

# Spending Wisely

Helping Peruvians Manage Resource Wealth

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## Summary

The huge oil and mining revenues produced in Peru over the past seven years have shown the limits of the country's decentralization. As the national government distributes larger shares of the revenues to producing areas, subnational officials and communities find they lack the capacity to manage the money. As a result, subnational governments cannot effectively spend the funds, or evenly distribute the wealth to rural, relatively poor communities. The exclusion and inequality have fueled conflict in resource-rich regions across the country.

In 2008, the Revenue Watch Institute (RWI)—in collaboration with the Open Society Foundations Local Government and Public Service Reform Initiative (OSF-LGI)—designed a project to address the enormous governance challenges facing these regional and local governments.

RWI and its partners intervened at the regional level in Arequipa and Piura and at the district level in Piura.<sup>1</sup> Partners provided technical assistance to improve the governments' capacity to invest resource revenues and add predictability to the central government transfers they receive. RWI's work with municipalities in Piura focused on building the capacity of officials to manage revenues effectively and strengthen the multi-stakeholder planning processes already in place. RWI also worked to empower civil society to demand transparency and accountability and advocate for much-needed changes in resource governance at the national level.

The project achieved some clear successes. Thanks to a tool created by RWI and its partners, regional officials can now accurately forecast the revenue transfers from the central government and determine the difference between their needs and expected revenues to better plan how to spend the money. RWI and its partners improved participatory planning processes, strengthened public officials' ability to manage and spend extractive revenues and helped create better institutional partnerships among groups of municipalities. Partners also achieved important advocacy gains, such as developing and pushing for the first fiscal decentralization proposal recommending how resource revenue will be shared with regions in Peru. The challenge now is to sustain the project's impacts and not lose momentum when governments change at the national and subnational levels.

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<sup>1</sup> RWI also worked in a third region, Cusco, though it is not included in this case study.

## Case Study

### ABOUT THIS SERIES

To help local communities advance their social and economic development, RWI is pioneering regional approaches to planning and management of natural resource wealth. To learn more:

[renewatch.org/subnational](http://renewatch.org/subnational)

### Project Donor and Lead Partner

Open Society Foundations  
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### Introduction

Mining, oil and gas operations account for 5.3 percent of Peru's GDP,<sup>2</sup> 70 percent of exports,<sup>3</sup> and 20.2 percent of all taxes paid in 2010.<sup>4</sup> Between 2002 and 2008, Peru enjoyed an annual GDP growth of 7 percent, largely because of the expansion of the extractive sector. But as Peru's economy grows, inequality and conflict are rising. In 2011 alone, there were 217 social conflicts registered; more than 60 percent were directly related to extractive industries.<sup>5</sup>

Peru's decentralization process, first implemented in 2002, divides the country into central, regional and local divisions, which are further divided into provinces and districts. Promotion and oversight of extractive activities, however, remains centralized. Without power over large-scale oil, gas and mining operations, subnational governments feel sidelined. What's more troubling is that resource revenues are so large and increasing so fast that local administrations face tremendous challenges in effectively spending the funds. In Talara, a province in Piura where RWI intervened and where oil has been extracted for half a century, the local government's investment budget more than doubled, jumping from \$6.5 million in 2004 to \$15.5 million in 2006, all due to oil price increases.<sup>6</sup> On average, relatively poor, rural districts saw their budgets grow by 150 percent in a three-year period.<sup>7</sup>

How can subnational governments manage this increase with their existing personnel and level of technical capacity? How should they prioritize needs and expenditures and respond to the enormous expectations citizens might have from suddenly becoming "rich"?

This context of dramatically shifting revenues, conflict and weak governance motivated Revenue Watch to design and implement a project at the subnational level. Carried out between 2008 and 2010, the project aimed to improve governance in the extractive sector through increased transparency and accountability and better revenue management. RWI and its partners provided technical assistance and capacity building to local and regional governments and civil society organizations (CSOs). The project focused on helping public officials better forecast resource revenues, strengthening planning systems, improving coordination between different government levels and, finally, fostering national advocacy initiatives to improve governance of the sector.

Two Peruvian partners managed the project activities. Grupo Propuesta Ciudadana (GPC), a consortium of 11 leading national NGOs with extensive experience in decentralization and government reform, led the regional work in Arequipa and Piura.<sup>8</sup> The project continued a successful partnership between RWI and GPC, which began in 2004 on a joint initiative to monitor regional governments' performance. The Network of Urban and Rural Municipalities (REMURPE or Red de Municipalidades Urbanas y Rurales del Peru)—an association of more than 500 municipalities that provides training to regional governments and advocates for local interests at the national level—carried out the local work in Piura. REMURPE was the natural ally to manage the local intervention because of OSF-LGI's positive experience with the network in the past.

