

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME**

Local currency - **Peruvian Nuevo Sol (PEN)**

### POPULATION AND GEOGRAPHY

AREA: **1 285 220 km<sup>2</sup>**

POPULATION: **30.973** million inhabitants (2014),  
an increase of 1.3% per year (2010-14)

DENSITY: **24** inhabitants/km<sup>2</sup>

URBAN POPULATION: **78.3%** of national population

CAPITAL CITY: **Lima** (31.6% of national population)

Sources: OECD, World Bank, UNDP, ILO.

### ECONOMIC DATA

GDP: **371.3** billion (current PPP international dollars)  
i.e. 11 989 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.4%** (2014 vs 2013)

UNEMPLOYMENT RATE: **3.3%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **7 885** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **26%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.734** (high), **rank 84**

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
<b>1 866</b> <b>1 671 DISTRICT MUNICIPALITIES</b> <b>(MUNICIPALIDADES DISTRITALES) AND</b> <b>195 PROVINCIAL MUNICIPALITIES*</b> <b>(MUNICIPALIDADES PROVINCIALES)</b> AVERAGE MUNICIPAL SIZE: <b>18 535 INHABITANTS</b>	-	<b>25</b> <b>24 REGIONS (DEPARTAMENTOS)</b> <b>AND THE CONSTITUTIONAL</b> <b>PROVINCE OF CALLAO</b>	<b>1 891</b>

\*Excluding the Constitutional Province of Callao

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Peru has a two-tier subnational system of SNG. The regional level includes 24 departments set as regional governments in 2012 with elected representatives as well as the Constitutional Province of Callao which has the status of a department. The municipal level comprises two sub-levels: provincial municipalities at the upper level and districts municipalities at the lower level. These two municipal levels are independent; however, provincial municipalities have a co-ordination role across district municipalities within the province. The central government passed a law on Municipal Amalgamation in 2007 encouraging the consolidation of districts through fiscal incentives but districts did not make use of it. A referendum on departmental mergers took place in 2005 which led to the rejection of the proposal (the programmed 2009 and 2013 referenda were postponed indefinitely).

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** SNG competences are determined by the 2002 Basic Law of Decentralisation (*Ley de Bases de la Descentralización*) which established a distinction between exclusive, shared and delegated competences. The Basic Law was followed by organic laws for each level providing more details but resulting in overlaps across all levels of government. Regional competences include education (preschool, primary, secondary, and higher non-university education), public health, environmental, forest and biodiversity protection, promotion of employment, support to economic and productive activities and SMEs, land-use planning, tourism, culture and citizen participation (shared or delegated). Provincial and district municipalities have the same responsibilities. However, in addition, provincial municipalities have several other service responsibilities that extend to the district municipalities within provincial boundaries. Municipal competences include urban and rural development, regulation of land zoning, housing and urban renovation (exclusive), public safety, education, public transport and urban transit, environmental protection, culture and recreation, tourism, public health, management of social programs, waste (shared).

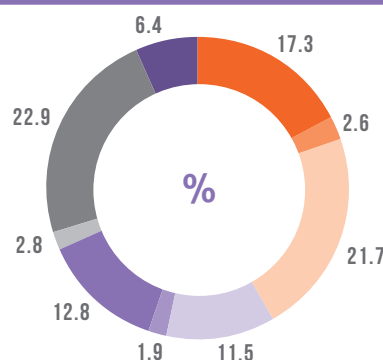
## SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
<b>TOTAL EXPENDITURE (2013)</b>	<b>8.6%</b>	<b>41.9%</b>	<b>100%</b>
<b>CURRENT EXPENDITURE</b>	<b>4.6%</b>	<b>-</b>	<b>53.5%</b>
<b>STAFF EXPENDITURE</b>	<b>2.2%</b>	<b>42.4%</b>	<b>25.4%</b>
<b>INVESTMENT</b>	<b>3.9%</b>	<b>65.6%</b>	<b>45.4%</b>

Peru is one of the most decentralised unitary countries of Latin America (with Colombia). SNGs have a key role in the economic and social development of the country. With the decentralisation process, but also thanks to the increase in revenues resulting from the boom in commodities revenue (canon funds), SNG expenditure rose from 33% in 2004 to over 40% in 2013, with 42% of public staff expenditure made at the SNG level (SNGs are responsible on behalf central government for the payment of wages and pensions in the sectors of education and health). One distinguishing feature in Peru is the high share of public investment made at the subnational level, almost 64% of the total, above the OECD average (59%). Regions represented 47% of SNG expenditure in 2013 and municipalities 53%.

## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



The vast majority of SNG expenditure responsibilities is shared with the national government, SNGs having little spending discretion in several areas. Education as well as economic affairs/transport, are the two primary expenses, representing almost 45% of SNG expenditure. Education expenditure is mainly done at the regional level while transport expenditure has more to do with municipalities. Other significant items after “general services expenditure”, are health (mainly the regions) and environmental protection (mainly the municipalities).

