1 PERU'S FRAGILE DEMOCRACY

IN LATE 2000 and early 2001, Peru faced a political crisis. The former president, Alberto Fujimori, had fled the country in disgrace and faxed his resignation to Congress after evidence surfaced that he and his chief of security had bribed legislators, judges, and the media. Congress rejected his resignation and then ousted him, calling him "unfit" to govern the country. Allegations of corruption and human rights violations by party politicians dominated the headlines. The international media followed the crisis closely, noting that videos of the corruption "scandalized" the country and calling Peru "crisis-ridden" later that year.[1]

After Fujimori left, Peruvians were extremely dissatisfied with their political system. Congress and the judiciary struggled to regain legitimacy and autonomy after ten years of authoritarian rule. Many argued that the future of democracy in Peru partly rested on its ability to decentralize its highly centralized government and incorporate new actors into decision-making processes. Peruvians were not alone. Their neighbors in Ecuador and Bolivia were also clamoring for change. Farther away in Africa, Asia, and Eastern Europe, citizens of the Philippines, the former Yugoslavia, Haiti, and Tanzania were calling for the end of politics as usual. Representative political institutions no longer met the demands of citizens who wanted their voices to finally be heard.

In Peru, a newly elected government decided to meet the crisis head-on. Influenced by participatory models of governance, such as the experience with participatory budgets in areas of Brazil, local councils in the Philippines, and town hall meetings in the United States, the newly empowered political elite designed a comprehensive decentralization[2] reform that explicitly mixes representative and participatory democratic institutions. As one Peruvian congressman stated during Congressional debates:

> This proposal defends participatory democracy within the regional governments by establishing an adequate *combination* of representative democracy by those who have been elected and participatory democracy with the presence of civil society (December 17, 2002; italics mine).

By 2002, the reform—an example of what I call "participatory decentralization reforms," or PDRs—had been finalized.

Peru's PDR restructures the state in several ways. In addition to empowering several levels of new governments—including regions (akin to states in the United States), provinces (akin to counties), and municipalities (akin to cities)—the reform also creates new ways for civil society[3] to participate formally in regional and local decision-making processes. As such, it is one of the most ambitious examples of a participatory decentralization reform in recent history.

Peruvians designed and implemented several new participatory institutions (PIs)[4] at the regional and local level. These institutions are also starting to appear around the world. As Brian Wampler (2007a, 57–58) writes, "directly incorporating citizens into participatory decision-making venues has been a central feature of institutional innovations in Brazil, South Africa, Spain, Venezuela, Indonesia, and other new democracies over the past two decades."

This book focuses on two PIs in the newly created regions: (1) a mandatory participatory budgeting process, in which civil society actors participate in regional budget planning;[5] and (2) Regional Coordination Councils (Consejos de Coordinación Regional, or CCRs), which bring together mayors and elected civil society representatives twice a year to discuss development plans and budgets. These new participatory institutions are considered by some to be the real success stories of the reform (PRODES 2007a, 2009).

THE ARGUMENT

The Peruvian experience presents a multilayered story about why countries decentralize, why particular designs are chosen, and the constraints that these designs put into place. It also demonstrates the power that local factors can have in overcoming these constraints once the reform starts to be implemented around the country. The book begins by addressing national-level design issues. Specifically, Part 2 tackles three questions:

1. What explains national policy-makers' decision to devolve power to regional governmental and societal actors through constitutional reform?
2. What factors help us understand the particular design of the participatory institutions?
3. How does this design then condition the implementation of the reform?

The analysis highlights the important role that electoral strategies and domestic politics play in the origin and outcome of PDRs. In answering the first question, I argue that the post-Fujimori democratization process provided the right context, or opportunity structure, for this kind of reform. A window of opportunity opened for reform-minded agents. National politicians, specifically presidential candidates, then made strategic electoral calculations to push through a constitutional decentralization reform very quickly after Fujimori fled the country. Thus, the case suggests that in countries like Peru, with weak political parties and few subnational political elites, strategic calculations by national political elites explain the decision to decentralize.

What led these same reformers to embrace participation in the early phases of the reform? Again, the return to democratic rule provided the opportunity structure. Three additional factors combine to help us understand the emergence of a PDR in this case: (1) experiences with corporate structures in the 1970s and 1980s; (2) the experiences of some participatory planning processes in a few localities in Peru during the 1980s and 1990s, some of which implemented by these very reformers; and, in the case of the participatory budget, (3) institutional relations between the Ministry of Economy and Finance and Congress.