2 Instituto Nacional de Estadística e Informática (INEI)

3 Banco Central de Reserva del Perú (BCRP), Superintendencia Nacional de Administración Tributaria (SUNAT) and companies.

4 SUNAT.

5 Report No. 92, Defensoría del Pueblo, October 2011.

6 Ibid.

7 Ibid.

8 For more information, see <http://www.descentralizacion.org.pe/>.

## Challenges at the Subnational Level: Arequipa and Piura

### Arequipa

Arequipa sits just south of Peru's capital, Lima, at the edge of the Andean highlands. Mining there accounts for 10 percent of the region's GDP and about 10 percent of Peru's overall mineral production.<sup>9</sup>



Figure 1  
Arequipa and Piura  
on the Map of Peru

Arequipa is unique because virtually all mining activity is handled by one company, Sociedad Minera Cerro Verde (SMCV), responsible for 27 percent of Peru's copper mining and for exports worth \$3 billion in 2010.<sup>10</sup> Resource revenue transfers, called canon distribution, make Cerro Verde a key player for the regional government. In Peru, companies pay a 30 percent income tax to the central government, which keeps half and distributes the other half to governments of producing regions. These regional governments then keep a portion and distribute the rest to their provinces and districts (see Figure 2). All canon distributions must be used exclusively for investments.<sup>11</sup>

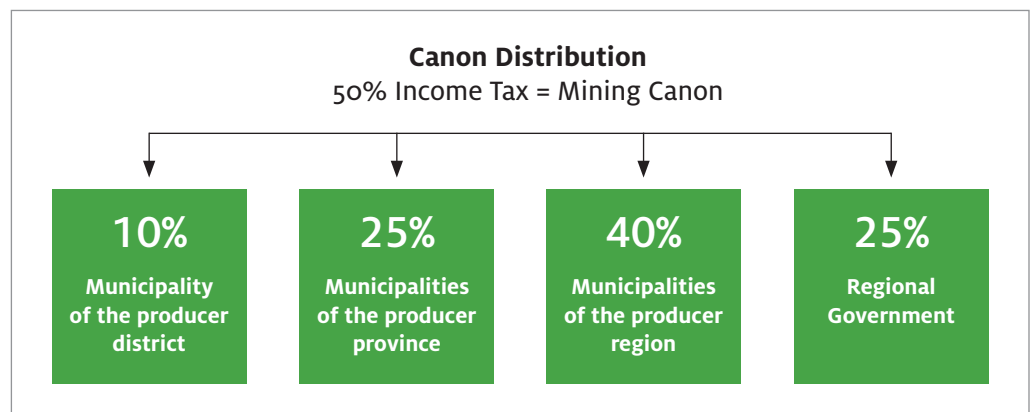


Figure 2  
Peru's Canon Distribution

9 Information for 2010. Instituto Nacional de Estadística e Informática (National Bureau of Statistics). Cuentas nacionales (National Accounts). Information for 2011 is not yet available.

10 Monthly mining bulletin. Ministry of Energy and Mining, September 2011

11 Law No. 27506.

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In 2011, Arequipa's canon distributions reached a historic high of \$250 million, a 10-fold increase from 2006 (see Figure 3). Though these transfers account for only 18 percent of Arequipa's budget, they represent more than 40 percent of the investment budget.<sup>12</sup> "Canon is all we have; we plan our investments based on canon," says José Callo, a public official from the regional government's planning office, one of the agencies that benefitted from GPC's technical assistance.

