaso de Leche	402,402	368,869	413,216	382,009	416,737	416,737
<b>Subtotal</b>	<b>3,189,720</b>	<b>3,127,915</b>	<b>3,691,676</b>	<b>4,237,256</b>	<b>5,126,259</b>	<b>6,435,403</b>
<b>Impuestos</b>						
Impuesto predial	681,513	816,320	885,508	1,114,425	1,139,467	1,139,467
Alcabala	17,451	131,413	183,035	183,746	190,285	190,285
Impuesto vehicular	3,727	3,601	4,863	24,328	40,708	40,708
<b>Subtotal</b>	<b>702,691</b>	<b>951,334</b>	<b>1,073,406</b>	<b>1,322,500</b>	<b>1,370,460</b>	<b>1,370,460</b>
<b>Arbitrios</b>						
Limpieza Pública	510,339	466,162	422,434	377,768	369,237	369,237
Parques y Jardines						
Serenazgo						
<b>Subtotal</b>	<b>510,339</b>	<b>466,162</b>	<b>422,434</b>	<b>377,768</b>	<b>369,237</b>	<b>369,237</b>
<b>Saldos</b>						
Saldos de ejercicios anteriores	98,500	73,103	64,581	1,142,839	608,422	608,422
<b>Suma Subtotales</b>	<b>4,501,250</b>	<b>4,618,514</b>	<b>5,252,098</b>	<b>7,080,362</b>	<b>7,474,379</b>	<b>7,474,379</b>
<b>Ingresos totales</b>	<b>6,767,385</b>	<b>7,083,870</b>	<b>7,983,181</b>	<b>10,254,446</b>	<b>11,228,448</b>	<b>11,228,448</b>
<b>Vivienda particular</b>						
Vivienda y Establecimiento				13,604	95%	95%
				683	5%	5%
<b>Población</b>						
						56,085
<b>Partido</b>		<b>Alcalde</b>				
UNION POR EL PERU - FRENTE AMPLIO		Félix Juan Amoretti Mendoza			<b>Votos</b>	28%
<b>Provincia creada en:</b> Epoca de Independencia						

Estructura de Principales Ingresos Fiscales: Departamento de Ucayali, Provincia de Coronel Portillo						
Transferencias	2001	2002	2003	2004	2005	2006
FOCAM						907,524
Foncomun	11,485,501	11,203,778	12,818,620	17,732,579	20,637,172	23,005,072
Canon Minero						
Canon Petrolero	7,546,121	8,270,558	7,914,885	10,472,659	12,868,473	13,784,908
Vaso de Leche	2,660,963	2,543,920	5,594,298	2,924,806	2,979,014	2,986,382
<b>Subtotal</b>	<b>21,692,585</b>	<b>22,018,256</b>	<b>26,327,803</b>	<b>31,130,044</b>	<b>36,484,659</b>	<b>40,683,886</b>
<b>Impuestos</b>						
Impuesto predial	1,348,279		1,376,474	1,523,693		1,272,539
Alcabala	299,414		274,537	481,538		319,223
Impuesto vehicular	36,293		48,832	30,918		102,803
<b>Subtotal</b>	<b>1,683,986</b>		<b>1,699,843</b>	<b>2,036,149</b>		<b>1,694,566</b>
<b>Arbitrios</b>						
Limpieza Pública	945,178	1,492,203	1,082,999	1,150,528		1,083,243
Parques y Jardines	210,372	393,109	244,808	321,422		264,312
Serenazgo				26,366		58,721
<b>Subtotal</b>	<b>1,155,550</b>	<b>1,885,312</b>	<b>1,327,806</b>	<b>1,498,316</b>		<b>1,406,275</b>
<b>Saldos</b>						
Saldos de ejercicios anteriores	11,802,444	4,697,516	1,281,957	6,389,236		17,564,915
<b>Suma Subtotales</b>	<b>36,334,565</b>	<b>28,601,094</b>	<b>30,637,309</b>	<b>41,053,745</b>		<b>57,150,415</b>
<b>Ingresos totales</b>	<b>41,721,128</b>	<b>34,355,659</b>	<b>32,968,630</b>	<b>47,674,952</b>		<b>62,325,740</b>
Vivienda particular				42,557		91%
Vivienda y Establecimiento				3,992		8,5%
<b>Población</b>	208,292					
<b>Partido</b>	<b>Alcalde</b>					
MOVIMIENTO CIVICO REGIONAL TODO POR UCAYALI	Luis Valdez Villacorta					
<b>Provincia creada en: 1900</b>	<b>Votos</b> 64%					

Estructura de Principales Ingresos Fiscales: Departamento Cusco, Provincia del Cusco						
Transferencias	2001	2002	2003	2004	2005	2006
Foncomun	6,837,631	6,678,852	7,636,966	8,534,185	9,734,542	12,448,486
Canon Minero	21,775	15,554			300,295	1,104,730
Canon Hidroenergético				7,371	32,402	75,095
Canon Gasífero				1,172,864	4,868,872	6,487,252
Vaso de Leche	1,347,026	1,234,772	1,347,026	1,234,774	1,347,026	1,347,026
<b>Subtotal</b>	<b>8,206,432</b>	<b>7,929,178</b>	<b>8,983,992</b>	<b>10,949,194</b>	<b>16,283,137</b>	<b>21,462,589</b>
<b>Impuestos</b>						
Impuesto predial	2,351,129	2,050,227	2,542,869	2,354,086	2,548,237	2,548,237
Alcabala	75,932	318,533	350,443	236,049	1,163,648	1,163,648
Impuesto vehicular	146,404	78,423	74,956	92,290	734,567	734,567
<b>Subtotal</b>	<b>2,573,465</b>	<b>2,447,183</b>	<b>2,968,268</b>	<b>2,682,425</b>	<b>4,446,452</b>	<b>4,446,452</b>
<b>Arbitrios</b>						
Limpieza Pública	2,354,560	2,665,716	1,905,737	1,382,111	1,589,156	1,589,156
Parques y Jardines	4,766		1,965	948		11,324
Serenazgo						
<b>Subtotal</b>	<b>2,359,326</b>	<b>2,665,716</b>	<b>1,907,702</b>	<b>1,383,059</b>	<b>1,600,480</b>	<b>1,600,480</b>
<b>Saldos</b>						
<b>Saldos de ejercicios anteriores</b>	<b>1,291,856</b>	<b>845,312</b>	<b>1,067,412</b>	<b>448,347</b>	<b>8,726,463</b>	<b>8,726,463</b>
<b>Suma Subtotales</b>	<b>14,431,079</b>	<b>13,887,390</b>	<b>14,927,373</b>	<b>15,463,025</b>	<b>31,056,531</b>	<b>31,056,531</b>
<b>Ingresos totales</b>	<b>42,881,058</b>	<b>45,303,343</b>	<b>46,069,235</b>	<b>62,874,732</b>	<b>82,567,100</b>	<b>82,567,100</b>
<b>Vivienda particular</b>				26,748		94%
<b>Vivienda y Establecimiento</b>				1,640		6%
<b>Población</b>				103,836		
<b>Partido</b>		<b>Alcalde</b>				
Organización Política Cusco en Acción		Carlos Mario Valencia Miranda				28%
<b>Provincia creada en:</b> Epoca de Independencia						

<b>Estructura de Principales Ingresos Fiscales: Departamento de Lambayeque, Provincia de Ferreñafe</b>						
<b>Transferencias</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Foncomun	2,659,026	2,610,777	2,978,468	3,444,613	3,988,436	4,735,482
Canon Minero						
Derechos de Pesca						
Vaso de Leche	429,368	393,588	429,368	429,368	429,368	429,368
<b>Subtotal</b>	<b>3,088,394</b>	<b>3,004,365</b>	<b>3,407,836</b>	<b>3,873,981</b>	<b>4,417,804</b>	<b>5,164,850</b>
<b>Impuestos</b>						
Impuesto predial	193,318	201,168	424,435	299,824	n.n	n.n
Alcabala	116,258	65,614	31,517	7,352	n.n	n.n
Impuesto vehicular		241	819	352	n.n	n.n
<b>Subtotal</b>	<b>309,576</b>	<b>267,023</b>	<b>456,771</b>	<b>307,528</b>	<b>0</b>	<b>0</b>
<b>Arbitrios</b>						
Limpieza Pública	203,091	203,659	307,926	288,304		
Parques y Jardines	8,215	9,553	12,647	10,010		
Serenazgo				14,715		
<b>Subtotal</b>	<b>211,306</b>	<b>213,212</b>	<b>320,573</b>	<b>313,029</b>	<b>0</b>	<b>0</b>
<b>Saldos</b>						
<b>Saldos de ejercicios anteriores</b>	<b>405,145</b>	<b>0</b>	<b>11,669</b>	<b>45,776</b>	<b>0</b>	<b>0</b>
<b>Suma Subtotales</b>	<b>4,014,421</b>	<b>3,484,600</b>	<b>4,196,849</b>	<b>4,540,314</b>	<b>4,417,804</b>	<b>4,417,804</b>
<b>Ingresos totales</b>	<b>5,204,636</b>	<b>4,744,151</b>	<b>5,844,213</b>	<b>6,986,695</b>	<b>2,006</b>	<b>2,006</b>
<b>Vivienda particular</b>				7,408		92%
<b>Vivienda y Establecimiento</b>				602		8%
<b>Población</b>						32,030
<b>Partido</b>						<b>Alcalde</b>
PARTIDO APRISTA PERUANO	Juan José Salazar García					<b>votos</b>
						33%
<b>Provincia creada en:</b>	Epoca de Independencia					