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2012)	4.1%	18.8%	100%
TAX REVENUE	0.5%	3.1%	11.8%
GRANTS AND SUBSIDIES	2.8%	-	69.8%
OTHER REVENUES	0.7%	-	18.5%

Peru has a lower degree of decentralisation in revenue than in expenditure. SNGs depend heavily on central government transfers while the share of tax revenue is very limited. However, SNGs benefit from an important source of revenue, coming from the exploitation of natural resources (royalties redistributed through Canon funds). Regions have nearly no own-source revenue.

**TAX REVENUE.** Regions have no assigned taxes. In contrast, provincial and district municipalities receive several taxes, but with no ability to set either bases or rates. These are set by the Central Government through the Municipal Taxation Act. The most important tax is the property tax (*Predial*) which is assigned to districts. It is based on property value in urban and rural areas, including land and buildings. Districts and provincial municipalities are also assigned the tax on property transactions (*Impuesto de Alcabala*). Both of these taxes on property represented around 60% of SNG tax revenue and 0.26% of GDP in 2013. Provincial municipalities also benefit from the vehicle tax and gambling and lottery taxes. All these taxes represent a small share of GDP, public tax revenue and SNG revenue, well below the OECD average (respectively 7%, 32% and 44% in 2013).

**GRANTS AND SUBSIDIES.** There are seven types of transfers which are the main source of funding for SNGs. The primary transfers are the following: FONCOMUN (*Fondo de Compensación Municipal*, formula based on demographic, geographic, socio-economic and fiscal criteria - for municipalities), FONCOR (*Fondo de Compensación Regional*, formula based - for the regions), ordinary transfers (discretionary - for regions and municipalities mostly earmarked to cover the payment of wages and pensions in the sectors of education and health) and *canons* and royalties (mines, hydroelectricity, fishery, oil, gas, forestry *canons*). These later are formula-based and benefit both regions and municipalities. However, only producing subnational governments receive Canon which generates high disparities across SNGs. They are earmarked to finance capital investment. Regions are almost fully financed through ordinary transfers from the central government. *Canons* and royalties represent 10% of their revenues. *Canons* and royalties represent a large share of municipal resources (37%), the second source being FONCOMUN. The importance of Canon explains the importance of capital transfers in total transfers as well as the high level of SNG investment.

**OTHER REVENUES.** Revenues from user charges and fees, including street cleaning, road tolls, parks maintenance, public safety services, administrative fees, etc. are typically larger than tax revenues. This category also includes revenues from property (sales, rents and dividends) and fines and penalties.

## OUTSTANDING DEBT

	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	4.0%	20.4%

Fiscal discipline is a key pillar in the Peruvian decentralisation process. The revised Fiscal Responsibility and Transparency Law (Law 30099) enacted in 2013 reformed the previous Fiscal Responsibility and Transparency Law 27245 and the associated Decree No. 955 which were too complex (eight fiscal rules). Most SNGs did not comply with them. The new law streamlines the rules into two rule and aligns them with those for the national macro-fiscal framework: a) the level of debt can be no higher than 100% of the average total current revenues of last four years; b) the annual growth of non-financial expenditure can be no higher than the moving average growth of annual revenue over the past four years. SNGs can only borrow under the state guarantee and only for capital investment projects (“golden rule”). The new debt rule tackles the problem of other liabilities, by including them in its definition of total debt. Today, the level of debt is not a pressing issue for SNGs, especially financial debt (loans, as bond issuing is forbidden for most SNGs) which represented 11% of total SNG debt (0.4% of GDP) in 2013. Pension liabilities accounted for 27% of SNG debt while other accounts payable were at 62%.

A joint- study of:



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**Sources:** Instituto Nacional de Estadística e Informática • INEI (2015), Directorio Nacional de Municipalidades Provinciales, Distritales y Centros Poblados • Central Bank of Peru • Ministerio de Economía y Finanzas • OECD (2016) Territorial Review of Peru • Ministerio de Economía y Finanzas (2015), Reporte Fiscal sobre el saldo de deuda de los gobiernos regionales y gobiernos locales, Ministerio de Economía y Finanzas • Ministerio de Economía y Finanzas (2013), Reporte Fiscal Subnacional y Social Dirección General de Descentralización Fiscal y Asuntos Sociales • Gonzalo Neyra Araoz (2013), Fiscal Decentralization in Peru: Achievements, XXV Seminario Regional de Política Fiscal de la CEPAL • Martínez-Vázquez J. (2013), Fiscal Decentralization in Peru: A Perspective on Recent Developments and Future Challenges, International Center for Public Policy • Canavire-Bacarreza G., Martínez-Vázquez, J., Sepúlveda C. (2012), Sub-national revenue mobilization in Peru, Inter-American Development Bank.