Debates in Congress also help us understand the specific PI designs that emerged during the reform process. Congressional debate surrounding the PIs became politically charged at times, especially as regional elections approached. When debating the CCR design, a group of politicians intervened to grant civil society voice but no vote. Some resisted granting civil society more power for ideological reasons; others worried that the CCRs might grant too much power to potential competitors in the regions. The participatory budget, however, was viewed widely as a technical process and never seen as potentially threatening the power of elected officials. As a result, civil society retained voice *and* vote. The analysis demonstrates the power that political strategies—motivated by both ideology and the fear of losing power—have when undertaking specific PI design issues.

When we explore the outcomes of the PIs, we see that design does matter. A national-level analysis of the participatory budget shows that it has emerged in most cases as an institution with the potential to help democratize Peru and increase participation. In contrast, the CCRs are weak and ineffective in most regions of the country. Thus, to understand PDR outcomes we first need to look at the genesis and evolution of the design. Politics affect design, and design affects outcomes.

Part 3 of the book explores the implementation of the reform in more detail. It asks two additional questions: (1) How are the newly created participatory institutions unfolding in six of Peru's new regional governments? (2) What factors contribute to the successful implementation of participatory institutions in these cases?

When we look more closely, we see that some regions have overcome design constraints and are implementing the participatory institutions better than others. In some regions, the CCRs are actually emerging as a dynamic and innovative space for collaboration between civil society and the state. In other regions, governments are restricting participation in or manipulating the budget process to fund their own projects. Using data from six regions of Peru, this book explores the factors that allow these more successful regions to overcome design constraints or avoid legal requirements when implementing these new institutions. I argue that in the most successful cases, two regional factors—leadership and a collaborative and organized civil society—create a virtuous cycle of participation that leads to the successful implementation of the CCRs and the participatory budget.

Analyzing the Peru case both confirms previous research and adds new findings and research debates to scholarship on decentralization. Studying Peru's experience builds our knowledge of the strengths and limitations of decentralization generally and of participatory decentralization reforms more specifically. This book's extensive data on regional politics in Peru—a level of government often overlooked in most existing studies about participatory institutions—moves the discussion beyond conventional wisdom in several ways. It demonstrates that not only leftist leaders implement these institutions; rather, politicians from the entire political spectrum use these institutions to improve their image and expand their electoral base. Further, although it is true that successful institutions necessitate some level of cooperation and coordination within the regional civil society, this cooperation and organization can be relatively new. This finding goes against some arguments about social capital that suggest that the benefits of organizing can only be seen after long periods of time.

This book also provides useful information about the successful implementation of participatory institutions in general—whether part of a decentralization package or not. Similar innovations exist in several other Latin American countries (for example, Guatemala, Mexico, the Dominican Republic, and Brazil) and around the world (for example, France, Spain, and Canada). Neighborhoods in Los Angeles, Chicago, and Philadelphia are experimenting with new ways of involving citizens in decision-making at the local level. The 2009 military coup in Honduras took place in part as a response to the desire to implement participatory democracy in this small Central American country. We will surely see a rise in these efforts in more countries around the world as participatory models of governance are seen as potential solutions to the problems with representative democratic institutions. In many ways, this study helps us understand the conditions that will increase the chances for success for the institutions that emerge from these efforts.

These issues are important to policy-makers and international development organizations, such as the United States Agency for International Development (USAID), the World Bank, and the Inter-American Development Bank. USAID is actively supporting Peru's decentralization efforts—and similar efforts around the world—through several projects. Similarly, multilateral development banks spend billions of dollars promoting decentralization reforms around the world. According to the World Bank's website, from 1997 to 2003 more than 190 projects, totaling more than 2.5 billion dollars, had decentralization components (World Bank "Bank Projects"). Donors tend to assume that decentralization improves democracy and governance and that participatory institutions will ensure accountability and transparency in the developing world. Yet, more data are needed to assess this assumption. The conclusion of this book provides policy recommendations that can help strengthen similar experiments in other parts of the world.