Estructura de Principales Ingresos Fiscales: Departamento de Ayacucho, Provincia de Huamanga						
Transferencias	2001	2002	2003	2004	2005	2006
Foncomun	5,696,896	4,976,904	5,741,570	6,907,551	8,228,507	11,181,062
FOCAM					1,550,683	2,224,642
Canon Minero	32	2,499	1,784	22,050	61,126	51,580
Vaso de Leche	1,042,434	817,693	946,529	883,735	984,029	983,444
<b>Subtotal</b>	<b>6,739,362</b>	<b>5,797,096</b>	<b>6,689,883</b>	<b>7,813,336</b>	<b>10,824,345</b>	<b>14,440,728</b>
<b>Impuestos</b>						
Impuesto predial	581,817	731,470	864,702	899,956	992,577	
Alcabala	2,290	74,737	966,667	77,770	88,101	
Impuesto vehicular			3,551	13,739	16,229	
<b>Subtotal</b>	<b>584,107</b>	<b>806,207</b>	<b>1,834,920</b>	<b>991,465</b>	<b>1,096,907</b>	
<b>Arbitrios</b>						
Limpieza Pública	779,870	1,074,118	1,153,184	1,314,406	1,164,895	
Parques y Jardines		186,903	340,266	384,027	439,187	
Serenazgo	132		30,098	103,307	124,693	
<b>Subtotal</b>	<b>780,002</b>	<b>1,261,021</b>	<b>1,523,549</b>	<b>1,801,740</b>	<b>1,728,776</b>	
<b>Saldos</b>						
Saldos de ejercicios anteriores	730,221	32	199,877	1,312,886	560,215	
<b>Suma Subtotales</b>	<b>8,833,692</b>	<b>7,864,356</b>	<b>10,248,229</b>	<b>11,919,428</b>	<b>14,210,242</b>	
<b>Ingresos totales</b>	<b>10,874,233</b>	<b>12,897,298</b>	<b>15,653,207</b>	<b>17,798,251</b>	<b>18,988,985</b>	
Vivienda particular				23,820	94%	
Vivienda y Establecimiento				1,434	6%	
<b>Población</b>	195,696					
<b>Partido</b>	<b>Alcalde</b>					
PARTIDO AFRISTA PERUANO	GERARDO LUDENA GONZALES		<b>Votos</b>		15%	
<b>Provincia creada en:</b> Epoca de Independencia						

<b>Estructura de Principales Ingresos Fiscales: Departamento de Junín, Provincia de Huancayo</b>						
<b>Transferencias</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Foncomun	8,894,000	8,680,826	9,929,498	11,530,939	13,533,362	15,557,812
Canon Minero	371,181	136,167	32,834	66,212	156,751	207,454
Canon Hidroenergético		50,574	93,691	215,428	317,635	289,048
Vaso de Leche	1,009,134	925,040	1,075,003	1,004,400	1,107,325	1,105,367
<b>Subtotal</b>	<b>10,274,315</b>	<b>9,792,607</b>	<b>11,131,026</b>	<b>12,816,979</b>	<b>15,115,073</b>	<b>17,159,681</b>
<b>Impuestos</b>						
Impuesto predial	2,735,938	3,431,827	2,802,574	3,234,098	3,504,463	
Alcabala	79,731	407,136	383,177	506,963	971,320	
Impuesto vehicular	224,692	342,582	352,869	943,982	1,140,495	
<b>Subtotal</b>	<b>3,040,361</b>	<b>4,181,544</b>	<b>3,538,620</b>	<b>4,685,043</b>	<b>5,616,267</b>	
<b>Arbitrios</b>						
Limpieza Pública	830,847	916,240	830,487	1,001,000	1,376,760	
Parques y Jardines	195,609	230,176	178,083	222,537	330,781	
Serenazgo				270,572	690,395	
<b>Subtotal</b>	<b>1,026,456</b>	<b>1,146,416</b>	<b>1,008,570</b>	<b>1,494,109</b>	<b>2,397,935</b>	
<b>Saldos</b>						
Saldos de ejercicios anteriores	614,161	1,799,228	627,237	2,418,166	3,177,912	
<b>Suma Subtotales</b>	<b>14,955,293</b>	<b>16,919,796</b>	<b>16,305,452</b>	<b>21,414,297</b>	<b>26,307,187</b>	
<b>Ingresos totales</b>	<b>28,731,441</b>	<b>28,136,745</b>	<b>27,873,114</b>	<b>41,809,765</b>	<b>45,206,748</b>	
<b>Vivienda particular</b>					24,277	92%
<b>Vivienda y Establecimiento</b>					2,120	8%
<b>Población</b>					104,117	
<b>Partido</b>		<b>Alcalde</b>				<b>Votos</b>
PARTIDO APRISTA PERUANO		Pío Fernando Barrios Ipenza				24%
<b>Provincia creada en: 1857</b>						



<b>Estructuras de Principales Ingresos Fiscales: Departamento de Ancash, Provincia de Huaraz</b>						
<b>Transferencias</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Foncomun	3,406,854	3,338,824	3,812,181	4,160,301	4,912,328	5,761,445
Canon Minero	112,006	1,474,995	4,289,146	4,575,513	4,611,259	9,677,735
Derechos de Pesca			53,600	103,292	102,137	75,702
Canon Hidroenergético		41,481	77,364	132,089	172,991	219,323
Vaso de Leche	567,708	520,398	585,549	542,033	600,197	600,216
<b>Subtotal</b>	<b>4,086,568</b>	<b>5,375,698</b>	<b>8,819,842</b>	<b>9,515,232</b>	<b>10,400,918</b>	<b>16,334,421</b>
<b>Impuestos</b>						
Impuesto predial	837,779	485,403	628,438	786,266	941,147	
Alcabala	4,315	76,699	36,269	77,770	140,812	
Impuesto vehicular	52,826	19,651	50,614	98,205	125,443	
<b>Subtotal</b>	<b>894,920</b>	<b>581,753</b>	<b>715,321</b>	<b>962,241</b>	<b>1,207,402</b>	
<b>Arbitrios</b>						
Limpieza Pública	122,288	137,456	136,753	138,635	164,622	
Parques y Jardines	27,670	23,133	30,839	36,459	47,515	
Serenazgo			29			
<b>Subtotal</b>	<b>149,958</b>	<b>160,590</b>	<b>167,620</b>	<b>175,094</b>	<b>212,137</b>	
<b>Saldos</b>						
Saldos de ejercicios anteriores	662,395	251,338	37,141	2,082,499	1,304,479	
<b>Suma Subtotales</b>	<b>5,793,841</b>	<b>6,369,378</b>	<b>9,739,925</b>	<b>12,735,066</b>	<b>13,124,936</b>	
<b>Ingresos totales</b>	<b>7,716,965</b>	<b>9,083,967</b>	<b>12,933,139</b>	<b>17,309,668</b>	<b>16,007,924</b>	
<b>Vivienda particular</b>				13,517	91%	
<b>Vivienda y Establecimiento</b>				1,293	9%	
<b>Población</b>						52,592
<b>Partido</b>		<b>Alcalde</b>				
MOVIMIENTO ACCION NACIONALISTA PERUANO		Galacio Lombardo Mautino Angeles				<b>Votos</b> 23%
<b>Provincia creada en:</b> 1906						

Estructura de Principales Ingresos Fiscales: Departamento de Ica, Provincia de Ica						
Transferencias	2001	2002	2003	2004	2005	2006
Foncomun	5,171,868	5,057,150	5,779,898	6,363,487	7,244,138	8,415,960
FOCAM					1,538,112	1,757,061
Canon Minero	13,637	34,770	78,443	160,235	388,652	1,137,114
Derechos de Pesca			26,440	22,159	95,327	108,425
Vaso de Leche	961,511	881,384	961,510	881,384	961,510	961,510
<b>Subtotal</b>	<b>6,147,016</b>	<b>5,973,304</b>	<b>6,846,291</b>	<b>7,427,265</b>	<b>10,227,739</b>	<b>12,380,070</b>
<b>Impuestos</b>						
Impuesto predial	951,334		1,433,877	2,220,563	2,127,370	
Alcabala	49,990		302,212	468,316	504,601	
Impuesto vehicular	17,168		30,019	116,551	139,125	
<b>Subtotal</b>	<b>17,168</b>	<b>0</b>	<b>30,019</b>	<b>116,551</b>	<b>139,125</b>	
<b>Arbitrios</b>						
Limpieza Pública	30,385		220,058	356,261	435,513	
Parques y Jardines	9,326		69,661	121,604	114,172	
Serenazgo					57,176	
<b>Subtotal</b>	<b>39,711</b>	<b>0</b>	<b>289,719</b>	<b>477,866</b>	<b>606,861</b>	
<b>Saldos</b>						
<b>Saldos de ejercicios anteriores</b>	<b>1,100,181</b>	<b>0</b>	<b>196,133</b>	<b>1,036,181</b>	<b>5,327,973</b>	
<b>Suma Subtotales</b>	<b>7,304,076</b>	<b>5,973,304</b>	<b>7,362,162</b>	<b>9,057,863</b>	<b>16,301,697</b>	
<b>Ingresos totales</b>	<b>15,701,967</b>	<b>0</b>	<b>17,093,226</b>	<b>25,502,349</b>	<b>30,206,144</b>	
<b>Vivienda particular</b>						
<b>Vivienda y Establecimiento</b>				28,976	94%	
				1,920	6%	
<b>Población</b>						
				117,839		
<b>Partido</b>						
		<b>Alcalde</b>			<b>Votos</b>	<b>31%</b>
	PARTIDO APRISTA PERUANO		Luis Oliva Fernández Prada			
<b>Provincia creada en: Epoca de Independencia</b>						

