Focus on Corruption

How to secure the aims of decentralization in Peru by improving good governance at the regional level

by

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A Joint Policy Analysis Paper for

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for

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DEFENSORIA DEL PUEBLO

The National Council of Decentralization

&

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Acknowledgments

Executive Summary

Corruption threatens to undermine the whole point of decentralization in Peru, which is to facilitate the political and economic development of the country by improving democratic participation and public service delivery.

Although the global trend is a positive association between decentralization and corruption, the relationship reverses itself within two key subsets. Both poor countries and Latin American countries tend to have worse corruption levels associated with greater degrees of decentralization. This should be doubly worrisome for Peruvian policymakers responsible for designing and leading its new decentralization process.

Why the difference? The key variable for corruption in a decentralized context is effective institutions of good governance. It is likely that it is the improved institutional context that does most of the work of reducing corruption in rich nations. We thus draw policymakers' attention to the relationship between good governance and corruption in Peru. Specifically, we demonstrate a significant causal relationship between good regional governance, as measured by the Good Governance Index (GGI) of the Office of the Public Defender, and levels of regional corruption, as measured by Proética's Everyday Corruption Index. Controlling for a number of relevant variables, and with few statistical degrees of freedom, we show that regions that do better on the Good Governance Index have significantly lower levels of corruption.

From these results and the literature we develop four recommendations to push the good governance agenda in order to combat corruption at the lower levels of government. To the National Council of Decentralization we recommend that they 1) strengthen the institutions of good governance proposed by the Office of the Public Defender 2) design a proposal to create a regional tax revenue system to create stronger incentives for good governance. To the Office of the Public Defender we recommend that they 1) improve their measurement of good governance, considering the trade-off between the technical requirements and the political relevance of the index and 2) co-develop with civil society groups an adapted version of the GGI for use at the municipal-level of government.

Our aim is to see decentralized institutions of government strengthened so that the institutional context into which resources, power and responsibility are decentralized is capable of delivering on the promises of decentralization. While our recommendations are directed at two governmental organizations, they also assign a key role to civil society, which participates in and monitors the process of governance and censures corrupt behavior.

Part 1.   Focus on Corruption

In the three sections that follow, we build a case for why policymakers charged with guiding the decentralization process in Peru should be worried about corruption. We first identify the worthy aims of decentralization before identifying the destructive dangers of corruption. In section three, we explore the complex relationship between decentralization and corruption, and give reason why Peruvian policymakers should be concerned that decentralization, if not well managed, could result in increased corruption.

I. *The Aims of Decentralization*

Decentralization has been one of the most striking trends in Latin America over the past two decades. Throughout the region political power and fiscal resources have been devolved from the center to regional and municipal levels of government. Twenty-five years ago only three countries in Latin America had mayors chosen through direct elections; today nearly all do. And of those that don't, six have mayors appointed by elected municipal councils.[1] Lower levels of government are also managing an increasingly large share of the national budget. Figure 1 shows how

Latin American countries have increased the average share of their national budgets spent at the local level.[2]

Why individual countries choose to decentralize is somewhat of a mystery. That a national government would voluntarily embark on a process of devolving political, fiscal and administrative resources and responsibilities to lower levels of government seems to run counter to the traditional political economic theory that politicians attempt to accumulate power. Several explanations have been posited for Latin America's broad endorsement of decentralization. Some partially credit the consensus of support that developed among the international financial institutions during

Figure 1. Fiscal Decentralization in Latin America
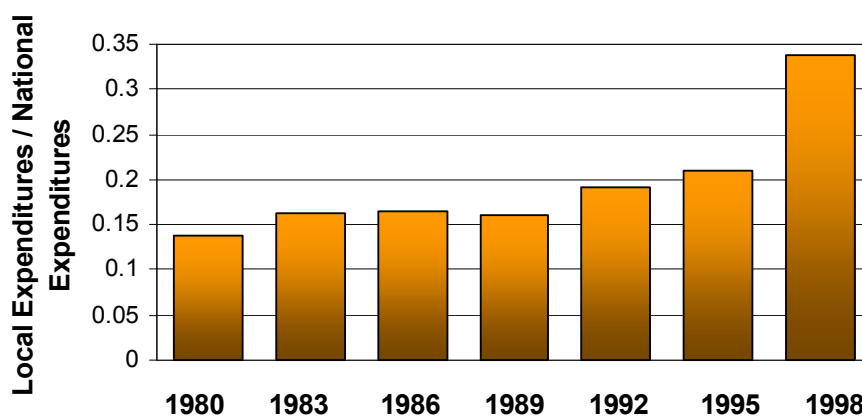
Source: EDSS - GFS and IFS June 2001

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[1] IADB, cited in O'Neill, 2003.