PARTICIPATORY DECENTRALIZATION REFORMS

How is a participatory decentralization reform differentiated from other reforms that devolve power to subnational governments? In many ways they are part and parcel of the wave of decentralization reforms taking place around the world. However, two necessary dimensions characterize PDRs: decentralization *and* mandated participation. Reformers must devolve new powers to subnational levels of government and mandate new forms of citizen participation in these governments. Reformers generally design new institutions to channel citizen participation and give citizens decision-making power in governmental processes. In other words, these reforms find new ways to give both voice *and* vote in subnational decision-making processes to societal actors.[6]

There are several similar cases of this kind of reform. In Bolivia, reformers coupled decentralization with efforts to increase civil society's participation. The Popular Participation Law, passed in 1994, grants formal power to "territorial base organizations," including indigenous, *campesino*, and neighborhood groups, and assigns them important functions in municipal government processes. Additionally, representatives of these organizations form oversight committees to monitor and control the use of local funds.[7] Another effort took place in the Philippines, where the government formally institutionalized the participation of civil society organizations (CSOs) at the local level as part of its 1991 local government reform. Accredited organizations participate in development councils, work on councils that set up local contracts and bids, deliver social services, and manage local projects (Angeles and Magno 2004). Other cases of PDRs include the Dominican Republic, Nicaragua, South Africa, and Uganda.[8] By including both participatory budgets and coordination councils (as well as other PIs that are not studied in this book), Peru has passed one of the most ambitious examples to date of a PDR.

PDRs, therefore, represent one kind of decentralization. Their key features are top-down, mandated participation in subnational governments as part of a legal framework. The newly empowered governments are required to implement the PIs. These cases can be distinguished from cases where innovative new forms of participation emerged after a decentralization reform, such as the participatory budget in Brazil and in municipalities around Mexico. The Brazilian and Mexican experiences stemmed from grass-roots local innovations that encourage citizen participation *after* a reform.[9] PDRs set up these channels as part of the actual reform package.

This innovative policy mix is heavily influenced by democratic theories that stress direct, or participatory, democracy. Inspired by the thought of political philosophers such as Jean-Jacques Rousseau and James Harrington, several political theorists have pointed to the need for citizen participation beyond elections.[10] They argue that a country can hold competitive elections, but citizens may still not adequately participate in the system (Avritzer 2002; Barber 1984; O'Donnell 1994). Scholars, activists, and policy-makers, especially since the 1970s, have come forth to call for complementary strategies: implementing participatory approaches to complement and strengthen representative institutions. Binding decision-making power is devolved to these new actors through institutions that formalize society's participation.

However, the Peru case demonstrates that mandated participation, when stemming from top-down national political forces, does not always translate to meaningful citizen participation in practice. It is no surprise to those who study the developing world that laws are not always implemented as intended after passage. Thus, in many countries these new forms of participation are working well in some areas of the country, yet barely functioning in others. Decisions to design and pass PDRs as well as their implementation are the main topics of this book.

LAYING THE GROUNDWORK

This book contributes to two major strands of theoretical analysis: the extant literature that explores the decision-making process that leads to decentralization reforms, as well as an emerging body of literature on participatory institutions.

Decentralization Reforms

There is an extensive debate, going back to the early 1990s, that explores the puzzling decision to design a reform that empowers new levels of government (and, as a result, new political elites).[11] This decision is counter-intuitive because national politicians devolve power to their subnational political counterparts—counterparts that could eventually emerge as competitors. When examining this issue, early literature tended to stress three variables as explaining the reforms: (1) international pressures, such as pressure by donors and/or foreign investors (Doner and Hershberg 1996; Fox 1992; IDB 1997; Wong-Gonzalez 1992); (2) economic crisis and/or reform (Bresser Pereira 1993; Manor 1999; Rondinelli 1989); and (3) socioeconomic development or modernization, measured in light of economic growth and urbanization (Bahl and Linn 1986; Campbell 2003).

A second wave of studies convincingly shows that these variables do not explain the majority of cases.[12] For example, in terms of donor pressure, Montero and Samuels (2004, 17) note that "[d]ecentralization emerged as a major theme in the [international donors'] discourse in the region only *after* [italics in original] 1988 . . . well after political, fiscal, and administrative decentralization were under way [in many countries]." Sabatini (2003) correctly argues that international support probably reinforced these trends, but did not cause them.

Socioeconomic factors do not always lead to decentralization either. Alfred Montero and David Samuels bring this point home when writing, "quite simply, both developmentalist and neoliberal governments have historically decentralized *and* recentralized" (2004, 14; italics in original). As O'Neill (2004) points out, in Bolivia there is no relationship between decentralization and the fiscal deficits associated with Latin America's economic situation. Eaton and Dickovick (2004) show that in Argentina the government actually began to recentralize power to promote economic stability in the 1990s. Finally, Escobar-Lemmon's research on decisions to decentralize shows that "urbanization did not have a statistically significant effect on the level of fiscal decentralization" (2001, 30). Thus, the extant literature on this issue shows that economic crisis, reform, and development do not hold explanatory power.