Estructura de Principales Ingresos Fiscales: Departamento de Moquegua, Provincia de Ilo						
Transferencias	2001	2002	2003	2004	2005	2006
Foncomun	1,730,859	1,707,161	1,943,706	2,456,400	2,890,289	3,478,129
Canon Minero	2,121,510	4,260,653	6,858,928	7,867,701	18,730,400	27,685,420
Derechos de Pesca			1,023,839	60,663	622,404	419,471
Renta de aduanas	1,163,895	1,036,778	742,869	1,297,531	1,755,985	1,472,484
Vaso de Leche	376,854	345,450	376,854	345,450	391,725	376,854
<b>Subtotal</b>	<b>5,393,118</b>	<b>7,350,042</b>	<b>10,946,196</b>	<b>12,027,744</b>	<b>24,390,803</b>	<b>33,432,358</b>
<b>Impuestos</b>						
Impuesto predial	1,338,239	1,876,134	2,324,919	2,372,093	3,567,870	
Alcabala	35,273	337,207	274,830	150,476	151,541	
Impuesto vehicular	36,045	55,962	167,045	203,558	190,211	
<b>Subtotal</b>	<b>1,409,557</b>	<b>2,269,304</b>	<b>2,766,794</b>	<b>2,726,126</b>	<b>3,909,622</b>	
<b>Arbitrios</b>						
Limpieza Pública	491,695	509,434	438,126	426,164	531,948	
Parques y Jardines	123,082	132,439	67,872	165,188	224,332	
Serenazgo	179,392	161,029	18,990	42,538	114,817	
<b>Subtotal</b>	<b>794,169</b>	<b>802,902</b>	<b>524,988</b>	<b>633,890</b>	<b>871,098</b>	
<b>Saldos</b>						
Saldos de ejercicios anteriores	1,423,120	1,182,417	1,842,008	6,904,323	5,461,021	
<b>Suma Subtotales</b>	<b>9,019,964</b>	<b>11,604,664</b>	<b>16,079,986</b>	<b>22,292,084</b>	<b>34,632,544</b>	
<b>Ingresos totales</b>	<b>14,777,483</b>	<b>17,638,042</b>	<b>24,257,202</b>	<b>32,574,842</b>	<b>54,309,118</b>	
<b>Vivienda particular</b>				17,747	93%	
<b>Vivienda y Establecimiento</b>				1,340	7%	
<b>Población</b>				57,746		
<b>Partido</b>	<b>Alcalde</b>					
MOVIMIENTO NUESTRO ILO - MOQUEGUA	Jorge Alfredo Mendoza Pérez				Votos	42%
<b>Provincia creada en:</b> Epoca de Independencia						

**Estructura de Principales Ingresos Fiscales: Departamento de Lima, Provincia de Cañete,  
Distrito de Imperial**

Transferencias	2001	2002	2003	2004	2005	2006
Foncomun	1,256,480	1,245,330	1,414,846	1,196,484	1,176,437	1,343,382
FOCAM						143,077
Canon Minero	12,521	7,783	28,213	53,616	140,111	323,420
Derechos de Pesca		4,300		33,743	71,876	34,552
Canon Hidroenergético	274,627	9,826	21,895	297,176	358,609	311,027
Vaso de Leche		251,742	281,550	283,813	283,813	283,813
<b>Subtotal</b>	<b>1,543,628</b>	<b>1,514,681</b>	<b>1,750,804</b>	<b>1,864,832</b>	<b>2,030,846</b>	<b>2,439,271</b>

**Impuestos**

Impuesto predial	334,269	339,894	331,084	403,379		361,000
Alcabala		23,745				
Impuesto vehicular						
<b>Subtotal</b>	<b>334,269</b>	<b>363,639</b>	<b>331,084</b>	<b>403,379</b>		<b>361,000</b>

**Arbitrios**

Limpieza Pública	177,502	258,572	94,217	119,054		137,012
Parques y Jardines						
Serenazgo						
<b>Subtotal</b>	<b>177,502</b>	<b>258,572</b>	<b>94,217</b>	<b>119,054</b>		<b>137,012</b>

**Saldos**

<b>Saldos de ejercicios anteriores</b>	<b>537,005</b>	<b>70,678</b>		<b>87,659</b>		<b>297,751</b>
<b>Suma Subtotales</b>	<b>2,592,404</b>	<b>2,207,570</b>	<b>2,176,105</b>	<b>2,474,923</b>		<b>2,826,609</b>
<b>Ingresos totales</b>	<b>3,773,663</b>	<b>3,020,075</b>	<b>3,622,198</b>	<b>4,330,102</b>		<b>4,184,887</b>

Vivienda particular				2,121		93%
Vivienda y Establecimiento				166		7%

**Población** 34,039

Partido	Alcalde
MOVIMIENTO INDEPENDIENTE DE RECONSTRUCCION CAÑETANA (MIRCA)	ELIAS ALCALA ROSAS

**Provincia creada en:** 1909

<b>Votos</b>	<b>26%</b>
--------------	------------

**Estructura de Principales Ingresos Fiscales: Departamento de Piura, Provincia de Morropón,  
Distrito La Matanza**

Transferencias	2001	2002	2003	2004	2005	2006
Foncomun	892,733	891,206	1,009,326	1,059,379	1,204,356	1,324,494
Canon Petrolero	323,459	298,512	497,837	445,477	1,163,880	1,616,628
Derechos de Pesca			1,508	29,758	10,120	8,705
Vaso de Leche	195,549	199,430	240,385	247,493	249,086	249,071
<b>Subtotal</b>	<b>1,411,741</b>	<b>1,389,148</b>	<b>1,749,056</b>	<b>1,782,107</b>	<b>2,627,442</b>	<b>3,198,898</b>

**Impuestos**

Impuesto predial	2,768	19,240	13,337	4,633	29,099	
Alcabala		3,207	5,169		9,312	
Impuesto vehicular						
<b>Subtotal</b>	<b>2,768</b>	<b>22,447</b>	<b>18,506</b>	<b>4,633</b>	<b>38,411</b>	

**Arbitrios**

Limpieza Pública						
Parques y Jardines						
Serenazgo						
<b>Subtotal</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Saldos**

<b>Saldos de ejercicios anteriores</b>	<b>295,284</b>	<b>158,705</b>	<b>64,283</b>	<b>128,085</b>	<b>197,779</b>	
<b>Suma Subtotales</b>	<b>1,709,793</b>	<b>1,570,300</b>	<b>1,831,845</b>	<b>1,914,825</b>	<b>2,863,632</b>	
<b>Ingresos totales</b>	<b>1,913,685</b>	<b>1,845,875</b>	<b>2,567,192</b>	<b>3,605,737</b>	<b>3,661,482</b>	

<b>Vivienda particular</b>				2,962	98%	
<b>Vivienda y Establecimiento</b>				53	2%	

**Población** 14,956

Partido	Alcalde	Votos	31%
MOVIMIENTO VECINAL "OBRAS Y MAS OBRAS"	JUAN AMARO ALVARADO REYES		

