



Overview

THE 'KNOTS' THAT TIE UP GOVERNANCE: PROPOSALS FOR GOOD GOVERNANCEⁱ

In September 2002, when the Citizens for Good Government group, which is offering these proposals for public consideration, was formed and began to meet, a number of reforms were underway that were aimed at ensuring the transition and consolidation of Peruvian democracy, beginning with constitutional reform.

Two years later, our democracy faces another difficult situation, which is reflected in citizens' dissatisfaction, the

questioning of democracy, nostalgia on the part of some for an authoritarian government, a resurgence of 'anti-system' forces, obstacles to opportunities for consensus building, and the delay of the democratic reforms that people were demanding between 1999 and 2002, the first years of the transition.

We believe that this change in the situation and in expectations makes the presentation of these reflections, which are the fruit of the efforts of Citizens for Good Government, even more timely and urgent.

The Citizens for Good Government Collective was formed under the auspices of International IDEA, which brought together a group of Peruvian citizens, professionals who were well known in various fields, trade union leaders and leaders of public opinion connected with the media. Many were independent, while others were party members; all were invited personally and participated voluntarily. What they had in common was concern for the *democratic governance of Peru*, understood as a way of ensuring *good governments which are able to function and to achieve the goals they set*, finding solutions to problems and concerns raised by social, economic and political actors.

The purpose of Citizens for Good Government is to foster knowledge and understanding among diverse people who reflect different schools of thought, to discuss issues as a group, and to propose to our country issues for reflection and proposals for consensus-based solutions that are crucial for *democratic governance*.

At weekly meetings over the past two years we have defined an agenda of key issues that we considered crucial to the transition process, which we called '*knots*' *tying up governance*, for discussion and in-depth analysis.

We are aware that the problem of governance in Peru is very broad and complex, and we have therefore given priority to two major thematic areas, identifying within them seven knots that pose difficulties and obstacles to *democratic governance*.

The first area relates to *the institutions that frame the relationships between citizens and the exercise of power, and which serve as a channel for citizens' views*:

- (1) the political parties;

ⁱ This is a detailed overview of an International IDEA book published in Spanish in 2004 under the title **Los Nudos Críticos de la Gobernabilidad: Propuestas para un Buen Gobierno** (ISBN 91-85391-13-1)

- (2) civil society; and
- (3) the media.

We have placed particular emphasis on the need for democratic practices, participation, cooperation and transparency.

The second area includes the knots affecting *the action of the state and priority public policies*:

- (4) sustained economic growth;
- (5) social policies;
- (6) reform of the state for efficient public administration; and
- (7) gradual, effective decentralization.

Originally we proposed three knots to be addressed in the second thematic area, calling the fourth ‘Economic Development with Social Equality’. Because of the importance of emphasizing policies for economic growth, however, the decision was made to add another knot for social policies.

Our methodology involved the formation of a working group for each of the seven knots. Each later presented to the full group a proposal for a document which was reviewed at the first meeting of all members. In the interests of better documentation of the contributions, one member of each group, in accordance with his or her professional skills and work experience, was responsible for preparing the formal draft of a document on the issue. With the consent of the full group, based on a majority consensus, each document was then reviewed by experts in Lima who took part in expanded meetings, offering comments and criticism which enriched the proposals. The revised documents were then presented to regional leaders—governors and the governed—for comment during meetings in the departmental capitals of Arequipa, Trujillo, Cajamarca, Iquitos and Cuzco.

The following is a summary of the reflections and the documents prepared by each of the seven working groups.

We hope to present these proposals to all political and social actors so that they become a working tool, and we hope they will constitute a contribution to good governance.

As *Citizens for Good Government*, we wish to continue and expand on the laudable efforts of *Agenda Perú*, the *Governance Accord* reached by the *Dialogue Group* sponsored by the Organisation of American States (OAS), the *Road Map* and the *National Accord*. We do not wish to compete with or replace any other consensus-building group; rather, we hope to join our efforts to theirs in building democratic consensus in which no initiative is unwelcome and all work together.

We wish to reinforce institutions to ensure good government and lasting democracy that works for the common good to address the everyday concerns of citizens.

We wish to make it clear that as a collective it is not our intention to *create a political party*.

We do not seek to identify with positions of the kind that characterize partisan action; on the contrary, *we value our differences and our plurality of ideological and political options* as a starting point for imagining and developing measures which will aim to ensure a *democratic republic with social equality*.

We thus begin a process that we hope will serve as the basis for the development of many other initiatives by political parties and civil society organizations, reflecting all points of view in the everyday life of the country’s citizens.

We are aware of the *serious and deep-rooted institutional instability* that has existed in our country since independence, which was exacerbated by the authoritarian regime of the past decade. This institutional weakness seriously affects the functioning of democracy and the chances of making it a system for channelling the nation’s energy through institutions and ensuring the peace and well-being of the Peruvian people. It also works against the crucial processes of social integration

involving the millions of Peruvians who over the past 40 years have shown enormous enthusiasm for progress and modernity.

The *political parties* do not have the capacity to respond to and channel citizens' demands in a timely manner.

Institutional instability is heightened by the corruption that has become part of the state structure and has permeated the heart of Peru's institutional system, creating a climate of mistrust and discouragement about the chances for the country's development and *future viability*.

In this situation, we believe that one of the knots tying up governance is the role of political parties in Peru. In our view they should serve as the natural channels for citizens' demands, as true representatives of the citizens and as negotiators with the state to bring about the improvements necessary for the creation of well-being and good governance. In this way they should become pillars of democracy.

We cannot, however, ignore the important role played by *civil society organizations*, particularly given the weakness of the political parties and the instability of the Peruvian state. This, therefore, is the second critical knot.

We also wish to spend some time analysing the *media* both as instruments for expressing citizens' views and as power groups whose influence exceeds that of the political parties and civil society, making them a de facto power with enormous influence on public opinion. This, then, constitutes the third knot.

1. THE FIRST KNOT: HOW TO INSTITUTIONALIZE A SYSTEM OF REPRESENTATIVE PARTIES

We believe that, in a democracy, political parties are called upon to channel decision making, taking on the task of representing the citizens.

In 20th-century Peru, three main schools of thought gave rise to the modern political parties that emerged between the 1930s and the 1980s. Unlike the earlier, oligarchic parties, which were only concerned with one specific social and economic sector and reflected the views of an aristocratic republic, the parties that arose during and after the 1930s had an inclusive vision and were concerned about the future of the Peruvian people.

One school of thought was that of the Partido Aprista Peruano (PAP), which was founded in 1930 by Víctor Raúl Haya de la Torre (1895–1979). Its principles fall into the category of what are known today as social democratic principles. A second was espoused by José Carlos Mariátegui (1894–1930) and gave rise to several leftist movements and parties. A third school of thought was inspired by the ‘intellectuals of 900’ such as Víctor Andrés Belaúnde (1883–1966). With contributions from Luis Bustamante y Rivero (1894–1989) and his followers, it gave rise to various parties, including Democracia Cristiana (DC), founded in 1955 by Héctor Cornejo Chávez (1918); Acción Popular (AP), founded in 1956 by Fernando Belaúnde Terry (1912–2002); and the Partido Popular Cristiano (PPC), founded in 1966 by Luis Bedoya Reyes (1919–) as the result of a split within Democracia Cristiana.

The Social Progresista party arose in the 1960s, inspired by the worldwide socialist movement.

Analysis of the history of Latin America and of Peru since independence and reflection on the present show that political activity has not been, and is still not, strongly institutionalized, for several main reasons. These include: (a) the dictatorships that have interrupted democratic processes and characterized most of Peru’s post-independence history; (b) the personalism or *caudillismo* which has characterized political action; (c) the lack of connection between citizens and parties; and, more recently, (d) the ‘de-centring’ of politics.