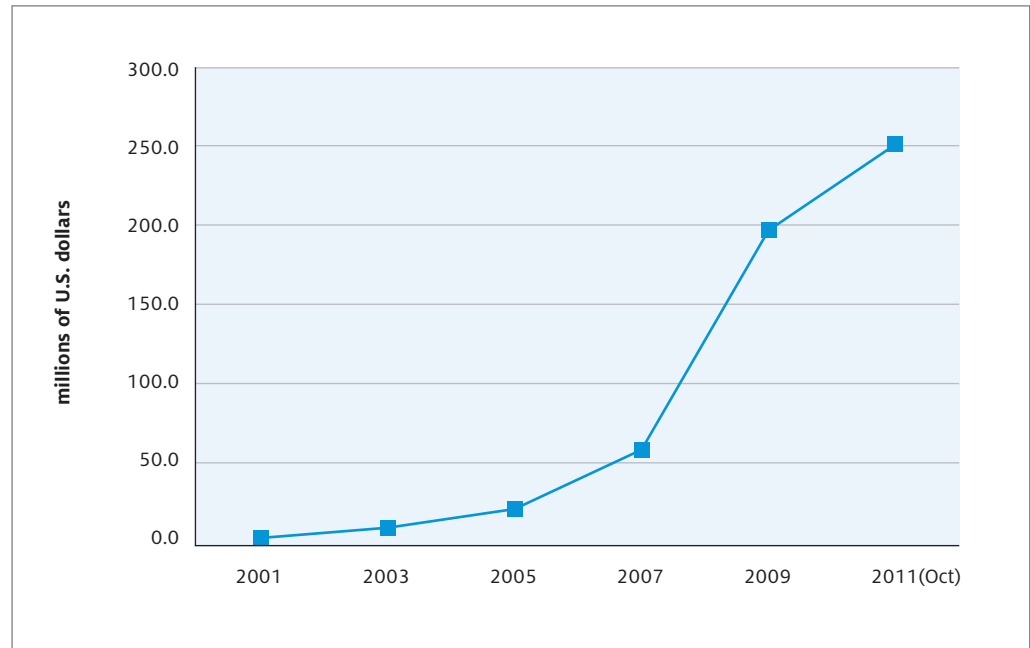


Figure 3  
Arequipa's Canon Transfers  
(in millions of U.S. dollars)

One key challenge for Arequipa was the lack of transparency in how the Ministry of Economy and Finance (MEF) calculates canon distribution to the local and regional levels. For example, MEF does not clarify its criteria for defining variables such as population and poverty that determine how much governments receive. As Ely Nina, in the regional government's planning office puts it, "The distribution indexes the central government manages are what I call the 'black box.' There is no transparency in the way it makes its calculations."<sup>13</sup> Public officials criticize canon law for giving the illusion that regions receive more money than they actually do, since 75 percent of the region's share must go to local municipalities.

### Piura

Piura, a region on Peru's northern coastline, has a long history in extractives. It's been more than a century since foreign firms, like the London & Pacific Petroleum Co., established wells along its coast.

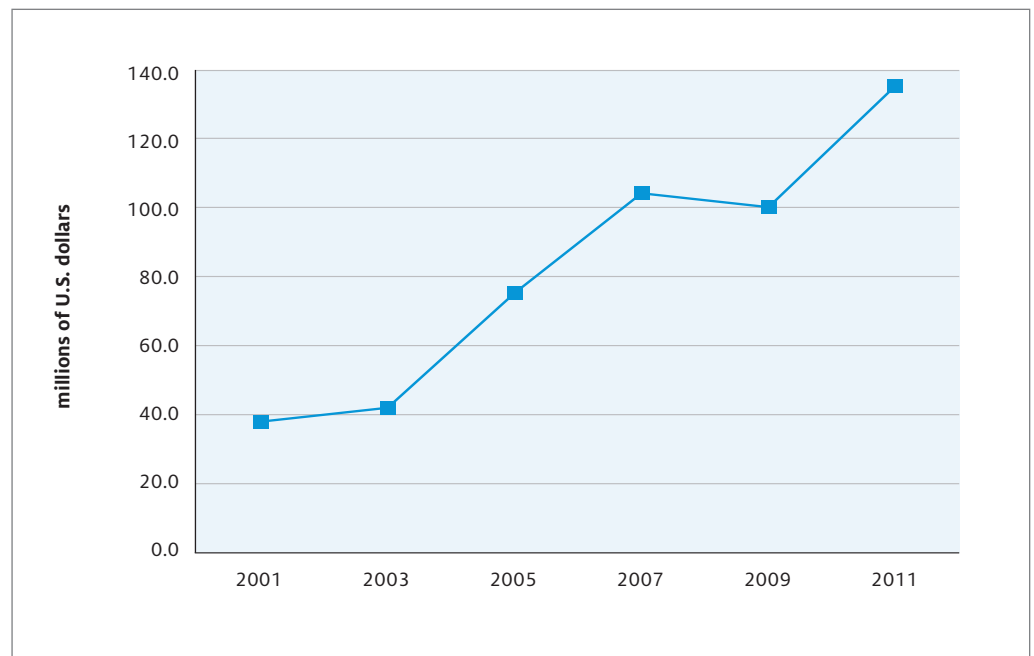
Several oil companies are active. Oil canon forms 41 percent of the investment budget for the regional government and 62 percent for local governments.<sup>14</sup> Figure 4 shows oil canon transfers for the region reaching approximately U.S. \$132.5 million through December 2011. Unlike mining, oil canon does not come from income taxes, but from royalties, which are a fixed percentage of the oil production value. The money is transferred monthly, making it susceptible to variations in oil prices.