**Provincia creada en:** 1964

Estructura de Principales Ingresos Fiscales: Departamento de Lima, Provincia de Lima						
Transferencias	2001	2002	2003	2004	2005	2006
Foncomun	52,241,072	50,881,298	58,254,765	57,520,896	55,754,630	65,073,210
Canon Minero	450,267	262,829	169,683	137,241	149,667	149,407
Derechos de Pesca			106,250			
Canon Hidroenergético		263,062	588,391	345,964	122,185	144,062
Vaso de Leche	2,876,672	2,636,953	2,876,672	2,636,949	2,876,672	2,876,672
<b>Subtotal</b>	<b>55,568,011</b>	<b>54,044,142</b>	<b>61,995,761</b>	<b>60,641,050</b>	<b>58,903,154</b>	<b>68,243,351</b>
<b>Impuestos</b>						
Impuesto predial	14,780,148	17,774,171	19,384,152	22,161,494	27,124,674	
Alcabala	2,036,476	4,401,987	4,104,590	4,480,797	9,426,967	
Impuesto vehicular	22,692,441	26,736,061	46,235,164	51,535,409	43,943,581	
<b>Subtotal</b>	<b>39,509,065</b>	<b>48,912,219</b>	<b>69,723,906</b>	<b>78,177,700</b>	<b>80,495,222</b>	
<b>Arbitrios</b>						
Limpieza Pública	33,658,779	34,851,329	33,159,164	46,079,731	48,298,043	
Parques y Jardines	5,813,170	5,804,308	5,541,641	7,572,496	7,892,291	
Serenazgo	6,437,205	8,808,795	8,344,864	10,920,327	10,610,219	
<b>Subtotal</b>	<b>45,909,154</b>	<b>49,464,432</b>	<b>47,045,669</b>	<b>64,572,554</b>	<b>66,800,553</b>	
<b>Saldos</b>						
Saldos de ejercicios anteriores	18,809,090	11,310,066	28,952,861	114,396,875	169,315,878	
<b>Suma Subtotales</b>	<b>159,795,320</b>	<b>163,730,859</b>	<b>207,718,197</b>	<b>317,788,179</b>	<b>375,514,806</b>	
<b>Ingresos totales</b>	<b>449,194,328</b>	<b>469,071,674</b>	<b>588,430,823</b>	<b>731,376,869</b>	<b>815,653,255</b>	
<b>Vivienda particular</b>				76,285	95%	
<b>Vivienda y Establecimiento</b>				2,833	4%	
<b>Población</b>				289,855		
<b>Partido</b>		<b>Alcalde</b>				
Alianza Electoral "Unidad Nacional"		Oscar Luis Castañeda Lossio			<b>Votos</b>	40%
<b>Provincia creada en:</b> Epoca Independiente						

**Estructura de Principales Ingresos Fiscales: Departamento de Moquegua, Provincia de Mariscal Nieto**

	2001	2002	2003	2004	2005	2006
<b>Transferencias</b>						
Foncomun	1,761,171	1,736,672	1,977,499	2,078,909	2,442,633	3,120,353
Canon Minero	2,163,166	2,986,124	3,599,094	4,762,946	33,842,365	69,046,846
Derechos de Pesca			36,380	76,244	124,491	117,502
Canon Hidroenergético						
Vaso de Leche	391,725	359,081	391,725	359,081	391,725	391,725
<b>Subtotal</b>	<b>4,316,062</b>	<b>5,081,877</b>	<b>6,004,698</b>	<b>7,277,180</b>	<b>36,801,214</b>	<b>72,676,426</b>

**Impuestos**

Impuesto predial	251,195	295,958	491,260	360,610	476,903	
Alcabala	73,190	105,816	50,516	10,689	61,515	
Impuesto vehicular	38,712	63,559	96,523	168,357	247,449	
<b>Subtotal</b>	<b>363,097</b>	<b>465,332</b>	<b>638,299</b>	<b>539,657</b>	<b>785,867</b>	

**Arbitrios**

Limpieza Pública	460,220	506,574	878,243	688,824	603,721	
Parques y Jardines						
Serenazgo						
<b>Subtotal</b>	<b>460,220</b>	<b>506,574</b>	<b>878,243</b>	<b>688,824</b>	<b>603,721</b>	

**Saldos**

<b>Saldos de ejercicios anteriores</b>	<b>601,495</b>	<b>599,689</b>	<b>151,604</b>	<b>1,406,454</b>	<b>1,764,318</b>	
<b>Suma Subtotales</b>	<b>5,740,874</b>	<b>6,653,473</b>	<b>7,672,843</b>	<b>9,912,115</b>	<b>39,955,119</b>	
<b>Ingresos totales</b>	<b>14,858,206</b>	<b>17,389,894</b>	<b>19,599,295</b>	<b>25,148,647</b>	<b>69,636,309</b>	

<b>Vivienda particular</b>				18,172	95%	
<b>Vivienda y Establecimiento</b>				864	5%	

<b>Población</b>	70,482
------------------	--------

<b>Partido</b>	<b>Alcalde</b>	<b>Votos</b>
COMPROMISO Y DESARROLLO	Vicente Antonio Zeballos Salinas	36%

**Provincia creada en:** Epoca de Independencia

<b>Estructura de Principales Ingresos Fiscales: Departamento de Loreto, Provincia de Maynas (Iquitos)</b>						
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Transferencias</b>						
Foncomun	16,092,314	10,083,420	12,031,419	15,758,686	18,538,066	21,427,320
Canon Minero						
Canon Petrolero	11,818,551	12,968,149	7,307,939	7,377,530	9,449,893	10,775,159
Vaso de Leche	4,728,508	2,362,956	2,681,641	2,493,595	2,788,304	2,792,290
<b>Subtotal</b>	<b>32,639,373</b>	<b>25,414,525</b>	<b>22,020,999</b>	<b>25,629,811</b>	<b>30,776,262</b>	<b>34,994,769</b>
<b>Impuestos</b>						
Impuesto predial	2,702,949	2,781,247	1,838,950	2,140,349	2,668,703	
Alcabala	189,730	752,614	554,138	335,980	484,526	
Impuesto vehicular	45,500	27,846	13,966	26,503	42,837	
<b>Subtotal</b>	<b>2,938,179</b>	<b>3,561,706</b>	<b>2,407,053</b>	<b>2,502,831</b>	<b>3,196,066</b>	
<b>Arbitrios</b>						
Limpieza Pública	1,205,543	1,092,979	951,060	1,130,190	1,312,409	
Parques y Jardines	122,201	121,652	115,044	151,639	304,115	
Serenazgo	750,621	676,353	584,559	656,604	418,228	
<b>Subtotal</b>	<b>2,078,365</b>	<b>1,890,984</b>	<b>1,650,663</b>	<b>1,938,434</b>	<b>2,034,751</b>	
<b>Saldos</b>						
Saldos de ejercicios anteriores	45,115	271,330	310,116	2,971,552	6,221,234	
<b>Suma Subtotales</b>	<b>37,701,032</b>	<b>31,138,545</b>	<b>26,388,831</b>	<b>33,042,628</b>	<b>42,228,313</b>	
<b>Ingresos totales</b>	<b>49,497,320</b>	<b>49,521,181</b>	<b>36,518,538</b>	<b>43,862,038</b>	<b>53,871,614</b>	
<b>Vivienda particular</b>						
Vivienda y Establecimiento				29,290	92%	
				2,614	8%	
<b>Población</b>						157,529
<b>Partido</b>						
Partido Aprista Peruano						Votos 28%
<b>Provincia creada en:</b> 1866						



Estructura de Principales Ingresos Fiscales: Departamento de Lambayeque, Provincia de Chiclayo, Distrito de Monsefú						
Transferencias	2001	2002	2003	2004	2005	2006
Foncomun	1,050,434	1,044,735	1,185,137	1,275,135	1,443,602	1,711,656
Canon Minero						
Vaso de Leche	272,001	249,335	294,024	300,914	304,707	303,726
<b>Subtotal</b>	<b>1,322,435</b>	<b>1,294,070</b>	<b>1,479,161</b>	<b>1,576,049</b>	<b>1,748,309</b>	<b>2,015,382</b>
<b>Impuestos</b>						
Impuesto predial	76,035	192,465	74,130	66,752	66,480	
Alcabala						
Impuesto vehicular						
<b>Subtotal</b>	<b>76,035</b>	<b>192,465</b>	<b>268,500</b>	<b>66,752</b>	<b>66,480</b>	
<b>Arbitrios</b>						
Limpieza Pública	69,214	70,748	37,376	61,759	57,623	
Parques y Jardines	19,637	20,200	11,741	13,800	14,950	
Serenazgo						
<b>Subtotal</b>	<b>88,851</b>	<b>90,948</b>	<b>49,117</b>	<b>75,559</b>	<b>72,573</b>	
<b>Saldos</b>						
Saldos de ejercicios anteriores	0	2,757	0	0	0	0
<b>Suma Subtotales</b>	<b>1,487,321</b>	<b>1,580,240</b>	<b>1,796,778</b>	<b>1,718,360</b>	<b>1,887,362</b>	
<b>Ingresos totales</b>	<b>2,210,164</b>	<b>2,157,206</b>	<b>2,293,051</b>	<b>2,967,164</b>	<b>2,806,948</b>	
<b>Vivienda particular</b>						
Vivienda y Establecimiento				6,428	91.59	
				587	8.36	
<b>Población</b>						
				30,591		
<b>Partido</b>	<b>Alcalde</b>		<b>Votos</b>			
RECONSTRUCCION DEMOCRATICA	Rita Elena Ayasta de Diaz		32%			
<b>Distrito creado en:</b> Epoca de Independencia						
The property tax bill of 2002 was including a scheme "work for tax arrears"						