First, in the 183 years since independence, there have been 119 governments, of which 92 were military or civilian dictatorships and 20 were the result of elections that were elitist and exclusive (the vote was denied to women and to people who could not demonstrate that they had an income, and proscribed parties were not able to participate). Only seven governments have been truly democratic in both the electoral process and the exercise of power. These governments are relatively recent and were led by Luis Bustamante y Rivero, Fernando Belaúnde Terry during both his administrations, Alan García Pérez, Alberto Fujimori until the 1992 coup, Valentin Paniagua and Alejandro Toledo.

Another factor in Peru’s institutional and political instability is the constant changing of the constitution. There have been 12 constitutions since independence.

Second, Peru is marked by a personalist tradition with a high degree of *caudillismo*, which historically has been reflected in the leadership of certain individuals rather than the organized leadership of institutionalized parties. This personalism has been an obstacle to the institutionalization of political parties.

A **third** factor in Peru’s political and institutional weakness is the lack of connection between citizens and the political parties. The parties fail to appropriately express the people’s willingness to participate in politics. This leads to social upheaval, protests, and the emergence of spontaneous groups and grass-roots organizations that not only give the country an image of chaos and lack of governance but undermine and discredit the political parties, whose role should be to serve as intermediaries for the people’s demands.

The **fourth** factor in Peru’s institutional and political weakness is the ‘de-centring’ of politics, meaning that politics is no longer the sphere in which the decisions that affect the course of the economy, society and the state are actually made. Political parties are diminishing in importance as

active agents of the democratic system and are relegated to a back seat. The arena for democratic decision making is becoming limited, and the state is losing its key role in promoting the public policies that guide development. This de-centring of politics stems from worldwide trends, aggravated in Latin America by the political elites' inability to find original alternatives to a worn-out model for domestic development and by the inability to satisfy people's expectations of economic well-being as authoritarian regimes have given way to democratic systems.

The discrediting of political parties, for all these reasons, has allowed the emergence of other de facto powers, such as the media, the church, the armed forces or various civilian or military *caudillos* who, while not elected, have a decisive influence on the country's political life, assuming the representative role which the political parties are failing to take. In this context, political parties and the state are declining in importance and there is a divorce between economics and politics.

Under these circumstances, democracy is endangered because it is no longer the common framework for political action and because it could be turned into a tool to serve the interests of particular individuals or groups.

For this reason, we believe that *choosing representative democracy—the model of government that has overcome the political avatars of the 20th century and positioned itself as the political regime of the 21st century in our country, our continent and the world—means choosing a solid party system.*

Political parties are indispensable for the development and consolidation of democracy as the only way of doing politics. In a democracy, competitive interaction that allows for parties to alternate in power according to the popular vote is essential. It is this that defines the nature of the political system as a whole and determines its future chances of stability and development. Parties are the main channels for communicating citizens' demands to the political decision makers, channelling public participation and breaking through the barrier of lack of communication and of direct relationships that distances voters from their elected representatives.

The most developed countries are those that have clearly established rules of the game that are respected by successive, alternating democratic governments based on solid systems of a few parties that represent the principal worldwide schools of thought.

Citizens for Good Government, therefore, proposes the re-centring of politics and giving parties a leading role again, by the following actions.

1. *Entry to the party system must be made easier and the permanence of parties and the democratic system must be strengthened.* The emergence and registration of new parties must be made easier, the requirements for entry to the party system must be made more flexible, and the conditions for parties' continued recognition should be made stricter so as to promote political participation and preserve democratic stability. This would allow participation by new citizen groups, thus easing the social pressures to which the democratic regime is constantly subjected.

2. *Political parties' internal procedures must be made more democratic and the preferential vote should be eliminated.* Parties' internal mechanisms must be democratic if they are to serve as a political reference point and a conduit for public opinion. As part of this strategy of strengthening the internal democratization of political parties, great effort will be needed to train cadres and eliminate the preferential vote, which for two decades has been a way for candidates with greater economic resources to gain an advantage, thus undermining the parties' strength in terms of both doctrine and philosophy.

3. *The establishment of democratic, transparent mechanisms for financing political parties must be encouraged.* A campaign must be run to convince the public that public financing will make the system more democratic by reducing corruption and creating equal conditions for all competitors. Mechanisms of financial accountability and for providing information about sources of funds should be part of this.

4. *A political regime that strengthens, rather than weakens, political parties and reduces the importance of individual leaders should be fostered.* Constitutional reform is needed that aims to reinforce the semi-presidential nature of the regime, differentiating the functions of the head of state from those of the

head of government. The existence of a head of government who is distinct from the president and has the explicit backing of a majority in Congress could lead to greater commitment on the part of the parties to the daily administration of executive affairs. This could help to improve the interaction between the executive and legislative powers.

5. *The work of Congress should be reorganized.* Proposals by members of Congress should be channelled through parliamentary groups rather than presented individually in order to strengthen the political parties as organizations that have a doctrinal and policy view and to develop the parties' authority and responsibility as representative bodies. This will require certain constitutional reforms and regulatory changes so that the work of the legislature can be fully channelled through the political parties.

6. *Certain aspects of the electoral law should be reformed so as to strengthen the party system.* (a) the introduction of a bicameral system; (b) the elimination of the electoral district (implementation of a single national electoral district); (c) a run-off election mechanism should be incorporated into the election processes at congressional, municipal and regional level; (d) the minimum number of votes needed to win a seat in Congress should be increased.

2. THE SECOND KNOT: HOW TO STRENGTHEN A CIVIL SOCIETY COMMITTED TO GOOD GOVERNANCE

We begin by acknowledging that there are a variety of definitions of the concept of civil society. We believe that civil society is a dimension, an analytical component of social interaction which is not the same thing as the state and which consists of voluntary associations, social movements and forms of public communication.

Civil society can be distinguished both from the ‘political society’ of parties and from economic society, which is made up of organizations for production and distribution—in other words, business. Both are born of civil society and share with it some form of organization and communication, becoming institutionalized through the rights they enjoy, but civil society actors, in the context we visualize, do not compete for the power of the state, nor are they governed by the maximization of profits.

The political role of civil society, therefore, is directed not at taking power but at complying with or criticizing public decisions that affect it. Nevertheless, it must be noted that the political society of parties plays a mediating role between civil society and the state.

It is crucial to detach the concept of civil society from its exclusive association with non-governmental organizations (NGOs). While NGOs are part of civil society’s sphere of action, they are not its most important element, nor do they represent, direct or interpret it. More we are able to abandon this mistaken identification of civil society with NGOs, the easier it will be to use the concept and affirm the potential of civil society in a more creative, participatory role. Similarly, the idea that civil society is necessarily antagonistic to the state, the political society of parties and economic society is also, a priori, erroneous. This antagonism only arises when mediation fails or when political society and economic society isolate civil society from decision making.

The strengths and weaknesses of civil society, therefore, are intimately related to the weaknesses and capacities of political parties and the state.

The leading role of civil society is born of the lack of leadership by the political parties described in the first section of this report. Because of the efforts that have been made to discredit political parties, as well as their lack of representativeness, there is an erroneous—although broadly held—view that civil society is the ‘good side’ of democracy, while political parties constitute the ‘bad side’.

The main difficulties to be resolved where civil society is concerned relate to its relationships with the state and with political parties.