12 Transparency Portal, Ministry of Economy and Finance, November 2011.

13 This is a problem even in the case of Cerro Verde, a company listed on the stock exchange and therefore publishes its financial statements and the amount it pays in taxes. For companies that are not listed, there is no way to know how much taxes they pay the State.

14 Transparency Portal, Ministry of Economy and Finance.

Figure 4:  
Piura's Canon Distributions  
(millions of U.S. dollars)



Though canon has grown, Piura still depends on the central government to make large-scale investments in its oil sector. While Peru's state-owned oil company, Petroperu, is investing in the region's processing plant, Piura's potential for oil refining or for exports remains limited until the plant is completed.

Piura's economy is generally less dependent on the extractive industry than Arequipa's, though further diversification is still a priority. Regional President Javier Atkins is trying to work with Piura's Chamber of Commerce to generate productive links with other sectors, like agriculture.

Civil society in Piura is strong and, for the most part, its relationship with regional authorities and oil and gas companies is good. Two major players are Centro de Investigación y Promoción del Campesinado (CIPCA), the project's local partner that specializes in governance strengthening, and Grupo de Gestión Estratégica del Desarrollo Regional (GEDER), a multi-stakeholder forum composed of civil society, public officials and members of the private sector who meet voluntarily to discuss the region's development.

Citizens feel oil production is important, but they also recognize that oil should contribute more significantly to regional development. "Talara, the oldest province to have wells in Piura, has running water for only three hours a day," said Maximiliano Ruiz, Piura's regional vice president and a long standing ally of the region's civil society.

In the Andean communities of Piura, social opposition to mining is strong, with much more conflict than in Arequipa. The Tambogrande mining project in particular has drawn criticism; in 2004, 94 percent of the local population voted against mining activities. The vote sent a clear message that the population would resist extractive activities in their community.<sup>15</sup>

15 Red Muqui, Observatorio de Conflictos. Piura: the case of the Tambogrande Project. Available at: [http://www.muqui.org/index.php?option=com\\_content&view=article&id=273:piura-caso-proyecto-tambogrande&catid=14:observatorio-de-conflictos&Itemid=16](http://www.muqui.org/index.php?option=com_content&view=article&id=273:piura-caso-proyecto-tambogrande&catid=14:observatorio-de-conflictos&Itemid=16)

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### The Regional Level:

#### Forecasting and Planning, Participatory Budgeting and Advocacy

RWI and its key partner, GPC, had significant impact in both Piura and Arequipa.

#### Forecasting

The project's clearest success is that officials in both regions can now accurately forecast the canon revenue they will receive from the central government. GPC created a methodology to predict medium-term (three-year) revenue forecasts. These are crucial for reducing the uncertainty that has hindered regional governments' planning and development efforts.

GPC first had the regional governments sign agreements allowing for technical assistance. Capacity building for public officials in the planning and budgeting offices was done through training that, over a period of several months, covered issues like accessing data sources and also practice in forecasting. An instructor GPC hired led training sessions in 2009. Then he and GPC staff members monitored and helped officials with "homework" by phone, e-mail or in person when new visits took place. Testimonies from public officials credit the close follow-up as a key to success.

One important aim of the capacity-building and technical assistance was to unravel the mystery behind the workings of the annual canon transfer. Understanding the variables and complex price scenarios used to calculate canon was greatly valued by the public officials involved in the project. They can now use the same information sources as the Ministry of Economy and Finance to calculate the prices of commodities, for example. "GPC has helped us to unveil the famous 'black box,' and now it's helping us to design a database for expenditure planning," said Miguel Ocharán, advisor to Arequipa's regional president.

In 2010, Arequipa officials used the methodology to make a 2011 forecast. Their estimate was less than 1 percent from the amount they actually received. This not only proved the methodology's effectiveness, but also gave it legitimacy in the eyes of regional government colleagues.