Estructura de Principales Ingresos Fiscales: Departamento de Ica, Provincia de Pisco						
Transferencias	2,001	2,002	2,003	2,004	2,005	2,006
Foncomun	2,714,790	2,665,066	3,040,636	2,962,655	3,349,073	3,688,786
FOCAM					773,179	855,945
Canon Minero	8,326	332,922	746,360	478,024	424,004	946,290
Derechos de Pesca			674,602	27,380	209,591	242,798
Vaso de Leche	497,524	456,062	497,524	456,064	497,524	497,524
<b>Subtotal</b>	<b>3,220,640</b>	<b>3,454,050</b>	<b>4,959,123</b>	<b>3,924,122</b>	<b>5,253,371</b>	<b>6,231,343</b>
<b>Impuestos</b>						
Impuesto predial		1,130,982	730,026	847,624		
Alcabala		96,960	147,729	345,425		
Impuesto vehicular		30,960	521,429	693,244		
<b>Subtotal</b>	<b>0</b>	<b>1,258,902</b>	<b>1,399,184</b>	<b>1,886,292</b>		
<b>Arbitrios</b>						
Limpieza Pública		475,057	133,277	161,798		
Parques y Jardines				2,300		
Serenazgo						
<b>Subtotal</b>	<b>0</b>	<b>475,057</b>	<b>133,277</b>	<b>164,098</b>	<b>0</b>	<b>0</b>
<b>Saldos</b>						
Saldos de ejercicios anteriores	0	0	70,868	1,392,982	0	0
<b>Suma Subtotales</b>	<b>3,220,640</b>	<b>5,188,009</b>	<b>6,562,452</b>	<b>7,367,494</b>	<b>5,253,371</b>	<b>5,253,371</b>
<b>Ingresos totales</b>	<b>0</b>	<b>9,492,737</b>	<b>11,379,631</b>	<b>11,654,898</b>	<b>0</b>	<b>0</b>
Vivienda particular				12,417		92%
Vivienda y Establecimiento				1,007		7%
<b>Población</b>				54,193		
<b>Partido</b>	<b>Alcalde</b>				<b>Votos</b>	
MOVIMIENTO INDEPENDIENTE ORGANIZACION PARA EL DESARROLLO SOCIAL	Balvina Maximina Chacalcaje Peña					31%
<b>Provincia creada en:</b> Epoca de Independencia						

Estructura de Principales Ingresos Fiscales: Departamento de Piura, Provincia de Piura						
	2,001	2,002	2,003	2,004	2,005	2,006
<b>Transferencias</b>						
Foncomun	16,374,333	15,963,292	18,268,909	23,066,525	27,540,844	33,839,182
Canon Petrolero	2,614,386	2,413,996	1,501,157	1,346,638	3,538,528	4,304,212
Canon Forestal			1,461	3,849	4,988	17,081
Derechos de Pesca	76,186		76,391	200,643	82,750	76,186
Vaso de Leche	2,453,545	2,249,082	2,453,545	2,453,545	2,453,545	2,453,545
<b>Subtotal</b>	<b>21,518,450</b>	<b>20,626,370</b>	<b>22,301,463</b>	<b>27,071,200</b>	<b>33,620,655</b>	<b>40,690,206</b>
<b>Impuestos</b>						
<b>Impuesto predial</b>	4,928,686	5,667,923	5,880,250	5,863,814	6,100,549	
<b>Alcabala</b>	455,505	1,588,906	896,738	809,233	927,922	
<b>Impuesto vehicular</b>	273,618	157,233	240,576	330,499	318,025	
<b>Subtotal</b>	<b>5,657,809</b>	<b>7,414,062</b>	<b>7,017,564</b>	<b>7,003,546</b>	<b>7,346,496</b>	
<b>Arbitrios</b>						
Limpieza Pública	1,537,908	2,010,931	2,043,203	2,165,081	2,777,345	
Parques y Jardines	361,221	462,412	465,174	480,411	423,122	
Serenazgo					392,615	
<b>Subtotal</b>	<b>1,899,129</b>	<b>2,473,343</b>	<b>2,508,377</b>	<b>2,645,492</b>	<b>3,593,082</b>	
<b>Saldos</b>						
<b>Saldos de ejercicios anteriores</b>	<b>6,435,997</b>	<b>6,048,219</b>	<b>1,204,379</b>	<b>3,416,525</b>	<b>11,590,582</b>	
<b>Suma Subtotales</b>	<b>35,511,385</b>	<b>36,561,995</b>	<b>33,031,783</b>	<b>40,136,763</b>	<b>56,150,815</b>	
<b>Ingresos totales</b>	<b>48,079,851</b>	<b>52,988,026</b>	<b>48,294,087</b>	<b>58,729,215</b>	<b>79,221,154</b>	
<b>Vivienda particular</b>				53,881	94%	
<b>Vivienda y Establecimiento</b>				3,639	6%	
<b>Población</b>	241,427					
<b>Partido</b>	<b>Alcalde</b>					
MOVIMIENTO INDEPENDIENTE ORGANIZACION PARA EL DESARROLLO SOCIAL	Eduardo Cáceres Chocano		<b>Votos</b> 27%			
<b>Provincia creada en:</b> Epoca de Independencia						

**Estructura de Principales Ingresos Fiscales: Departamento de Huanuco, Provincia de Leoncio Prado,  
Distrito de Rupa-Rupa**

<b>Transferencias</b>	<b>2,001</b>	<b>2,002</b>	<b>2,003</b>	<b>2,004</b>	<b>2,005</b>	<b>2,006</b>
Foncomun	2,437,504	2,395,115	2,731,505	2,959,587	3,516,119	3,974,496
Canon Minero						20,584
Canon Forestal			2,176	767	7,204	35,486
Canon Hidroenergético						
Vaso de Leche	605,413	605,413	621,854	574,936	639,498	641,400
<b>Subtotal</b>	<b>3,042,917</b>	<b>#REF!</b>	<b>3,355,535</b>	<b>3,535,290</b>	<b>4,162,821</b>	<b>4,671,966</b>

**Impuestos**

Impuesto predial	595,322	544,503	525,676	655,609	481,489
Alcabala	11,103	76,272	52,864	65,534	95,148
Impuesto vehicular	18	2,367	8,555	19,401	26,321
<b>Subtotal</b>	<b>606,443</b>	<b>623,142</b>	<b>587,095</b>	<b>740,544</b>	<b>602,959</b>

**Arbitrios**

Limpieza Pública	107,830	98,011	133,409	108,932	119,113
Parques y Jardines					
Serenazgo					
<b>Subtotal</b>	<b>107,830</b>	<b>98,011</b>	<b>133,409</b>	<b>108,932</b>	<b>119,113</b>

**Saldos**

<b>Saldos de ejercicios anteriores</b>	<b>369,362</b>	<b>392,956</b>	<b>340,540</b>	<b>501,460</b>	<b>594,641</b>
--	----------------	----------------	----------------	----------------	----------------

<b>Suma Subtotales</b>	<b>4,126,552</b>	<b>#REF!</b>	<b>4,416,578</b>	<b>4,886,227</b>	<b>5,479,533</b>
------------------------	------------------	--------------	------------------	------------------	------------------

<b>Ingresos totales</b>	<b>5,890,198</b>	<b>5,754,227</b>	<b>6,522,171</b>	<b>8,577,517</b>	<b>9,584,355</b>
-------------------------	------------------	------------------	------------------	------------------	------------------

<b>Vivienda particular</b>				12,653	92%
<b>Vivienda y Establecimiento</b>				945	7%

<b>Población</b>	58,791
------------------	--------

<b>Partido</b>	<b>Alcalde</b>	<b>Votos</b>
MOVIMIENTO DE INTEGRACION DEL ALTO HUALLAGA - M.I.A.H.	Ramiro Hernando Alvarado Celis	22%

**Provincia creada en:** 1946

Estructura de Principales Ingresos Fiscales: Departamento de Lima, Provincia de Lima						
Distrito de San Isidro						
	2001	2002	2003	2004	2005	2006
<b>Transferencias</b>						
Foncomun	399,680	411,195	459,648	455,712	516,429	516,310
Canon Minero	1,492	24,650	60,262	32,369	5,785	4,313
Derechos de Pesca			41,094			
Canon Hidroenergético		96,591	219,131	108,842	4,705	3,647
Vaso de Leche	67,027	61,446	67,028	61,441	67,027	67,027
<b>Subtotal</b>	<b>468,199</b>	<b>593,882</b>	<b>847,163</b>	<b>658,364</b>	<b>593,946</b>	<b>591,297</b>
<b>Impuestos</b>						
Impuesto predial	15,677,781	17,410,701	21,034,788	22,619,954	25,172,008	
Alcabala		1,212,537	98,169	3,404,774	5,622,963	
Impuesto vehicular						
<b>Subtotal</b>	<b>15,677,781</b>	<b>18,623,239</b>	<b>34,301,020</b>	<b>26,024,727</b>	<b>30,794,972</b>	
<b>Arbitrios</b>						
Limpieza Pública	11,634,659	15,461,174	15,304,808	14,688,936	14,768,785	
Parques y Jardines	8,074,594	9,295,494	9,225,656	10,176,659	10,263,667	
Serenazgo	17,274,949	20,419,966	20,087,287	23,100,082	23,607,241	
<b>Subtotal</b>	<b>36,984,202</b>	<b>45,176,634</b>	<b>44,617,751</b>	<b>47,965,678</b>	<b>48,639,694</b>	
<b>Saldos</b>						
Saldos de ejercicios anteriores	4,878,035	10,104,579	11,568,119	19,907,623	15,178,895	
<b>Suma Subtotales</b>	<b>58,008,217</b>	<b>74,498,334</b>	<b>91,334,053</b>	<b>94,556,392</b>	<b>95,207,507</b>	
<b>Ingresos totales</b>	<b>83,666,266</b>	<b>98,823,430</b>	<b>106,565,650</b>	<b>123,018,786</b>	<b>123,024,965</b>	
Vivienda particular				19,690	98%	
Vivienda y Establecimiento				216	1%	
<b>Población</b>				55,309		
<b>Partido</b>		<b>Alcalde</b>				
PARTIDO DEMOCRATICO SOMOS PERU		Jorge Fernando Salmón Jordán		<b>Votos</b>	29%	
<b>Provincia creada en: 1931</b>						