Civil society in Peru is fragile because of the persistence of an authoritarian state and an exclusive political regime that did not grant electoral political rights until the late 19th and early 20th centuries. The emergence of social movements in the first decades of the 20th century produced civil society organizations, such as popular political parties and trade unions, which were in direct confrontation with the state. Later, around the 1950s, there was a wave of demands from the many peasants who had migrated to the major cities—demands for land for housing, water and sewerage systems, electricity, education and basic services in general. These people, who had little income but great perseverance and hope for progress, brought their own ‘cultural baggage’ with them and, because of the lack of jobs and housing opportunities, launched a massive wave of land takeovers, building their own houses and creating their own jobs. This was reflected in the creation of a range of productive services, repair services and commercial establishments, many of them on a small scale, to meet the needs of the migrant sector, which became an extremely important grass-roots market, providing both supply and demand, in Lima. This segment of the population, which has grown in the cities to become the majority, tended at first to demand basic services from the state but became more autonomous because of the state’s inefficiency. It is now developing on the basis

of the creation of its own social networks, which are rooted in relationships among relatives and members of the same community of origin, defining its own rules of the game.

From a cultural and political perspective, the cities have become great laboratories for democratization, modernity and the development of a sense of citizenship. This process, going on completely independently of the state, has transformed the peasants into urban dwellers, emerging entrepreneurs (producers, merchants and independent providers of services) and citizens.

Economic and social changes began to break down the political wall of exclusivity the state had erected, especially in the 1950s and 1960s. These changes were identified with the phenomena of urbanization and industrialization, the expansion of education and health services, and the development of the communications media.

Whatever the source of the emergence of a new sense of citizenship, the result has been the conversion of subjects into citizens with increasing political rights. It gave rise to a process that has taken three directions.

- Organizations have expanded.
- Citizens' demands have developed.
- The state has been overwhelmed because of its inability to reform itself in the face of these new demands.

These three trends coincide in the formation of today's civil society in Peru. On the one hand, civil society is attempting to provide its members with certain goods and services, while on the other it is demanding that the state recognize certain social rights.

Civil society has evolved in places where political conditions have made that possible. Even so, a large civil society is not necessarily a strong one. In Peru, civil society is fragile, lacking institutional channels for participation, increasingly depoliticized and focused on making demands. Nor is it, as a utopian view might suggest, necessarily and wholly democratic. In the last years of the administration of President Fujimori, a significant sector of civil society that was making demands—particularly regional fronts, professional associations and organizations of young people, women and workers—confronted the state openly from a democratic, pluralistic standpoint. Even so, another equally important sector—especially groups of agricultural producers, the owners of small businesses and most neighbourhood organizations in large cities—remained loyal to *fujimorismo*. They were recruited through handouts (of titles to property, food assistance and temporary employment) and a corporatist approach.

It is in the case of political parties (as distinct from the government.) that civic tension has perhaps translated most clearly into outright rejection. A large percentage of citizens do not trust the parties. Many people believe that democracy can exist without them.

The distance that separates civil society from the political parties is the distance between the social agenda and the institutional agenda. This is not the only such case. In general, the country as a whole is becoming depoliticized, and the trend towards greater participation and the real possibility of bringing about the changes that democracy heralded are being abandoned for the pursuit of more personalized agendas.

The period that began in 1997 has been one of incalculable richness and represents great potential for civil society. Its features include the following.

- Civil society's actors are now public actors.
- Its capacity for serving as an interlocutor has increased notably.
- Civil society organizations have participated with the same legitimacy as the political parties in developing the National Accord (initiated in 2002), affirming the idea of such an agreement.

To address this critical knot, Citizens for Good Government proposes nine institutional and cultural changes to strengthen the role of civil society in the democratic regime.

1. *Peru needs to restore the concept of civil society as a sphere in which proposals can be made* that will lead to initiatives which make it possible to overcome, although not break, the classic antagonism between the market and the state, and between the public and the private spheres, strengthening its role in relation to the state and its social responsibility. This would affirm the existence of an autonomous civil society which is open to participation and democracy, and dissociates itself from the tradition of populism and paternalism, thus leading to substantive change in the institutional and cultural spheres, in the state and in civil society itself.

2. *The role of civil society should be strengthened* in three processes that are already under way, and which are related in both the short and the long term: (a) building consensus with the state in the fight against poverty; (b) establishing long-term state policies; and (c) decentralization.

3. *The active presence of civil society should be strengthened in the transition process* by collaborating actively in solving the problem of lack of participation in the public sphere; in the development of capacities and of gender equity in the oversight and monitoring of power, especially in its discretionary aspects in the judiciary, Congress, the executive branch, local government and the regional presidencies; in encouraging social cohesion; and in promoting political reform.

4. *The political parties should reconstruct their role as intermediaries.* This process is not in conflict with another dynamic, which is the transformation of the ‘spaces’ for reaching agreement and consensus into consensus-building bodies that do more than merely issuing declarations. There is a need to get away from the mindset that focuses exclusively on formal agreements and begin establishing a genuine dynamic in the administration of the country.

5. *The tension in relations between civil society and the political parties should be reduced.* Confrontation and competition between these two spheres should be avoided.

6. *Civil society and the state. should be strengthened.* Bridges should be built between the two based on the approval and implementation of the participatory public policies and reforms that are indispensable for good governance, implemented on a foundation of self-determination, respect and responsibility.

7. *Society should demand of the state a process of reform and modernization* that improves the quality of Peru’s democracy, expanding the opportunities for territorial and sectoral integration—based on a transfer of functions and sovereignty to the local and regional levels—and openly addressing the challenge of access to public information.

8. *Civil society should be strengthened through reliable information.* Both the state and the private sector, which control the media, must examine whether they are truly carrying out their responsibilities, not only as good business managers but also as good providers of a service demanded by the public—the provision of reliable information about the events and facts about which people need to be informed.

9. *A political culture that is inclusive, tolerant and pluralistic must be fostered.* Citizens must have the opportunity to participate in social and political life so as to give scope to a civil society that is not to be confused with the state and political parties but is bonded to both through the necessary links of communication. This dynamic also requires a cultural change in civil society itself, which must give up the practices of corporatism and political patronage.

3. THE THIRD KNOT: HOW TO ENSURE THAT FREE MEDIA CONTRIBUTE TO GOOD GOVERNANCE

The media today have become so important that they permeate the whole of society, form public opinion and have become a de facto power. For these reasons we take them to be the third great knot affecting governance. With obvious, though rare, exceptions, the history of the media in Peru has been characterized by the pernicious relationship between the ownership of the media businesses and political power. This has defined the essentially declaratory nature of the media's stated purpose and goals. It has never been possible for the media to achieve cultural or educational objectives because commercial interests have dominated.

The media in Peru have two significant distinguishing features.

- Government interest in the media has always focused on mutual commercial and political advantage. The mechanism most frequently used during the early years to 'encourage' the industry was tax exemption, a practice which, while stimulating technical modernization, muddled the relationship between the state and the individuals involved. The highest degree of fusion between the two spheres came under the military regime with the expropriation of the media businesses, which was a traumatic experience.

- Radio, especially public radio, has found it difficult to fulfil its educational and cultural roles. Radio broadcasting has never been able to organize as a public service.

Knots to be Untied in the Future

In the debate over possible measures that could be taken so that the future will not repeat the same flaws as the present and the past, the following knots were identified.

1. *A more specific legal framework is needed that addresses the particular characteristics of the media which use the public airwaves.* Radio and television use a public good of a limited nature—the radio spectrum—and this imposes a natural barrier to access to the broadcasting market, which must be regulated. The introduction of digital technology will change this situation of scarcity into one of 'relative abundance'. The General Telecommunications Law must be revised.