Forecasting also enabled regional governments to monitor the ministry's transfers. "In many regional governments, they are waiting for the ministry to tell them, 'You have this to spend, now shut up,'" said Arequipa official Elys Nina. "We have gone further, trying to see what we could comment on, dispute or agree on."

GPC's forecasting tool also empowered officials, like Samuel Godos of Piura's planning office: "Now we can propose budget modifications to finance projects coming from the participatory budget process. Forecasting allows us to know exactly what kind of projects we can present to the citizens in participatory budget processes, projects we know can be financed by canon resources."

#### Strengthening planning and management systems

GPC provided technical assistance to strengthen planning in two key areas: developing multi-annual investment plans and creating new planning structures. Given the new revenues they had to manage, regional officials needed new planning skills and a better institutional foundation to help them transform the money into concrete development.

For the investment plans developed every year, GPC created a methodology to identify and quantify the investment gaps that needed to be addressed in the regions' rural and urban areas. For the first time, the methodology brought together budgeting and planning by allowing regional officials to see, based on past investment data, which sectors to prioritize to achieve their targeted levels of development. Traditionally, these two tasks had been separated not only because of the institutional design of regional governments, but also because of officials' lack of technical skills.

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In Piura, the project helped design a proposal to create a new planning office, the Regional Center for Strategic Planning (Centro Regional de Planeamiento Estratégico, CERPLAN). It will lead long-term planning processes at the regional level and integrate them with local and national planning initiatives.

In Arequipa, the project helped officials advance institutional reforms that began in 2007, focused on strengthening decision-making. They created within the regional government tightly focused management offices, for sectors such as health and education, to integrate regional sector directors into decision-making processes. GPC provided assistance with consultations and reports for high-ranking officials to make this change sustainable.

### **Multi-stakeholder Participation in Budgeting**

In 2003, Peru enacted participatory budgeting, mandating all regional and local governments to give citizens decision-making power over the investment budget. Every year, public officials and representatives from civil society, grassroots organizations and the private sector come together to prioritize public spending in their localities. A small technical team evaluates the ideas and projects, and a final budget is developed. With increased revenues at their disposal, participatory budgeting helps ensure that spending matches citizens' development priorities. Unfortunately, there are few ways to enforce this mandate and make sure budgets are carried out as participants intended. Furthermore, the Ministry of Economy and Finance has increasingly limited the opportunities for participants to come up with new initiatives, leaving participants to choose between projects the ministry has already approved. To address these challenges, GPC aimed to strengthen and increase transparency in the participatory processes.

Participation processes played out quite differently in Arequipa and Piura. Arequipa's civil society is less cohesive and active, and the regional government is lukewarm about participatory budgeting, which it views as being captured by specific interest groups. Piura has a more vibrant civil society and a political elite that shows more enthusiasm for incorporating feedback from civil society. The RWI project therefore focused on different aspects of participation in each region. In Arequipa, the aim was to broaden civil society's involvement in participatory budgeting and help develop viable proposals to include in the budget. GPC also focused on strengthening the oversight committee, a group of civil society and government representatives responsible for monitoring the participatory budgeting process and assessing the government's compliance with citizens' priorities. GPC provided continuous technical assistance to its members through workshops as well as logistical support, like providing computers and spaces for meetings, which proved just as important. Thanks to this help, the committee published reports assessing the different stages of the participatory process and, later, the results and execution of approved projects.

In Piura, GPC strengthened the participatory budget oversight committee, providing both advice and funding that helped the committee publish oversight reports on the budget process. These reports received significant attention in the media and led to increased public debate about the regional government's performance. The project also intervened in another participatory process. In 2007, civil society, the business community and regional authorities together discussed long-term goals for the region. This work translated into a document known as the "Regional Agreement 2007–2021," the first of its kind in Peru. Piura partner CIPCA promoted an oversight commission to follow up on the objectives and disseminate information. The commission's reports were published by regional press, helping keep the agreement in the public eye, even during elections. This helped the regional government gain strength and made it morally binding for competing political parties to sign the agreement.

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### Advocacy Efforts

GPC helped regional governments advocate for reforms to the national legal and regulatory framework for oil, gas and mining. The most effective action, which brought together actors from both the regional and local levels, was the development of a fiscal decentralization proposal that led to the establishment of a national commission.

GPC-led research fed into the commission's proceedings, and GPC facilitated the participation of the National Association of Regional Governments (ANGR). The project's local partner, REMURPE, made sure that local-level concerns were also reflected in the proposal by consulting with public officials and mayors.