**Estructura de Principales Ingresos Fiscales: Departamento de Lima, Provincia de Lima,  
Distrito de San Juan de Miraflores**

	2001	2002	2003	2004	2005	2006
<b>Transferencias</b>						
Foncomun	8,641,782	8,435,280	9,648,314	10,238,930	11,798,902	11,795,944
Canon Minero	121,378	117,997	166,881	187,815	290,792	316,881
Derechos de Pesca			102,600			
Canon Hidroenergético	253,229	573,562	573,562	409,563	212,078	255,731
Vaso de Leche	5,142,911	4,714,336	5,142,911	4,714,335	5,142,911	5,142,911
<b>Subtotal</b>	<b>13,906,071</b>	<b>13,520,842</b>	<b>15,634,268</b>	<b>15,560,643</b>	<b>17,444,684</b>	<b>17,511,467</b>

**Impuestos**

Impuesto predial	2,841,762	2,520,278	2,759,496	4,014,331	4,619,346	
Alcabala		196,997	126,494	132,424	196,699	
Impuesto vehicular						
<b>Subtotal</b>	<b>2,841,762</b>	<b>2,717,275</b>	<b>2,885,990</b>	<b>4,146,755</b>	<b>4,619,346</b>	

**Arbitrios**

Limpieza Pública	2,197,434	2,119,622	2,429,714	2,370,128	1,882,701	
Parques y Jardines	708,127	418,094	506,055	684,048	571,406	
Serenazgo			322,420		550,951	
<b>Subtotal</b>	<b>2,905,561</b>	<b>2,537,716</b>	<b>2,935,769</b>	<b>3,376,596</b>	<b>3,005,058</b>	

**Saldos**

<b>Saldos de ejercicios anteriores</b>	<b>4,712,876</b>	<b>2,860,775</b>	<b>618,932</b>	<b>3,985,954</b>	<b>1,772,170</b>	
<b>Suma Subtotales</b>	<b>24,366,270</b>	<b>21,636,608</b>	<b>22,074,960</b>	<b>27,059,948</b>	<b>26,841,258</b>	
<b>Ingresos totales</b>	<b>29,473,867</b>	<b>25,322,900</b>	<b>29,355,619</b>	<b>37,718,281</b>	<b>33,177,809</b>	

<b>Vivienda particular</b>				66,496	93%	
<b>Vivienda y Establecimiento</b>				4,888	7%	

<b>Población</b>	335,237
------------------	---------

<b>Partido</b>	<b>Alcalde</b>	<b>Votos</b>
PARTIDO DEMOCRATICO "SOMOS PERU"	Paulo Hernán Hinojosa Guzmán	32%

**Provincia creada en:** 1965

**Estructura de Principales Ingresos Fiscales: Departamento de Ancash, Provincia del Santa (Chimbote)**

Transferencias	2001	2002	2003	2004	2005	2006
Foncomun	8,811,633	8,600,638	9,837,672	9,037,569	10,212,612	11,147,648
Canon Minero	211,111	371,837	764,919	2,838,788	2,838,788	12,641,250
Derechos de Pesca			598,503	1,377,929	1,377,929	1,089,754
Canon Hidroenergético		50,812	106,042	593,770	593,770	647,559
Vaso de Leche	2,098,643	1,923,755	2,098,641	1,923,754	2,098,641	2,099,980
<b>Subtotal</b>	<b>11,121,387</b>	<b>10,947,042</b>	<b>13,407,780</b>	<b>15,773,815</b>	<b>17,123,745</b>	<b>27,626,191</b>

**Impuestos**

Impuesto predial	4,262,940	4,298,371	3,603,010	5,109,502	5,523,384	
Alcabala	278,470	698,425	790,684	1,047,480	1,144,173	
Impuesto vehicular	98,355	100,873	155,510	195,950	373,517	
<b>Subtotal</b>	<b>4,639,765</b>	<b>5,097,669</b>	<b>4,549,203</b>	<b>6,352,931</b>	<b>7,041,074</b>	

**Arbitrios**

Limpieza Pública	1,781,912	2,041,453	1,802,515	2,161,846	2,647,709	
Parques y Jardines	447,325	510,660	450,629	540,462	661,927	
Serenazgo	10,364	2,964	1,969	1,484	22,843	
<b>Subtotal</b>	<b>2,239,601</b>	<b>2,555,078</b>	<b>2,255,112</b>	<b>2,703,772</b>	<b>3,332,479</b>	

**Saldos**

<b>Saldos de ejercicios anteriores</b>	<b>6,397,947</b>	<b>11,025,060</b>	<b>9,633,165</b>	<b>16,541,259</b>	<b>5,426,643</b>	
<b>Suma Subtotales</b>	<b>24,398,700</b>	<b>29,624,848</b>	<b>29,845,260</b>	<b>41,371,776</b>	<b>32,923,941</b>	
<b>Ingresos totales</b>	<b>35,925,377</b>	<b>42,945,629</b>	<b>54,867,400</b>	<b>58,203,757</b>	<b>59,160,121</b>	

Vivienda particular				44,540	91%	
Vivienda y Establecimiento				4,328	9%	

<b>Población</b>	217,303
------------------	---------

Partido	Alcalde	Votos
PARTIDO APRISTA PERUANO	Estuardo Ermigdio Díaz Delgado	30%

**Provincia creada en:** Epoca de Independencia

**Estructura de Principales Ingresos Fiscales: Departamento de Lima, Provincia de Lima,  
Distrito de Santiago de Surco**

Transferencias	2001	2002	2003	2004	2005	2006
Foncomun	1,914,139	1,885,594	2,148,035	2,387,606	2,753,934	2,753,674
Canon Minero	18,198	40,976	85,687	66,668	55,884	48,797
Derechos de Pesca			48,678	0	0	0
Canon Hidroenergético		124,680	282,660	164,783	45,520	44,600
Vaso de Leche	768,756	704,693	768,757	704,693	768,756	768,756
<b>Subtotal</b>	<b>2,701,093</b>	<b>2,755,943</b>	<b>3,333,817</b>	<b>3,323,750</b>	<b>3,624,094</b>	<b>3,615,827</b>

**Impuestos**

Impuesto predial	17,259,162	21,281,819	24,102,283	27,363,064	26,394,298	
Alcabala		2,341,974	2,385,451	4,834,272	7,442,391	
Impuesto vehicular						
<b>Subtotal</b>	<b>17,259,162</b>	<b>23,623,793</b>	<b>26,487,734</b>	<b>32,197,336</b>	<b>33,836,689</b>	

**Arbitrios**

Limpieza Pública	13,113,946	13,303,193	16,431,586	17,640,286	12,891,345	
Parques y Jardines	13,430,392	13,359,617	16,190,981	17,476,984	11,937,300	
Serenazgo	8,759,970	8,911,760	10,571,536	11,956,940	7,684,363	
<b>Subtotal</b>	<b>35,304,308</b>	<b>35,574,570</b>	<b>43,194,103</b>	<b>47,074,210</b>	<b>32,513,008</b>	

**Saldos**

<b>Saldos de ejercicios anteriores</b>	<b>3,604,547</b>	<b>1,738,890</b>	<b>4,073,870</b>	<b>10,094,615</b>	<b>14,619,608</b>	
--	------------------	------------------	------------------	-------------------	-------------------	--

<b>Suma Subtotales</b>	<b>58,869,110</b>	<b>63,693,196</b>	<b>77,069,524</b>	<b>92,689,911</b>	<b>84,593,399</b>	
------------------------	-------------------	-------------------	-------------------	-------------------	-------------------	--

<b>Ingresos totales</b>	<b>84,896,463</b>	<b>88,839,458</b>	<b>99,914,705</b>	<b>118,650,923</b>	<b>109,332,950</b>	
-------------------------	-------------------	-------------------	-------------------	--------------------	--------------------	--

Vivienda particular				74,373	97%	
Vivienda y Establecimiento				1,691	2%	

<b>Población</b>				272,690		
------------------	--	--	--	---------	--	--

Partido	Alcalde	Votos
Partido Democrático "Somos Perú"	Carlos Eduardo Dargent Chamot	50%