2. *The executive branch retains excessive influence in determining access to frequencies.* The allocation of radio frequencies is the task of the Ministry of Transportation's General Office of Communications. This has not worked well because it has encouraged relationships of political patronage between the media and the administration in office.

3. *Automatic renewal of licences ('at the request of the interested party')* constitutes a barrier that discourages competition and has a negative impact on equality of opportunity for taking economic advantage of this natural resource.

4. *The traditional government interference in the media seems to persist* even in these democratic times. Possible measures should be examined that would neutralize and protect the media from pressure from the tax authorities and the judiciary, the surveillance of journalists, the discriminatory provision of government information, and the unequal distribution of government advertising.

5. *The business side of the media has an excessive influence on content, especially of news programmes.* Media owners have played a dual role, running the business and overseeing editorial content. In the case of radio and television this would not be a problem if retention of ownership and access to licences were free of political influence. Change is needed in the relationship between the media owners and the content of the information disseminated by their media.

6. *The increasing superficiality with which the media—including the print media—play their information role* has contributed to the deterioration of the quality of the public agenda. The styles favoured are

sensationalist and increasingly the media seem to take a frivolous, tendentious or manipulative approach to deep-rooted problems, thus sacrificing the quality of content.

7. This last point brings us to the dilemma of the *regulation of content*, both news and entertainment. There seems to be agreement that the quality of the material provided by the media is low, but not on ways of changing this. It is increasingly urgent to separate the informative from the business-related and to *differentiate between information and opinion*. Entertainment, meanwhile, has not escaped this deterioration.

8. The deterioration of the quality of programming or in the content of the media has usually been explained by public preference, reflected in *ratings*. *Other mechanisms for measurement are needed* besides the mere figures on newspaper sales or the numbers of people tuning in to a station.

9. Hitherto, the *structural dependence of politicians with regard to the media* has been an insurmountable obstacle to change. Any politician who speaks of the need to solve these problems is automatically considered controlling or interventionist. The damage this does to the politicians' image has led them to prefer inaction or interested action to defining the problem and proposing solutions.

Proposals

Untying these knots requires us to address four basic objectives simultaneously:

- democratizing access to the use of broadcasting frequencies;
- allowing the development and strengthening of a culture industry;
- reducing government influence over the ownership or content of the media; and
- fostering improvement in the quality of content.

The following proposals give equal weight to respect for the freedoms of business management, opinion, information and expression that are involved.

1. Democratization of Access to the Use of Broadcasting Frequencies

The nature of the radio spectrum—a limited public good—explains why the procedures for allocating frequencies are of such central importance for legislation.

1. *Radio and television licences must be granted in transparent public bidding processes.* Because the airwaves are a public good whose limited nature significantly restricts access to the use of the frequencies, the mechanism used to allot them must as far as possible guarantee publicity, transparency, political independence and impartiality.

2. *The requirements and criteria for allocation must be reasonable.* The technical and programming requirements for operating the broadcasting frequencies must be complemented with the establishment of certain personal criteria for the business owners. Proof of their compliance with all requirements, combined with verification, must be available to the public without restriction.

3. *Frequencies must be allocated by an independent body.* We acknowledge that, because it involves a public good, the task of allotting and renewing frequencies falls within the sphere of the state, but it must be emphasized that this power must remain outside the sphere of influence of the administration in office at any one time. It should be in the hands of a pluralistic body that could be called the National Commission on Radio and Television. The task of 'de-governmentalizing' the allocation of frequencies requires political independence, and the best way to ensure this is to have the commission's members appointed by a qualified majority of Congress, based on a nomination mechanism that allows civil society organizations to present candidates.

4. *Licences should be granted for a reasonable period of time.* The period for which licences are granted should not be too long, and certainly not indefinite. A maximum of 10 years is a reasonable time to allow an operator to profit from the investment.

5. *There must be incentives for the development of the culture industry and limitations on the concentration of ownership.* To encourage the creation of economies of scale and the development of a culture

industry, legislation should provide an incentive for companies to invest simultaneously in television and radio, as well as in the print media and the Internet, but must also place reasonable limits on the concentration of ownership in a single type of service.

6. *Space must be reserved for educational and community stations.* The radio waves, which are the heritage of humanity, must not be reserved exclusively for legitimate commercial interests; civil society must be allowed to participate.

2. Alternatives to the Regulation of Content

Government regulation of media content involves many risks, but comparative experience shows that it is possible to use other, permissible mechanisms to influence the content of programming, whether entertainment or informative, in a positive way, without affecting the freedoms of the media. These permissible alternative mechanisms include:

1. *Hours for children's viewing.* Especially for television, at the times when children can be assumed to be present (from 06:00 to 22:00) the programmes broadcast should meet their needs for education and entertainment.

2. *Encouragement for critical observation of the media.* Society must play a key role in the legitimate demand for higher quality of information and entertainment in the media.

3. *Ombudsmen for viewers and listeners.* The appointment of ombudsmen for viewers and listeners has been successful in other countries. They should have certain personal qualifications that make them independent and enable them to respond publicly to comments or opinions about the content of programmes expressed by viewers or listeners or by community organizations.

4. *A conscience clause.* Incentives for independence in the media require protection for journalists or other workers so that they can abstain from carrying out orders that are contrary to their own convictions without risking losing their jobs.

3. Regulation of Private and Public Advertising

The electronic media, unlike others, subsist mainly on the advertising they obtain from private advertisers or the state. The influence of advertisers is therefore important, if not decisive.

1. *Limits on advertising time.* The legitimate interest of profit **must** not undermine other functions of the media, such as entertaining or informing.

2. *Transparency and objectivity in allocating state advertising.* When the advertiser is the state, which pays out of public funds, the law should normally require that the advertising be reasonable, verifying that its dissemination is vital for the purposes of the state.

3. *Prohibition of government advertising during election periods.* In the case of government advertising during an election campaign, the requirements of equality in political competition make it necessary to increase the normal restrictions.

4. Infringements and Sanctions

This is an issue that requires priority attention in new legislation. The current system has proved ineffective and has been the source of conflict, leading to uncertainty about the ownership and purpose of broadcasting companies. It would be a good idea to consider at least the following two proposals.

1. *A precise definition of infringements and sanctions of all kinds.* Infringements of the law and sanctions should be specifically defined in primary legislation, not dealt with by open-ended norms or norms whose application is regulated by lower-level legislation, because this poses an obstacle to enforcement. Rather, a clear, precise list should be established.

2. *Radio and television legislation in accordance with criminal norms.* Legislation on radio and television must be accompanied by criminal law and regulations that allow for the application of secondary

penalties that affect businesses, such as closing down establishments or suspending their activities in cases in which a person has committed a crime.

Having addressed the first set of themes, we now proceed to the second, which focuses on state activities and the public policies that we consider to be of the highest priority.

Our fourth knot centres on sustained economic growth as a prerequisite for reform and lasting change. The fifth examines the social policies that will benefit the general population as a crucial element of governability. At the same time, as outlined in the sixth knot, Peru requires urgent state reform and modernization of the public sector, including changes in the short, medium and long term. Finally, the seventh knot analyses the problems resulting from Peru's history of centralized power and the efforts under way to gradually reverse this process.

4. THE FOURTH KNOT: HOW TO ATTAIN SUSTAINED ECONOMIC GROWTH

Good economic progress is crucial for ensuring a democratic republic. Unfortunately, the long-term performance of the Peruvian economy has not been satisfactory and has often jeopardized democratic governance.

In the past 40 years, the Peruvian economy has suffered serious macroeconomic imbalances and has included a pricing system that has not allowed for a better allocation of resources.