The key fiscal problem with budget allocations from the central to regional governments is that they are based on taxes and, in Peru today, the largest source of taxes is extractive industries. Though producing regions, such as Arequipa and Piura benefit from the current system, nonproducing regions do not.

The fiscal decentralization proposal aims to establish a fund made up of 25 percent of all taxes (not just income taxes, but sales tax as well) collected by regions and by the central government.<sup>16</sup> The fund will then be divided into five categories representing the top public policy priorities. From there, a formula will be created for calculating each region's allotment based on investment gaps in each of the five sectors and on population size. Formulas and indexes that are easy to calculate per sector will create predictability in the transfers.

Most of the 25 regions in the country will enjoy significant budget increases, especially those such as Cajamarca, Huancavelica, and Puno with disproportionate shares of people living in poverty. Canon and royalties are also included in the proposal, so producing regions do not lose these important income sources. In fact, the calculations suggest that producing regions will receive at least as much as they received in 2006. This is possible because regions produce so much that even when the money they generate has to be divided more equitably, every region gets its fair share.

The fiscal decentralization proposal has been intensely debated and continues to be important as the newly elected central government searches for solutions to respond to disparities across regions. The fact that the national government showed interest in the proposal strengthens the position of ANGR and REMURPE as legitimate subnational representatives, capable of putting forward workable solutions and negotiating with the central government.

#### KEY IMPACTS AT THE REGIONAL LEVEL

- Officials in both regions are now using the tool to forecast future canon revenues. In 2010, Arequipa's government officials carried out 2011 forecasts using the methodology, and their estimate was less than 1 percent different the amount they actually received.
- Planning systems were strengthened in both regions by calculating investment gaps in urban and rural areas. Planning priorities were emphasized by pointing out problems that can be addressed with better public expenditures. This adds predictability to the planning system since investment gaps, once calculated, will not vary drastically year to year.

<sup>16</sup> Based on figures for 2007 this amount is about US\$ 4.9 million, according to information from the report. 'La descentralización fiscal en el Perú: situación actual y propuesta de coparticipación tributaria', March 2009, National Assembly of Regional Governments (Asamblea Nacional de Gobiernos Regionales – ANGR).



- Oversight committees within the participatory budgeting process were strengthened, enabling them to undertake more citizen oversight and draft concrete reports about the government’s performance.
- Advocacy focused specifically on promoting a fiscal decentralization proposal to the central government. This is the only proposal of its kind offering methodology and estimated figures of its impact. Building upon the proposal brought together officials from the Ministry of Economy and Finance with regional and local actors for the first time. Ultimately, it strengthened the position of both ANGR and REMURPE as regional representatives with technical expertise.

**The Local Level:**

**Participatory Planning, Citizen Oversight and Institutional Coordination**

RWI’s main partner at the local level, REMURPE, managed a number of initiatives designed to help local governments more effectively manage their resource wealth. As at the regional level, local partners focused on strengthening the governments’ planning processes and citizen oversight. They also took advantage of a feature unique to Peru—inter-municipal administrative units—to strengthen coordination and joint management efforts.



Figure 5:  
Map of Piura’s Sechura province  
and the mancomunidades of  
Andino Central and Alto Piura

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Officials in both Piura and Arequipa can now accurately forecast the canon revenue they will receive from the central government.

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### **Multi-stakeholder Planning Processes**

REMURPE worked closely with the local government of Sechura, a province in Piura that receives oil and mining revenues. REMURPE offered technical assistance to local officials and civil society to create a consensus-based development plan (CDP) for the province.<sup>17</sup> It organized workshops in all of the seven districts and in the city of Piura to work on drafting the CDP. The final draft stressed the importance of the rational use of natural resources and expressed concern that people with mid- and high-level education are needed to handle extractive activities even though 11 percent of Sechura's population lacks formal education and only 2 percent have completed college.<sup>18</sup> The CDP creates an important foundation for the next steps, such as integrating local content into a broader economic diversification plan or reconciling the conflict between drilling for oil extraction and the viability of local fisheries.

### **Strengthening Civil Society Oversight**

The project built civil society's capacity to help members understand how oil and mining affects their everyday lives. REMURPE organized workshops on critical issues about the extractive sector and maritime ecological systems, and participants identified tensions between fisheries and the extractive sector.