**Provincia creada en:** Epoca Independiente



Estructura de Principales Ingresos Fiscales: Departamento de Tacna, Provincia de Tacna						
Transferencias	2001	2002	2003	2004	2005	2006
Foncomun	6,167,054	5,509,747	6,345,160	6,800,633	7,467,680	8,003,636
Canon Minero	2,184,923	1,673,555	774,596	4,308,840	17,451,294	2,891,338
Derechos de Pesca			584	825	6,101	6,659
Canon Hidroenergético		12,258	13,601	3,464		
Vaso de Leche	986,909	814,065	887,248	813,311	887,248	694,702
<b>Subtotal</b>	<b>9,338,886</b>	<b>8,009,625</b>	<b>8,023,192</b>	<b>11,929,077</b>	<b>25,812,323</b>	<b>11,596,335</b>
<b>Impuestos</b>						
Impuesto predial	2,168,406	1,927,692	2,132,525	1,883,447	3,687,602	
Alcabala	79,435	472,584	398,271	293,899	533,746	
Impuesto vehicular	10,485	155,670	148,869	146,753	610,191	
<b>Subtotal</b>	<b>2,258,326</b>	<b>2,555,946</b>	<b>2,679,666</b>	<b>2,324,099</b>	<b>4,831,539</b>	
<b>Arbitrios</b>						
Limpieza Pública	500,186	522,449	507,348	431,768	487,821	
Parques y Jardines	392,264	323,989	316,061	279,586	279,195	
Serenazgo						
<b>Subtotal</b>	<b>892,450</b>	<b>846,438</b>	<b>823,409</b>	<b>711,354</b>	<b>767,015</b>	
<b>Saldos</b>						
Saldos de ejercicios anteriores	8,506,258	1,940,468	470,162	3,804,967	6,301,477	
<b>Suma Subtotales</b>	<b>20,995,920</b>	<b>13,352,477</b>	<b>11,996,429</b>	<b>18,769,497</b>	<b>37,712,354</b>	
<b>Ingresos totales</b>	<b>64,467,986</b>	<b>43,589,188</b>	<b>37,198,694</b>	<b>49,209,032</b>	<b>75,951,622</b>	
Vivienda particular				29,908	94%	
Vivienda y Establecimiento				1,724	5%	
<b>Población</b>				250,509		
<b>Partido</b>		<b>Alcalde</b>			<b>Votos</b>	
RENACIMIENTO ANDINO		Jacinto Eleodoro Gómez Mamani			16%	
<b>Provincia creada en:</b> Epoca de Independencia						

**Estructura de Principales Ingresos Fiscales: Departamento de Piura, Provincia de Talara**

Transferencias	2001	2002	2003	2004	2005	2006
Foncomun	4,820,144	4,714,731	5,387,780	4,848,311	5,389,996	5,556,460
Canon Minero				4	268	223
Canon Petrolero	3,769,940	3,478,507	8,934,269	13,356,750	23,563,098	31,019,840
Derechos de Pesca			9,952	88,234	48,885	45,273
Canon Hidroenergético					636	1,847
Vaso de Leche	1,118,927	1,025,683	1,118,926	1,025,682	1,118,926	1,118,926
<b>Subtotal</b>	<b>9,709,011</b>	<b>9,218,921</b>	<b>15,450,927</b>	<b>19,318,981</b>	<b>30,121,809</b>	<b>37,742,569</b>

**Impuestos**

Impuesto predial	1,629,580	1,816,738	1,701,099	1,837,406	2,216,614
Alcabala	18,072	127,534	234,049	77,633	63,991
Impuesto vehicular	63,409	96,829	111,864	106,987	69,929
<b>Subtotal</b>	<b>1,711,061</b>	<b>2,041,101</b>	<b>2,047,012</b>	<b>2,022,025</b>	<b>2,350,534</b>

**Arbitrios**

Limpieza Pública	989,919	1,168,431	1,155,930	1,474,362	1,701,616
Parques y Jardines	77,510	86,060	69,459	81,135	98,372
Serenazgo					
<b>Subtotal</b>	<b>1,067,429</b>	<b>1,254,491</b>	<b>1,225,389</b>	<b>1,555,497</b>	<b>1,799,988</b>

**Saldos**

<b>Saldos de ejercicios anteriores</b>	<b>4,368,765</b>	<b>2,777,535</b>	<b>2,010,766</b>	<b>4,824,389</b>	<b>5,680,452</b>
<b>Suma Subtotales</b>	<b>16,856,266</b>	<b>15,292,048</b>	<b>20,734,094</b>	<b>27,720,891</b>	<b>39,952,783</b>
<b>Ingresos totales</b>	<b>21,553,690</b>	<b>20,607,204</b>	<b>26,378,788</b>	<b>32,000,293</b>	<b>1,118,926</b>

<b>Vivienda particular</b>				19,701	95%
<b>Vivienda y Establecimiento</b>				1,012	5%

**Población** 102,744

Partido	Alcalde	Votos
PARTIDO ARIPISTA PERUANO	JOSE ALFREDO VITONERA INFANTE	17%

**Provincia creada en:** 1932

**Estructura de Principales Ingresos Fiscales: Departamento de La Libertad, Provincia de Trujillo**

Transferencias	2001	2002	2003	2004	2005	2006
Foncomun	10,984,902	10,716,420	12,260,530	11,352,157	12,057,394	14,929,094
Canon Minero	470,865	509,736	885,177	774,203	491,856	1,005,709
Derechos de Pesca			204,916	73,099	48,087	28,484
Canon Hidroenergético						
Vaso de Leche	2,454,007	2,249,506	2,454,008	2,249,507	2,454,008	2,454,008
<b>Subtotal</b>	<b>13,909,774</b>	<b>13,475,662</b>	<b>15,804,631</b>	<b>14,448,967</b>	<b>15,051,345</b>	<b>18,417,295</b>

**Impuestos**

Impuesto predial	7,726,386	8,217,429	9,011,060	9,216,524	10,179,607
Alcabala	485,941	1,807,586	1,774,758	2,053,129	3,400,179
Impuesto vehicular	221,528	328,262	1,183,513	1,050,892	775,064
<b>Subtotal</b>	<b>8,433,855</b>	<b>10,353,277</b>	<b>11,969,331</b>	<b>12,320,545</b>	<b>14,354,850</b>

**Arbitrios**

Limpieza Pública	7,159,194	7,150,065	7,836,516	7,948,418	11,444,751
Parques y Jardines	1,987,234	1,944,463	2,149,467	2,251,573	2,524,640
Serenazgo					
<b>Subtotal</b>	<b>9,146,428</b>	<b>9,094,528</b>	<b>9,985,983</b>	<b>10,199,991</b>	<b>13,969,390</b>

**Saldos**

<b>Saldos de ejercicios anteriores</b>	<b>4,323,982</b>	<b>2,420,497</b>	<b>1,965,125</b>	<b>3,082,252</b>	<b>7,139,266</b>
--	------------------	------------------	------------------	------------------	------------------

<b>Suma Subtotales</b>	<b>35,814,039</b>	<b>35,343,964</b>	<b>39,725,070</b>	<b>40,051,756</b>	<b>50,514,851</b>
------------------------	-------------------	-------------------	-------------------	-------------------	-------------------

<b>Ingresos totales</b>	<b>50,766,529</b>	<b>50,937,308</b>	<b>54,679,075</b>	<b>59,685,070</b>	<b>73,744,456</b>
-------------------------	-------------------	-------------------	-------------------	-------------------	-------------------

<b>Vivienda particular</b>				61,177	92%
<b>Vivienda y Establecimiento</b>				5,344	8%

<b>Población</b>	273,239
------------------	---------

Partido	Alcalde
PARTIDO APRISTA PERUANO	Jorge Humberto Murgía Zannier

<b>Provincia creada en:</b> Epoca de Independencia
--

<b>Votos</b>	42%
--------------	-----

<b>Estructura de Principales Ingresos Fiscales: Departamento de Lambayeque, Provincia de Lambayeque, Distrito de Túcume</b>						
<b>Transferencias</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Foncomun	1,070,257	1,064,035	1,207,238	1,362,730	1,556,383	1,882,502
Canon Minero	30,384	23,839	24,735	28,962	435	69
Vaso de Leche	201,954	185,125	211,297	214,263	216,999	217,097
<b>Subtotal</b>	<b>1,302,595</b>	<b>1,272,999</b>	<b>1,443,270</b>	<b>1,605,955</b>	<b>1,773,817</b>	<b>2,099,668</b>
<b>Impuestos</b>						
Impuesto predial	10,726	18,088	25,780	10,198	19,187	
Alcabala		6,452	885	529	438	
Impuesto vehicular						
<b>Subtotal</b>	<b>10,726</b>	<b>24,540</b>	<b>26,665</b>	<b>10,727</b>	<b>19,625</b>	
<b>Arbitrios</b>						
Limpieza Pública	10,501	15,116	18,204	15,180	15,013	
Parques y Jardines						
Serenazgo						
<b>Subtotal</b>	<b>10,501</b>	<b>15,116</b>	<b>18,204</b>	<b>15,180</b>	<b>15,013</b>	
<b>Saldos</b>						
<b>Saldos de ejercicios anteriores</b>	<b>32,377</b>	<b>22,238</b>	<b>868</b>	<b>34,966</b>	<b>25,676</b>	
<b>Suma Subtotales</b>	<b>1,356,199</b>	<b>1,334,893</b>	<b>1,489,006</b>	<b>1,666,828</b>	<b>1,834,131</b>	
<b>Ingresos totales</b>	<b>1,924,377</b>	<b>2,584,497</b>	<b>2,791,023</b>	<b>3,065,204</b>	<b>3,605,161</b>	
<b>Vivienda particular</b>				3,915	91%	
<b>Vivienda y Establecimiento</b>				368	8%	
<b>Población</b>	20,951					
<b>Partido</b>	<b>Alcalde</b>					
ALIANZA ELECTORAL UNIDAD NACIONAL	CARLOS SANTAMARIA BALDERA	<b>Votos</b>	28%			
<b>Provincia creada en:</b> 1894						