For governance and democracy to be viable, the economic system must be capable of improving the welfare of the people. To achieve this, certain refinements of current economic policies are needed, along with long-term policies, within a framework of transparency, consensus and effectiveness, so that the policies win greater legitimacy among the population.¹

Overview

A significant part of the poverty and social problems suffered by Peru is a direct consequence of erroneous economic policies and the institutional instability associated with their design and implementation.

Peru has had a bad allocation of resources and low levels of investment. During the 1960s, 1970s and 1980s, the economic system was marked by price regulation and, in general, excessive state intervention. In addition, economic activity took place in a climate of severe macroeconomic instability, and high public indebtedness ended in episodes of fiscal insolvency and balance of payments crises. Words like devaluation and inflation were familiar to the population, which suffered greatly from them.

In the area of trade, open protectionism was the rule, while the financial system was repressive, with negative real interest rates and low rates of lending. The labour market was over-regulated. Finally, policies on individual sectors of the economy were marked by inter-sectoral subsidy mechanisms that were not reflected in sustainable economic growth.

During the 1990s significant structural reforms were implemented in an effort to transform the economic system into a more flexible economy guided by market mechanisms. Macroeconomic stabilization measures were also designed, aimed first at reducing inflation and then at reducing the balance of payments deficit. Beginning in the present decade, policies were implemented to reactivate the economy after the recession of 1998–2001.

Fortunately, Peru now has macroeconomic stability with low, stable rates of inflation (2.5 per cent per annum), a lack of external imbalances and a growth rate similar to that of the region and the world (4 per cent per annum).

Problems to be Resolved

Nevertheless, improvements are still needed to such aspects as:

- the sustainability of the public finances;
- the high rate of dollarization;
- low levels of private and public investment; and
- slow economic growth.

1. *The public treasury must be strengthened* by increasing the tax take through control of sales tax and of income tax evasion, by abolishing exemptions, and by greater efficiency in public spending. The current level of public indebtedness is very high and exposes the economy to fluctuations in the international capital markets. A strong, sustainable public finance system will allow for anti-cyclical fiscal policy without jeopardizing fiscal solvency. For these reasons, Peru needs relatively ambitious

budget surplus goals² until low, safer debt levels are reached. This process must not create recessions but must be implemented carefully, taking advantage of periods of economic upturn.

2. Dollarization, meanwhile, affects the mechanisms for using monetary policy to address aggregate demand, makes it difficult to fine-tune inflation objectives, and in particular could threaten real sectors of the economy with what is called the balance-sheet effect, by which a devaluation of the currency (the sol) increases the debts of those whose income is in soles, jeopardizing the normal functioning of the system of payments.

3. Private investment, which is a decisive factor in long-term growth, has stabilized at relatively low rates. *Peru must achieve higher rates of investment* if it is to attain higher rates of growth. This must also be accompanied by processes for incorporating new technologies and radical improvement of the education system.

4. In the area of structural reforms, *a more efficient public sector is needed*, along with greater economic openness, with the negotiation of beneficial trade agreements; a flexible labour market that still protects the fundamental rights of workers; more developed capital markets; and economic regulation that fosters competition.

5. Finally, institutions are the underpinning of economic policy and cannot be ignored. In this sense, *reform of the state is crucial* for achieving high, sustainable growth rates.

Macroeconomic Stability

In the area of macroeconomic stabilization policies, the debate has become extremely radical, while the policies implemented have abused one theoretical position or another. Keynesian formulas were distorted and taken to a populist extreme in the 1980s. Classical, ideologized approaches, meanwhile, could lead to inaction and the lack of immediate responses, as happened in the Russian crisis of 1998.

In a context of high macroeconomic uncertainty, economic agents cannot carry out their plans efficiently. Sudden, unexpected changes in exchange rates, interest rates and prices, and drastic changes in the rate of public spending affect the decisions of the private sector. In particular, these agents defend themselves by emphasizing the short term and adopting defensive postures. In the long run, these decisions affect levels of investment and economic growth.

For these reasons, macroeconomic stability is a value in itself. Macroeconomic stabilization is understood as a combination of stabilizing prices, reducing fluctuations in production and employment, and striving for external equilibrium. That alone, however, is not enough to ensure economic growth, because growth depends on another series of factors.

The Conditions for a Free, Competitive Market³

A favourable climate must be created for the liberation of market forces and the continuation of the process of accumulation of capital. Structural reforms seek to foster market mechanisms in order to increase economic efficiency. This includes trade reform, financial reform, labour market reform, privatization and concessions, as well as policies related to regulation and competition, social policies (education and health) and environmental policy.

Peru has made great strides in these reforms. Greater consensus is needed, however, and a second generation of reforms will be technically and administratively more complex, which means that greater institutional development—a reform of the state—is needed.

Peru in the Latin American Context

In the past decade, according to the macroeconomic indicators, Peru's economy has outperformed those of the seven other largest countries in the region, with the sole exception of Chile. This has not, however, resulted in high, sustained growth rates or generated higher-income employment that would change the balance of poverty.

Unfortunately, the Peruvian economy is still unable to provide economic well-being to the population, a large part of which remains below the poverty line. In addition, the rate of child malnutrition is among the highest in the region, as is the informality of the labour market.

Summary

The Peruvian economy must achieve the conditions needed for generating higher growth, which would make it possible to ensure more high-quality jobs and finally begin to overcome poverty.

Macroeconomic stability is only one condition, necessary but not sufficient. Greater institutional development is needed to make possible the ongoing design and implementation of sectoral policies, which are a necessary element for attaining high, sustained rates of growth. The evidence from small developing countries shows that greater production of traded (internationally marketable) goods and especially export goods is needed, as these become an important catalyst for productive activity.

Finally, there is an urgent need to implement second-generation reforms, to refine the structural reforms already implemented and, last but not least, to reinforce social policies, both to alleviate extreme poverty and to ensure equality of opportunity and increase people's capacities.

¹ Every opinion is the subject of controversy, and here the statements made by the author deserved the following commentaries from another member of the group. With regard to the current economic policy, he believed that instead of 'refinements' this policy requires significant changes. Similarly, with regard to structural reforms, he believed that they must be revised and modified rather than fine-tuned. With regard to the elimination of tax exemptions, he believed that the emphasis should be placed on exemptions from income tax, capital gains tax and tax on income from interest. With regard to the paragraph that indicates that it is necessary to 'free the market forces', he believed that in Peru, on the contrary, there has been extreme liberalization. He believed that the achievement of the objectives of economic growth and development requires a social and productive fabric that combines individual interest and mutual cooperation through a combination of the market and collective and public action. This framework must foster, along with private investment, the efforts of skilled and unskilled workers and entire families to progress, along with the country, along with scientific research as a collective effort, social cohesion and organization, the values of solidarity, honesty and mutual trust; and public action through the state. This policy implies a change in the business culture, where profit and exploitation dominate, towards a culture based on the search for new markets and innovations, building consensus with the state and workers for the benefit of all.

² Some believe that it would be helpful to reduce the public debt burden as a percentage of GDP and make this the guiding principle of public finance in the medium term, but they do not believe that a budget surplus is necessary: with a zero deficit and 4 per cent annual growth, the public debt burden could be reduced from 47.5 per cent of GDP to 36 per cent of GDP by 2010, which would be a much safer level.

³ Some members of the working group do not agree with the conditions proposed for a competitive free market, or have a different opinion.