Another set of findings points to decentralization as a result of the wave of democratization that has taken place around the world (Bird and Vaillancourt 1998; Nickson 1995). However, it is difficult to demonstrate a causal relationship between democracy and decentralization. In a seventeen-country statistical analysis of the motivations behind decentralization in Latin America, Escobar-Lemmon (2001) finds that this relationship is not statistically significant. Eaton's comparative historical analysis shows that "there is no simple or straightforward relationship connecting regime change with either decentralization or re-centralization" (2004a, 16). His research on Chile (2004a and 2004b), for example, documents how decentralization took place during Pinochet's dictatorship.[13] Oxhorn argues that decentralization contributed to Mexico's democratization process, noting that although decentralization and democratization are "intimately intertwined," they are not necessarily causally related (2004, 3). Rather, as David Samuels (2004, 67) cautions, we must "explore the particulars of every country's transition to understand why politicians decentralized" in a given situation.

More recently, a consensus has emerged that domestic political variables help us understand this counter-intuitive decision. Willis, Garman, and Haggard's (1999) important study first came out to argue that domestic political variables best explain the scope and pace of decentralization in Latin America. Based on research on Brazil, Venezuela, Argentina, Colombia, and Mexico, they argue that decentralization has a "discernable political logic that has important consequences for the success or failure of [these] efforts" (Willis, Garman, and Haggard 1999, 8). They go on to argue that bargaining between subnational and national political elites often explains these reforms.

Recent studies by Escobar-Lemmon (2003), Eaton (2004a), Montero and Samuels (2004), O'Neill (2004), and Selee and Tulchin (2004) have further developed this argument with additional evidence from Bolivia, Brazil, Mexico, Colombia, Argentina, Guatemala, and Venezuela. Although acknowledging that processes are complex, Montero and Samuels (2004, 20) argue that "incentives of politicians at all levels of government and the resulting relationships between national and subnational politicians" often help us understand the decision to decentralize. They focus on national and subnational political elites, mostly affiliated with political parties, making strategic calculations about the electoral benefits of decentralizing.

Although the literature about why countries decentralize is relatively extensive and a consensus regarding the importance of domestic political aspects has emerged, two issues remain under-theorized. First, existing studies tend to privilege partisan or elite political dynamics between national and subnational actors. It is not clear how these dynamics play out in countries with weak political parties and/or few subnational elites. In some cases, subnational elites are not strong and cannot participate in bargaining processes. In other cases, there is no competitive party system or the political parties are quite weak. For example, Chile decentralized in an environment with few subnational political elites and a noncompetitive party system. In this case, conflicts and debates about decentralization tended to take place at the national level (Eaton 2004a and 2004b). Because subnational politicians were relatively "unimportant within their parties," national political calculations guided the decentralization process (Eaton 2004a, 197).

This book expands this analysis to another case with weak parties and few subnational elites: Peru. As the discussion of Peruvian politics will demonstrate, Peru represents a case with both few subnational political elites and weak political parties. What variables should we explore when trying to understand decentralization in a case like this? Do national political strategies explain outcomes? This book explores this question in more detail.

A second under-studied issue is the strategic decision-making process that leads to a *participatory* decentralization reform. Although scholars agree that the decision to decentralize is puzzling, I argue that the decision to design a PDR is even more so. In these cases, politicians not only devolve power to political counterparts, but also to societal actors such as nongovernmental organizations (NGOs), labor unions, community groups, and business associations. These groups are less understood and less predictable. They operate on a variety of different logics. Yet, they have been given formal power in subnational decision-making in Peru. What explains this decision? There is a dearth of research on this issue.

Only recently have scholars begun to address the issue of participation as a necessary component of decentralization. Specifically, there is a small but important body of literature that stresses the need for participatory institutions to ensure the success of decentralization reforms. To understand this argument, it is important to remember that for years it was assumed that decentralizing the state would improve democratic governance. These assumptions flow from Tocqueville's arguments about the importance of local governments in the American democratic experiment. Tocqueville's thought has influenced generations of scholars, who argue that local governments are more efficient and effective. Fiscal federalists[14] and research by scholars such as John Ackerman (2004), Harry Blair (2000), and Jeff Hunther and Anwar Shah (1998) demonstrate that local government can be more effective and responsive to citizens.

Skeptics, however, counter that Tocqueville and his followers may be overly optimistic. Often, those who support decentralization qualify their findings (for example, Grindle 2000). Other scholars and policy-makers have increasingly uncovered a series of *negative* effects of decentralization reforms, such as increased rent seeking and inefficiency (Bardhan and Mookherjee 1998, 2002; Oxhorn 2004), higher levels of corruption at the local level (Warner 2003), and a weakening of political parties (Sabatini 2003). As George Peterson (1997, 1) notes for the World Bank,

> [D]ecentralization does not guarantee that local governments will listen to the voices of ordinary citizens. . . . Decentralization created an opportunity for greater citizen control in governance, but other reforms must occur simultaneously if this opportunity is to be realized.