REMURPE also focused on strengthening civil society's ability to respond to extractive industry challenges. One specific positive outcome was the thorough review of the environmental impact study of the Savia Co., one of the most important oil and gas companies in Peru.<sup>19</sup> The study covered new drillings and gas pipelines, which the company proposed to set up in an offshore area declared a national park. REMURPE's review informed civil society about the potential negative impacts on fishing. "The study and the conclusions by REMURPE made people realize the risks that a spill could cause," said Juan Manuel Antón, a municipal official.

The civil society group, Defense Front of the Bay of Sechura, used the review as evidence of the pollution threat that gas pipelines could pose for marine life. The project was scheduled to begin in early 2011, but it remains paralyzed because of the community's opposition. There has been dialogue between the company and the Defense Front. An agreement is expected soon.

### **Building Skills of Local Officials**

Remurpi, the regional branch of REMURPE, provided training to the provincial municipality of Sechura to improve public officials' technical skills and educate them on subjects ranging from IT use to municipal legislation. "There are no universities in Piura or even in Lima that can teach something like this . . . which includes both theoretical information and case studies," said José Vite, a municipality official.

Capacity building in taxation also proved effective when the municipality of Sechura made Petroperu, the national oil company, pay an old debt to the municipality for use of its territory, after Remurpi analyzed company tax obligations.

### **Inter-municipal coordination**

*Mancomunidades* are voluntary associations of municipalities that coordinate projects, including development activities funded by extractive revenues. Joining forces allows municipalities to learn from each other's experience, attract funds for cross-border projects, and share project costs.

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17 Available on: <http://www.munisechura.gob.pe/dgestion/PDC2011.pdf>

18 From the CDP of the province of Sechura, 2010-2020.

19 According to the Ministry of Energy and Mining in February 2012, Savia is the third largest oil producer in the country, with 8.5 percent of the total production from block Z-2B in Piura. Information available <http://www.minem.gob.pe/minem/archivos/Produccion%20Fiscalizada%20de%20Petroleo.pdf>

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A mancomunidad can be formed by districts within one province or districts adjacent to each other in two or more provinces. REMURPE worked closely with two mancomunidades, Andino Central and Alto Piura, each made up of six districts, in the eastern part of the Piura region where the Andes start to rise.

Mancomunidades had difficulty gaining legal status. Peru's legal framework required them to be private associations, unable to spend public funds. During project implementation, concerted advocacy by local government associations, including REMURPE, led a changes allowing mancomunidades to be public entities with authority to use government funds. Remurpi provided close, hands-on support to draft the technical documents needed and successfully obtained their recognition by the central government.

According to Manuel Hidalgo, former coordinator of the project's activities in REMURPE, a key factor in the mancomunidades' success was civil society's involvement. "We realized that authorities and staff could come and go, but local civil society stays. This was a grassroots experience, where mancomunidades said to the central government, 'Hey, I want to be useful, give me the right legal framework!' and eventually the government did." The project's creation of discussion spaces for local government and civil society in every district of the mancomunidades as well as in Piura was key to this success.

### KEY IMPACTS AT THE LOCAL LEVEL

- In the province of Sechura, project partners helped generate agreement on the need to better assess the extractive sector's impacts and its links to other economic sectors.
- Remurpe strengthened civil society's knowledge and oversight of extractive activities.
- Project support facilitated an important advocacy win, securing a change in the legal framework that makes it easier for groups of localities to form legal associations, called mancomunidades. This motion enhanced government coordination and local planning for effective use of extractive rents.

### Lessons Learned

A critical factor in the success of the canon forecasting methodology was that the process involved intensive hands-on technical assistance and follow-up rather than just a series of workshops. Regional officials in Arequipa and Piura valued the continuous presence and support of GPC and were able to apply newly gained knowledge to their work under the guidance of GPC's mentors.

GPC maintained a close relationship with regional officials, including presidential advisors and the presidents themselves. This high-level political engagement made it easier to mobilize governmental staff. RWI and GPC's technical expertise helped maintain the interest of high-level officials. As GPC officials remarked, the training on forecasting functioned better when these leaders were considered an important part of the project.

When regional administrations change after elections—as was the case during the project—key actors are likely to change, which brings significant challenges for sustaining impacts. To support the government transition in Piura, RWI organized activities like workshops with incoming management teams to identify the challenges they would face, an analysis on the regional budget and its components, and a discussion of Regional President Javier Atkins' priorities during his term. These extra efforts helped establish trust with the current regional president's administration.