5. THE FIFTH KNOT: THE LACK OF COMPREHENSIVE SOCIAL POLICIES FOR COMBATING POVERTY

Macroeconomic policies alone do not generate economic, social and cultural development. For this reason, Citizens for Good Government considers the fifth critical knot to be the lack of comprehensive social policies, interconnected with economic policies, which would make it possible to narrow the gaps of inequality, poverty and exclusion that exist in Peru.

Social policies, understood as part of overall public policy, are those aimed at developing human capacities through basic services, establishing a security network for people who are vulnerable and affected by negative shocks, and improving the income of the poor through direct interventions to improve people's quality of life, expanding their capacities in a sustainable manner. 'Quality of life' is understood to mean access to higher incomes, goods, and health and education services. This concept also includes access to democracy, integration into public life and the enjoyment of a healthy environment.

These are all elements of human development. Education and health are the foundation of human capital for economic growth and an end in themselves because, if guaranteed equitably, they are the basis of democracy and social integration.

Historically, social policy in Peru has been weak. Primary education only achieved broad coverage of the country in the 1980s, and the health services only achieved broad rural coverage in the 1990s. Effective learning levels lag substantially behind those of the rest of Latin America and are below even those of poorer countries such as Bolivia. The infant mortality rate (43 per 1,000) is substantially higher than would be expected in a country with Peru's per capita income.

Social Policy Reforms

- *Equality and rights in social policy.* For the past decade, Peru has suffered from a lack of clearly established rights that would enable every citizen to know exactly what basic services and conditions the state must provide.

- *Transparency and participation in social policies.* To increase the quality of social programmes, 'neopopulism' must be controlled, and programmes must be made transparent and opened up to public participation.

- *Efficiency and effectiveness in social programmes.* Social programmes must be effective and efficient. The technical quality of their management and administration leaves much to be desired. The multiplicity of overlapping, uncoordinated programmes, lack of clear objectives and a logical framework, inappropriate design, lack of monitoring and evaluation mechanisms that direct them towards the achievement of objectives, weaknesses in targeting and changes of management personnel are among the factors that have led to apparent successes but real failures.

- *The formation of a social protection network in social programmes to sustainably promote income for the poor.* Anti-poverty programmes have not managed to protect the most vulnerable families and individuals effectively and have not been successful in reducing poverty by increasing incomes. Food handout programmes are not an effective support network for families in extreme need. Other programmes aimed at improving the economic capacities of poor people through training, technical assistance and micro-credit have remained small and highly fragmented.

- *Decentralization of social programmes and sectors.* Social policies will have greater impact if they are part of the process of decentralization than they would as the product of initiatives or strategy formulated within the different sectors of society.

Towards an Alternative Social Policy

1. A National Accord to Set Priorities for Social Policies and Redirect Them towards Development

Social policy must be in tune with state policy and be defined within the framework of a National Accord, with broad participation by all the different political and social forces. This implies that social policy must be accorded much greater importance than it is currently given and must be one of the pillars of development strategy.

To set priorities and redirect social policy, it is necessary:

- (a) to make social policy a central element of development strategy;
- (b) to reinforce the bonds between social policies and other policies and development objectives, so as to increase their effectiveness; and
- (c) to make a substantive increase in social spending based on progressive tax reform.

2. Social Policies Directed Towards the Creation of Universal Rights

Social policies must be the catalyst for a close relationship between the people and the state. Their separation, the result of a vertical state structure and a passive population, leads to political patronage, ineffectiveness, inefficiency, failure to adapt to local expectations and characteristics, and the undermining of the responsibility of families and communities for services.

In the interests of the effective establishment of rights, it is proposed that:

1. Every Peruvian should know the exact benefits to which he or she is entitled; these must be universal.
2. These rights must be maintained regardless of the economic or political situation or other changes.
3. Mechanisms should be established so that people can complain when these rights are not respected.

In addition, the Peruvian state must:

- (a) approve by consensus explicit social commitments to families—what services and programmes it will provide, and to whom;
- (b) clearly establish the criteria for eligibility for benefits from the various social programmes;
- (c) publicize these commitments and conditions, ensuring that people are sufficiently aware of them; and
- (d) establish systems that allow it to respond to citizens' complaints.

This also requires of the population:

- (a) participation in and commitment to approved public policies;
- (b) an oversight role in the defence of their rights; and
- (c) participation in the administration of social services and programmes.

3. Social Policies for the Development of Capacity and Economic Opportunities

Social policy must be transformed, shifting from domination by a state that provides handouts and makes top-down decisions about what it will provide to a state that works in conjunction with the people and fosters their economic capacity and ability to take responsibility.

Basic reform must ensure that social programmes move away from the provision of handouts to an emphasis on development and the creation of opportunities.

4. Reform of the State and Decentralization with Clear Rules that Foster Transparency, Public Participation and Effectiveness

Strategies for reforming the ineffectiveness of the state and the poor standards of public service require opening it up to the people through direct participation and transparent information. This will reduce the distance between public officials and users, limit the scope for abuse and corruption, and foster oversight.

Decentralization is fundamental because it closes the gap between those who govern and the governed, and between public officials and users, thus fostering public participation, accountability and citizen oversight.

The critical issues with regard to the decentralization of anti-poverty programmes are the following.

1. *A comprehensive vision* that considers the range of programmes for combating poverty and those of other sectors. A partial transfer of competences and responsibility to the local level and the merger of many projects are under way, but this is being done without the general direction having been defined. Mechanisms for the relationship between the government agency in charge and civil society are key elements here.

2. *The degree of integration of the programmes to be transferred to the local level*, including a comprehensive vision that takes into account other transfers to local governments, such as the FONCOMÚN (Fondo de Compensación Municipal) and Vaso de Leche programmes. It is clear that greater dispersion results in a more difficult process, higher monetary costs, less transparency and greater difficulty in establishing transparent, pro-poor distribution. On the other hand, it could be helpful to keep programmes that have different objectives separate so as not to create administrative problems and conflicts between them. In addition, to have different programmes managed by a single entity could involve a high degree of administrative complexity and political pressure.

3. *The roles to be played at the provincial and district levels.*

In the case of FONCODES (Fondo Nacional de Compensación y Desarrollo Social), proposals have been circulated which indicate that district governments would have the task of the participatory setting of priorities for projects and participation in the entity implementing the project, but no clear role has been established regarding pre-investment or supervision of works.

In the case of PRONAA (Programa Nacional de Asistencia Alimentaria), it has been proposed that provincial governments would purchase the food (for community kitchens) and deliver it to the district governments, which would, in turn, deliver it to the community kitchens. It is not clear in this scheme who is responsible for registering and supervising the community kitchens.

No detailed proposals are known for changes to the operation of PRONAMACHS (Programa Nacional de Manejo de Cuencas Hidrográficas y Conservación de Suelos) and other projects.

In all cases, the models for the distribution of functions have not been formally defined.

4. *The flow of financial resources.* In the case of FONCODES, there are proposals for delivery to municipalities or for continued delivery to the entities implementing the project. The former would make community empowerment more difficult, as FONCODES would still be responsible for prior evaluation and supervision of projects.

5. *Mechanisms for effective participation by the communities involved.* Detailed consideration is needed of how participatory prioritizing of projects would be done and how it would be linked with the technical evaluation of the projects, as well as the relationship between the local government and the community in implementation and subsequent maintenance.

6. *The function of the central level in these programmes.* This could be reduced to providing funds or could include technical assistance, ongoing accreditation, supervision and evaluation, or direct provision of certain services or phases of the project cycle.

7. *The geographic allocation of resources.* Both transparency, with clear rules, and pro-poor criteria are needed as part of a common vision.