Estructura de Principales Ingresos Fiscales: Departamento de Tumbes, Provincia de Tumbes						
Transferencias	2001	2002	2003	2004	2005	2006
Foncomun	4,046,097	3,961,000	4,524,837	6,336,984	7,583,340	8,673,650
Canon Petrolero	2,372,890	2,189,456	2,994,272	2,640,401	6,889,504	9,008,591
Derechos de Pesca			3,989	3,157	31,011	32,694
Vaso de Leche	867,733	795,421	885,671	891,614	894,653	898,114
<b>Subtotal</b>	<b>7,286,720</b>	<b>6,945,877</b>	<b>8,408,769</b>	<b>9,872,156</b>	<b>15,398,508</b>	<b>18,613,049</b>
<b>Impuestos</b>						
Impuesto predial	387,808	595,663	766,859	811,519	868,563	
Alcabala	1,433	178,970	97,896	125,599	61,544	
Impuesto vehicular	4,566	5,046	10,101	31,163	34,169	
<b>Subtotal</b>	<b>393,807</b>	<b>779,679</b>	<b>874,857</b>	<b>968,281</b>	<b>964,276</b>	
<b>Arbitrios</b>						
Limpieza Pública	115,964	155,401	266,161	403,211	601,202	
Parques y Jardines	40,924	44,124	55,657	76,644	98,941	
Serenazgo					12,485	
<b>Subtotal</b>	<b>156,888</b>	<b>199,525</b>	<b>321,818</b>	<b>479,855</b>	<b>712,628</b>	
<b>Saldos</b>						
Saldos de ejercicios anteriores	1,032,300	838,907	179,140	226,861	2,589,201	
<b>Suma Subtotales</b>	<b>8,869,715</b>	<b>8,763,988</b>	<b>9,784,583</b>	<b>11,547,153</b>	<b>19,664,613</b>	
<b>Ingresos totales</b>	<b>10,249,965</b>	<b>11,367,423</b>	<b>15,310,780</b>	<b>18,099,314</b>	<b>22,015,221</b>	
<b>Vivienda particular</b>				23,292	94%	
<b>Vivienda y Establecimiento</b>				1,505	6%	
<b>Población</b>	97,484					
<b>Partido</b>	<b>Alcalde</b>					
"RECONSTRUCCION PARA UN TUMBES BELLO"	RICARDO ISIDRO FLORES DIOSES					
<b>Provincia creada en:</b> Epoca de Independencia		<b>Votos</b>	34%			

**Estructura de Principales Ingresos Fiscales: Provincia Constitucional del Callao, Provincia Callao,  
Distrito de Ventanilla**

<b>Transferencias</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Foncomun	4,910,186	4,802,390	5,488,162	6,867,125	8,008,327	12,679,402
Canon Renta Aduana		8,207,534	14,443,455	17,143,233	20,373,276	23,405,643
Derechos de Pesca			81,718	260,942	397,051	536,552
Canon Hidroenergético						
Vaso de Leche			2,006,829	2,006,829	2,006,829	2,006,829
<b>Subtotal</b>	<b>4,910,186</b>	<b>13,009,924</b>	<b>22,020,164</b>	<b>26,278,129</b>	<b>30,785,483</b>	<b>38,628,426</b>

**Impuestos**

Impuesto predial	1,407,776	1,340,982	1,872,489	1,864,960	2,054,055	
Alcabala		138,834	244	522		
Impuesto Vehicular						
<b>Saldos</b>	<b>1,407,776</b>	<b>1,479,816</b>	<b>1,872,733</b>	<b>1,865,482</b>	<b>2,054,055</b>	

**Arbitrios**

Limpieza Pública	1,104,403	732,653	891,686	895,665	880,757	
Parques y Jardines				157,222	261,055	
Serenazgo				77,336	290,038	
<b>Subtotal</b>	<b>1,104,403</b>	<b>732,653</b>	<b>891,686</b>	<b>1,130,223</b>	<b>1,431,850</b>	

**Saldos**

<b>Saldos de ejercicios anteriores</b>	<b>1,022,161</b>	<b>1,093,945</b>	<b>940,725</b>	<b>5,892,432</b>	<b>10,689,589</b>	
<b>Suma Subtotales</b>	<b>8,444,526</b>	<b>16,316,338</b>	<b>25,725,308</b>	<b>35,166,266</b>	<b>44,960,977</b>	
<b>Ingresos totales</b>	<b>12,209,987</b>	<b>19,131,838</b>	<b>26,145,417</b>	<b>41,386,852</b>	<b>46,698,635</b>	

<b>Vivienda particular</b>				73,948	95%	
<b>Vivienda y Establecimiento</b>				3,526	5%	

<b>Población</b>	168,690
------------------	---------

<b>Partido</b>	<b>Alcalde</b>	<b>Votos</b>	<b>26%</b>
Partido Aprista Peruano	Juan José López Alava		

**Provincia creada en:** 1969

**Estructura de Principales Ingresos Fiscales: Departamento de Lima, Provincia de Lima,  
Distrito de Villa El Salvador**

Transferencias	2001	2002	2003	2004	2005	2006
Foncomun	8,770,194	8,560,295	9,791,473	10,128,099	11,629,528	12,582,086
Canon Minero	124,470	96,743	110,774	154,159	322,110	352,268
Derechos de Pesca			62,621			
Canon Hidroenergético		160,859	364,473	299,611	220,791	297,489
Vaso de Leche	8,544,751	7,832,693	8,544,751	7,832,688	8,544,751	8,544,751
<b>Subtotal</b>	<b>17,439,415</b>	<b>16,650,590</b>	<b>18,874,092</b>	<b>18,414,557</b>	<b>20,717,180</b>	<b>21,776,594</b>

**Subtotal**

Impuesto predial	2,354,554	2,491,351	3,492,177	3,813,778	4,321,249
Alcabala		244,624	57,786	115,996	243,397
Impuesto vehicular					
<b>Subtotal</b>	<b>2,354,554</b>	<b>2,735,975</b>	<b>3,549,963</b>	<b>3,929,774</b>	<b>4,564,646</b>

**Arbitrios**

Limpieza Pública	1,032,077	1,042,363	1,761,344	1,718,236	1,945,904
Parques y Jardines				66,968	173,595
Serenazgo				6	149,207
<b>Subtotal</b>	<b>1,032,077</b>	<b>1,042,363</b>	<b>1,761,344</b>	<b>1,785,210</b>	<b>2,268,705</b>

**Saldos**

Saldos de ejercicios anteriores	4,081,189	1,884,193	1,901,929	3,984,295	2,629,703
---------------------------------	-----------	-----------	-----------	-----------	-----------

**Suma Subtotales**

	24,907,235	22,313,121	26,087,329	28,113,836	30,180,234
--	------------	------------	------------	------------	------------

**Ingresos totales**

	27,893,246	26,159,809	31,472,108	39,162,562	36,575,583
--	------------	------------	------------	------------	------------

**Vivienda particular**

				71,992	92%
--	--	--	--	--------	-----

**Vivienda y Establecimiento**

				6,435	8%
--	--	--	--	-------	----

**Población**

				330,143
--	--	--	--	---------

**Partido**

	Alcalde	Votos
Alianza Electoral Unidad Nacional	Jaime Alejandro Zea Usca	24%

**Provincia creada en: 1983**

Hiermit versichere ich, dass:

- (a) ich mich nicht bereits früher in einem Promotionsverfahren befunden habe;
- (b) die eingereichte Arbeit oder wesentliche Teile derselben in keinem anderen Verfahren zur Erlangung eines akademischen Grades vorgelegt worden sind;
- (c) dass die Dissertation selbständig und ohne fremde Hilfe verfasst, andere als die von ihm angegebenen Quellen und Hilfsmittel nicht benutzt und die den benutzten Werken wörtlich oder sinngemäß entnommenen Stellen als solche kenntlich gemacht sind.

Markus Rühling