Public officials, especially at the local level, need comprehensive advice and support in areas outside resource governance, such as the use of IT and information systems. General institutional strengthening puts them in a better position to absorb technical advice related to resource management.

Advocacy at the national level is more likely to succeed when civil society creates a broad platform of credible and representative actors, such as ANGR and REMURPE, to support a solid plan or proposal, as in the case of the fiscal decentralization proposal. RWI played a pivotal role in bringing these institutions together. Unfortunately, in 2010 the government shifted priorities, and a new cabinet in the final year of President Alan García's term became "more closed to dialogue."<sup>20</sup> In 2011 with a new president, Ollanta Humala, in office, the proposal was presented to the secretary of decentralization, but his departure from office left the process at a standstill.

The institutional knowledge of partner organizations should be seen as a factor for success. In addition to GPC's and REMURPE's experience, CIPCA, the regional ally in Piura, had expertise in institutional strengthening, which helped the project achieve key successes.

During election campaigns, local institutions such as GPC and REMURPE find it difficult to provide technical assistance to public officials. In such periods, technical assistance projects should focus on civil society leaders and citizens to build consensus not only on the needs and objectives of the project, but also help civil society turn those objectives into concrete demands they can make of candidates.

Throughout the project, RWI was proactive in suggesting areas of technical assistance for subnational governments. Taking the time to sell the idea to subnational authorities and the organizations responsible for carrying it out is crucial to setting a clear direction. Interventions exclusively focused on governments' requests for capacity building may not be able to provide this strategic guidance. While being able to respond to the particular needs of subnational governments is important, the RWI approach gave substance and a sense of direction to the intervention.



GPC meeting with regional government officials from Piura and Arequipa to discuss regional plans and budgets, 2010

20 GPC report to RWI for the first quarter of 2011. GPC's V narrative report, 2010.

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### Sustainability: What does the future hold?

What can and is happening now to sustain the project's impacts?

Forecasting's power to influence planning is clear in both regions, but will the tools still be used after the project ends? In Piura, GPC has already committed to help the regional government with its regional development plan.<sup>21</sup> By doing so, it helps ensure that officials trained in canon forecasting participate in this process and that forecasting is done regularly to provide inputs for the plan, which will remain in effect until 2014.

GPC is also expected to continue to assist with planning efforts in Piura. According to Regional President Maximiliano Ruiz, the government is likely to request GPC participation in setting up the planning office.

The next step will be to devise specific tools for promoting local content at the regional and local levels. In Sechura, the CDP went only as far as to suggest that small companies should be better prepared to deal with extractive needs, but developing concrete projects is a pending task.

In Arequipa, the regional president was elected to a second term, and he, his advisors and the chiefs of the planning and budgeting office are already familiar with the project's technical assistance, like the forecasting methodology. This may expand the basis for capacity building in new areas, such as the strengthening of control and accountability of public expenditure within the regional government.

In terms of political advocacy, ANGR is considered the most important platform for proposing changes at the national level and is expected to continue pushing for decentralization reform. REMURPE's reputation as a significant actor at the local level has been especially important for ongoing developments in Sechura. National assemblies that REMURPE hosts, like the Conferencia Annual de Municipalidades Rurales (CAMUR), bring together municipal representatives from all over the country. Representatives who took part in the project now know about the issues they should to bring to the table, thereby emphasizing the importance of the extractive sector at the local level.

The most important next step will be taking advantage of the regions' interest in using the extractive industries to diversify local economies – creating local demand for goods and services, thus spurring local growth. Arequipa's public officials are committed to diversifying the regional economy. In Piura, economic diversity is even more important, given the importance organic agriculture has gained and the long-established presence of the fishing industry.

The project's impacts show that subnational interventions can empower public officials and civil society to better respond to the challenges posed by extractive industries. At least six other regional governments have expressed interest in the project's methodology and activities. GPC will soon begin providing technical assistance to two more regions in Peru: Junín in the Andes and, Loreto in the Amazon.

Though the central government is still trying to consolidate its position and often responds defensively to extractive industry reform initiatives, the experience from the project proves that much can be done at the subnational level to ensure extractive activities truly lead to sustainable development.

<sup>21</sup> All regions and local governments must complete development plans, and they must do so by engaging in a multi-stakeholder participatory process.



## Case Study



The Revenue Watch Institute promotes the effective, transparent and accountable management of oil, gas and mineral resources for the public good. Through capacity building, technical assistance, research, funding and advocacy, we help countries to realize the development benefits of their natural resource wealth.

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