8. *Rules for targeting within local governments;* for example, whether to maintain FONCODES' rule of addressing only the needs of rural communities; reinforcing the directing of certain nutrition

programmes at children under the age of majority and pregnant women; and the functioning of rules for targeting by self-selection or even the possibility of mechanisms for individual targeting.

6. THE SIXTH KNOT: REFORM OF THE STATE TO ACHIEVE EFFICIENT PUBLIC ADMINISTRATION

There is currently a ~~certain~~ tendency to use the terms ‘reform of the state’ and ‘modernization of the state’ as synonyms, using them indiscriminately to refer to the same process, when they actually do not. The distinction made here is based not to any desire for semantic strictness but on the fact that they are two processes with different characteristics, which can be carried out independently or together. In our view a reform implies, first and as a distinctive element, the substantive transformation of certain basic roles of the state (as planner, owner, economic agent, regulator of its structures and/or controller of its operations, and so on), while the modernization of the state does not imply substantive changes in these roles but refers to the implementation of a broad range of actions aimed at making public administration more effective. There are three possible scenarios: (a) reforms without modernization, (b) modernization without reforms and (c) reforms with modernization. The proposals outlined here fall within the third scenario.

Critical Knots to be Untied

The system of Peruvian statehood is suffering a crisis that was aggravated in the 1990s with increased de-institutionalization and the most extensive corruption in the country’s history since independence. We currently have:

- a state that has no credibility for the great majority of citizens, and which therefore suffers from a crisis of legitimacy;
 - a state that provides basic public services in a very mediocre fashion (especially education and health) and which has suffered increasing deterioration;
 - a state that is notably absent, especially in rural areas, where the majority of those living in poverty and extreme poverty are concentrated;
 - a state that fails to provide minimum guarantees of order to counter personal violence and which therefore fails to protect the citizen;
 - a state that is perceived by the public as prone to theft and high levels of corruption;
 - a centralist public apparatus that concentrates its functions in the central government and is costly, especially for the middle-class sectors which pay taxes, but is unable to collect revenues in a way that ensures greater resources, taxes on wealthier sectors and a broader tax base;
 - a state system that is characterized by disorder, lack of coordination, dysfunctionality and overlapping functions;
 - a state that has turned into a political prize and an arena for nepotism for top officials of the party or coalition of parties winning elections;
 - a state that people feel is far removed from their daily needs and concerns;
 - a state that is incapable of representing the socio-ethnic diversity of the Peruvian population;
- and
- a state that has established a legal system that makes its own action sluggish, inefficient and patrimonial; in many cases this law is not enforced because it is so labyrinthine, has not adapted to reality, and tends to create mechanisms that obstruct the free development of economic and social forces, resulting in a ‘grey area’ of illegality in the country.

The Role of the State

Short-, medium- and long-range reforms of the state should be based on the role that the state must play in the economic, social and political spheres, and should involve change in the constitution and the state’s jurisdiction.

The state’s action should mainly be aimed at:

- (a) guaranteeing the common good and giving priority to actions in the areas of health, education, security and justice;
- (b) fostering opportunities for employment and work training;
- (c) advocating respect for the rights of consumers and users, and guaranteeing the right to information about goods and services in the marketplace;
- (d) guaranteeing that public services are provided and supervising their operation;
- (e) promoting private investment and competitiveness in the economy;
- (f) promoting the economic and social development of the country's regions, provinces and districts;
- (g) guaranteeing the free circulation of goods and the provision of services throughout the country;
- (h) fostering scientific and technological research;
- (i) protecting the development of the environment and the sustainable use of natural resources;
- (j) providing physical infrastructure;
- (k) promoting continental, social, economic, political and cultural integration; and
- (l) respecting a pluralistic, multi-ethnic identity.

Proposals for the Reform of the State

The process for reforming the state has been grouped into short-, medium- and long-range strategies, along with a group of reforms directly related to the political regime. A high-level presidential commission could be put in charge of guiding the process of reform of the state and modernization of public administration, but its technical secretariat should be the proposed Strategic Planning Center.

Group 1: Reform of macro functions of the state in the short term

Reform of the state in the national educational system; in basic health services; in the area of *citizens' security*; in the area of basic infrastructure for development (water, roads and electricity), with priority being given to rural areas; and as the *strategic planner* of national development (the creation of a Strategic Planning Center).

Group 2: Reform of medium-range macro functions of the state

Reform of the state as *collector of taxes and revenues* (the goal is a tax take equivalent to 20 per cent of gross domestic product (GDP)); in the area of *combating poverty and inequality* (the creation of an authority that brings together the whole range of social programmes and the decentralized implementation of these programmes); and reform of the state as responsible for *punishing* infringements of the juridical–regulatory frameworks that govern the functioning of the various systems, as well as the fair enforcement of the law (comprehensive reform of the judiciary). Reform of the professional career public service (a civil service law that defines positions of trust and civil service jobs in public agencies); and reform of the state as *the strategic planner of its institutional development*; in the *ethical* aspects of public functions and oversight; and in aspects related to *transparency* in the use of resources.

Group 3: Reform of long-range macro functions of the state

Reform of the state as the creator of an appropriate institutional environment for private investment; as an *economic agent* (for example, as the promoter of exports and investment, and as the builder, in strategic alliance with private capital, of the basic infrastructure that helps develop local, regional, national and international markets, the competitiveness of products and services, and profitability); in the *administration of macroeconomic policies*; as the *arbiter* in social conflicts; as the *protector* of the territorial integrity of the country (reform of the armed forces); for *consensus-building processes and participation in decision-making* (creation of a National System of Consensus-Building and

Citizen Participation); and with regard to *citizen oversight*; and reform of the quality of the regulatory framework for the market.

Group of reforms of the political regime

Reform of the *presidential regime* and reform of the *relationships between the powers* of the state. We propose moving towards a political regime with a president as head of state, and in which the head of the Cabinet is legitimized by Congress and has the functions of head of the public administration and head of the executive branch. The decentralizing reform of the state at the central, regional and local levels should be continued. The reform of the *political party regime* should be implemented. The *electoral regime* and the regime of *interstate relations* should be reformed.

Proposals in the Eight Areas of Modernization of Public Administration

With regard to the modernization of public administration to achieve operational effectiveness in the state system, a strategy is proposed for all three levels of government (national, regional and local) and in the entire range of institutions that make up the state system; this implies a comprehensive process for modernizing the public administration:

- (a) modernization of the operational administration of services provided directly to citizens and their impact on citizens' daily lives;
- (b) modernization of the operational administration of services related to economic activities in the private sector;
- (c) modernization of the administration of state-run companies (assuming that there is a political decision to maintain certain state-run enterprises);
- (d) modernization of the administration of institutions whose function is to ensure the regular, ongoing functioning of the state and society;
- (e) modernization of the administration of new public projects—in identifying them, setting priorities, and financing, implementing and administering them;
- (f) modernization of the administration of action in the international context and international relations;
- (g) modernization of the administration of relations between government and civil society; and
- (h) modernization of the intra-governmental administration.

7. THE SEVENTH KNOT: GRADUAL, EFFECTIVE DECENTRALIZATION

Critical Knots to be Untied

Centralism in the political and administrative sphere correlates with a centralized economy. Decision making in public administration, industry, finance or trade is centred in the large cities, especially Lima, and opportunities for employment, better education and business—formal and informal—are also concentrated there. This in turn has led to the centralization of political power, which is reflected in the centralism of the state apparatus, the electoral system (which partly correlates to the centralization of the population) and the political system.