To mitigate these mixed results, a new wave of studies has come forth to argue that reformers should both decentralize *and* institute means of increasing participation in order to improve democratic governance. As Cheema (2007, 174) notes in his review of experiences in devolving power (one aspect of decentralization),

> Both supporters and opponents of devolution agree that without adequate mechanisms for accountability and for combating corruption at the local level, devolution could lead to inefficiencies, misuse of resources, and loss of citizens' trust in the local political process.

Several countries, including Peru, are setting up participatory institutions in order to prevent these problems.

Two studies demonstrate the importance of participatory institutions in newly decentralized states. In their study of India, Bangladesh, Ghana, and Côte d'Ivoire, Crook and Manor (1998) explore government performance after decentralization reforms. They find that although citizen participation increased in all cases after a reform, government performance varied. Governments performed better where they enacted specific initiatives to increase participation. They find that "increased participation had a positive impact on the performance of decentralized institutions" (Crook and Manor 1998, 21). Dele Olowu and James Wunsch's (2004) work on seven African countries (South Africa, Botswana, Nigeria, Uganda, Ghana, Chad, and Kenya) puts forth similar conclusions. Their volume, which compares experiences with "democratic decentralization" in Africa, finds that two factors that facilitate strengthened democracy after decentralization are having effective local institutions that allow for collective action and having open and accountable political processes at the local level (Olowu and Wunsch 2004, 238–9). Participatory institutions could be one way of ensuring both.

Reformers seem to be listening to this argument and we are starting to witness an increase in participatory decentralization reforms around the world. Yet, there is very little scholarship on this particular type of reform. Several questions are left unresolved, such as: What is the best reform design? How effective are these reforms? When do they work well and when do they fail? Although this book cannot answer all of these questions, it does examine why national politicians stress participation in this reform as well as the factors that facilitate successful implementation.

Participatory Institutions

A small but growing body of literature—the second that this analysis complements—on participatory institutions does provide a useful starting point when looking at implementation issues. Several scholars have found that PIs can affect participation and democracy at the local level. For example, Rebecca

Abers's (2000) work on the participatory budget in Brazil has found that this experience has, in fact, empowered previously marginalized citizens, such as the poor and women. Her scholarship supports findings about New England's town hall meetings, such as Frank Bryan's (2004) ethnographic study of more than 1,500 meetings, which argues that these institutions do in fact foster democracy. Building on this work, several scholars have documented additional positive effects of participatory institutions, such as increased social spending in poor neighborhoods (Bruce 2004), increased associational activity at the local level (Baiocchi 2005; Bruce 2004), reduced clientelistic relations (Wampler and Avritzer 2004), engaged disempowered citizens such as women and the poor (Nylen 2003), increased participation over time (Bruce 2004), improved service delivery (Wagle and Shah 2003), and changed political culture (Baiocchi 2003, 2005; Bruce 2004; Nylen 2003; Wampler 2007a). Yet, as Brian Wampler (2007b) argues, many of these effects are contingent upon the successful functioning of the institutions.

In reality, not all PIs function well, and in many cases, these institutions have been implemented with varying degrees of success. Existing studies of PIs in Brazil and Bolivia have documented this variation (see Avritzer 2009; Goldfrank 2007b, forthcoming; Van Cott 2008; Wampler 2007a). The growing literature on PIs and governmental effectiveness points to at least five explanatory factors that could help us understand this variation.[15]

First, we might look to economic factors. The importance of this variable is brought to light by Benjamin Goldfrank's (2007a) comparative study of three cities (Montevideo, Uruguay; Porto Alegre, Brazil; and Caracas, Venezuela) that set up participatory budgets after a decentralization reform took place. In these cases, the degree of decentralization of resources and authority, measured partly as per capita municipal budget, explains why some cases worked better than others. In Peru, although the participatory budgets and CCRs were mandated as part of the decentralization reform, the amounts of the regional budgets do vary. Thus, we should explore whether richer regions are more participatory.

A second and related variable that emerges as potentially important to explore is the institutional capacity of the government. Do governments that function better implement better PIs? Although this variable rarely is discussed explicitly in the literature on PI experiences, it is worth considering due to the increased emphasis on institutions in political analysis. I explore this variable in light of how well regional governments spend their budgets.