This excessive economic, political and administrative centralization is creating a school of thought in the regions which believe that ‘Lima’ is holding onto resources that ‘legitimately’ belong to them and that it may, therefore, be responsible for their poverty. According to this school of thought, the solution to the problem lies in ‘demanding’ that Lima—as opposed to the central government—return the surplus. This leads to (a) the expectation that decentralization will transfer new resources to regions other than Lima, and (b) the perception in the regions that decentralization is an exogenous phenomenon. The central government must take action to reverse the domination of the capital, Lima.

These perceptions in turn create a gap between expectations and reality: the administrative decentralization of the state is unlikely to be able to provide new resources, because investment in public works and social spending is not in fact biased towards Lima, especially where social investment is concerned. Rather, with decentralization, the decision maker will change: decisions will no longer be made by a ministry official but will result from a participatory budget prepared by local governments and regions—but there will be no substantive change in the amounts available for investment.

However, Peru is not only a centralist country. Closely related to its centralist nature is the dispersion of sub-national governments, both regional and local, particularly with the increasing role being given to delegated local governments. The dispersion phenomenon can be seen in the conversion of 25 departments into regions and the existence of nearly 2,000 local governments—a figure which could double if more population centres are combined with the creation of Local Governments of Population Centres as established by the new Local Government Law).

The small size of some municipalities and regions is an obstacle to the decentralization of public administration because small units have less administrative capacity and cannot achieve even minimal economies of scale; the scarce resources they receive are not enough to provide them with minimally qualified personnel.

This dispersion is the ‘flip side’ of administrative centralism: from the standpoint of public administration, the logic tends to be that, if levels of sub-national government are small and have limited administrative capacity, the best way to manage them is to maintain and increase the role of the central government.

Peruvian centralism is an extreme case, even by the centralist standards of Latin America. In few countries does the largest city contain one-third of the population, almost half of all industry, four-fifths of revenues and—as was the case until 2002—95 per cent of decision making about state administration.

Efforts for decentralization are needed in order to change the historical phenomenon of extreme centralism in the supply of public services and economic activity, which has resulted in a concentration of poverty in regional and local populations (especially in rural areas) and a concentration of political and economic power in large cities (especially Lima).

In Peru, the response to the demand for decentralization has been viewed—wrongly—with a bias towards the decentralization of the state’s political and administrative power without sufficient

consideration being given to the problem as a whole and without directly tackling the cause of the problem. In other words, decentralization has begun with the election of regional authorities and with proposals for the decentralization of competences that used to be in the hands of the central executive branch, without addressing underlying issues. This is creating huge risks for governance. It should be noted that there was enormous pressure to launch the process this way because this sort of beginning is perceived as being concrete, while policies that resolve the obstacles to economic development are more nebulous.

One problem with economic decentralization is the great economic power held by Lima in comparison to other important cities, such as Arequipa, Trujillo, Chiclayo or Cuzco. Opportunities for investment in Lima are so different from those in other cities that there are no real economic incentives for private enterprises to decentralize or to make it attractive for investors to do business in a certain city. The economic incentives used in the past did not change the situation because they ignored the 'market' factor. International experience shows that regions and cities that have markets or access to markets (connective infrastructure) will be poles for attracting investment. *One strategy for decentralization should be investment in intermediate cities, especially in infrastructure that enables them to gain access to markets and establish economic linkages with their hinterlands through development corridors.*

□ We believe that the key to economic decentralization lies in creating and improving the export capacity of regional production. This will involve improving the competitiveness of local businesses and institutions, thus achieving 'systemic competitiveness'.

In the area of public investment, the scarcity of resources makes it necessary to invest only in projects that are economically and socially profitable.

Proposals

1. *Consideration should be given to incorporating the principal decentralization policies* into a renewed National Accord that makes it possible to establish institutional mechanisms that represent all parties involved and build trust in the process. This could create space for agreement to be reached not only on objectives related to the transfer of competences and resources but also on policies to be implemented by the three levels of government and civil society, and for guaranteeing greater commitment to the process on the part of the political parties.

(a) The application of the framework law on decentralized investment should be encouraged as a tool for reversing the process of decapitalization of the regions, and the relative priorities to be given to state-run business activities and infrastructure projects should be decided as soon as possible. Public investment should also be made more realistic in order to avoid committing scarce resources to projects that are not economically viable.

(b) The creation of integrated 'macro' regions with populations and regional GDP above a certain minimum size should be a basic requirement before responsibility for the management of economic-social programs (ie health, agriculture, tourism, etc) is transferred to the municipal and regional governments.

(c) Districts should be merged and local governments integrated to ensure a minimum population size as a criterion for the transfer of competences.

2. *The fostering of and respect for cultural values should be part of* the decentralization agenda. Essential cultural aspects must be identified so as to ensure that the decentralization process does not lead to the loss of cultural identity and make it impossible to adopt or maintain practices in individual regions which, while different, are equally or more efficient.

3. *The institutional model guiding the process should be improved* to give it greater political weight and avoid situations in which conflicts are resolved by the president of the republic.

4. *Democratic governance in the regions must be affirmed.*

5. *Competitiveness should be promoted.* The national government's efforts in the area of competitiveness (the National Council for Competitiveness, the National Exporters Plan and so on) should give priority to the private sector outside the Lima–Callao region, in order to:

(a) promote private investment, thus debunking the myth that investment involves only large transnationals and demonstrating the involvement of small businesses and micro-enterprises; and

(b) promote the competitiveness of the regions through economic integration, the development of 'value chains' and clusters that integrate producers, micro-enterprises, and small and large businesses.

6. *The efforts of local governments in exercising fiscal responsibility should be promoted.* The current model for transfers from the centre is weighted towards reflecting population and poverty. Instead, in both the accreditation of competences and the transfer of resources, the efforts of sub-national governments should be rewarded (although tax amnesties should be avoided). The distribution of resources should be based not only on regional and local poverty criteria but also on criteria that reward progress in the exercise of fiscal responsibility at the sub-national level and the development of regional competitiveness; a fiscal responsibility map should be drawn up, along with another for progress in competitiveness, making it possible to increase the transfer of resources from the centre to those local governments that generate the most resources themselves or regions that show a reduction in poverty.

7. *The development of intermediate cities should be encouraged* so as to create motors of development that counterbalance Lima and Callao in attracting private investment and link urban and rural economies in an appropriate way. This must be based in particular on investment in connective infrastructure to allow the integration of regional clusters with internal and external markets, so as to achieve effective economic decentralization.

8. *The decentralization process should be gradual* bearing in mind the heterogeneous nature of the regions and local governments in terms of technical capacities and economic and cultural development. In this sense it will be necessary to establish typologies of regional and local governments so as to facilitate and standardize the process of accreditation of competences. The central government, through the (CND) and the Ministerio de Economía e Finanzas (MEF), could adopt the role of supporting and overseeing the sub-national governments, granting economic assistance to those that have inherited an unsustainable economic situation from earlier administrations (such as the district of La Victoria in Lima), but establishing strong controls in order to avoid irresponsible fiscal behaviour in the future. Efforts must be made to avoid creating incentives for over-indebtedness at the sub-national level: these governments must be forced to assume their debts while local governments that were bankrupt at the beginning of the decentralization process can be rescued. The future rules to be established for the transfer of competences to sub-national levels must be based on sub-national governments' technical and institutional capacities and shortcomings.

9. *Strategies should be established for communicating information about the decentralization process.* One challenge of the process is the need for citizens to understand its nature, its characteristics and the opportunities it offers. Society's commitment to decentralization is crucial to keeping the process alive. For citizens' participation in regional and local governments to be productive and for their oversight activities to bear fruit, people must have access to information and analysis about the process and its main characteristics. Having citizens who are informed about the process will also reduce the gap between expectations created in the regions and the reality of decentralization.