[2] Each year's bar represents a non-weighted average of percentages for Argentina, Bolivia, Brazil, Chile, Guatemala, Mexico, Nicaragua, Paraguay, Peru, and Uruguay. Not all countries have data available for all years. Each year has data from an average of 7 countries and no less than 6.

the 1990s. Others point to the resurgence of electoral democracy in the 1980s in the region and the people's demand for more responsive government. Others have argued that decentralization is a political maneuver during times of either fiscal or political crisis. A final explanation is that political parties push decentralization as an electoral strategy when they find their support at sub-national levels more secure than their prospects of reelection.[3]

Apart from the underlying political *motivations* that lead countries to decentralize, there is the question of *aims*. What does the World Bank and IADB hope decentralization will achieve when they push countries toward this reform? Why do the people of Latin America demand more of it? What does decentralization achieve for them? Our survey of the literature and of government documents indicates that the principal aim is political and economic development through improved democratic participation, more accountable and responsive government, and improved service delivery.

The election of local officials allows citizens to more closely observe the performance of their local authorities and approve or disapprove directly by their vote. Because citizens elect local politicians based on their performance on local rather than national issues, politicians have an incentive to respond to local service demands. Thus

services are more closely matched with local voter preferences.[4]

Based on a review of political decentralization in Colombia, Ariel Fiszbein concludes that "competition for political office opened the door for responsible and innovative leadership that in turn became the driving force behind capacity building, improved service delivery and reduced corruption at the local level."[5]

The aims of decentralization are noble and its potential impact on the quality of service delivery and citizens' experience with government is great. It is little wonder that people around the world pressure their governments for more of it.

2. *The Dangers of Corruption*

While many casual observers would agree that corruption sounds like a bad thing, few would expect it to be so strongly associated with stunted economic and political development. In this section we demonstrate just how dangerous corruption is and why it should be on the minds of policymakers.

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[3] These theories were cited by or developed in O'Neill, 2003

[4] Huther and Shah, 1998

[5] Fiszbein, cited in Gurgur and Shah, 2000 p. 6

Corruption & Economic Development

When one looks at Transparency International's Corruption Perception Index[6] (CPI), it is immediately apparent that rich countries top the list and poor countries bring up the rear. In fact, the top twenty from the 2004 CPI have a per capita income of over $23,000, whereas the bottom twenty have less than $1700.[7] The question then naturally arises, is this relationship causal, and if so, which direction does it go? Does the wealth of a nation affect the incentives or the perceptions of corruption or do lower levels of corruption aid economic growth? Many researches have used advanced quantitative methods to describe and untangle this relationship.

One of the most influential researchers looking at corruption and economic development is Paolo Mauro, who has shown that if a country could improve its standing on the CPI from a 6 to an 8,[8] then it might expect a half a percentage point

Figure 2. Corruption and Economic Development

Source: Transparency International and World

increase in its growth rate.[9] Others have shown that had Bangladesh reduced its level of corruption to the level of Poland (2 points on the CPI) in 1990, it would have increased its growth rate such that by 1997 its per capita GNP would have been $413 instead of $350, an 18% increase![10] Since many economist attribute low national growth rates as the primary factor leading to household poverty, this affect is hugely significant to those with an interest in improving human welfare in the developing world.[11]

Although difficulties remain in isolating corruption from other factors to which it is correlated, researchers have been able to describe and test a number of channels through which corruption affects growth. The most widely cited is reduced investment. According to Mauro, foregone investment alone accounts for 1/3 of corruption's affect on stunting economic development. Corruption not only acts as a tax on investment but it also increases its riskiness, as there is some uncertainty about whether or not bribe takers will live up to their end of the bargain.[12] He

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[6] The Corruption Perceptions Index is "a poll of polls, reflecting the perceptions of business people and country analysts, both resident and non-resident." (www.transparency.org) The 2004 CPI drew on 18 surveys provided by 12 independent institutions. The full ranking is reproduced in Appendix I.

[7] A similar calculation was made by Lipset and Lenz, 2000

[8] the scale is from 1 to 10, 1 being the most corrupt

[9] Mauro, 1997a.

[10] Rahman, Kisunko and Kapoor, 2000.

[11] Dollar and Kraay 2002, 2004; Easterly, 2002; Pritchett 1997, Pritchett and Summers 1996

[12] Mauro, 1998

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calculates that improving from a 6 to an 8 on the CPI results in a 4 percentage point increase in per capita investment rates.[13]

Another significant channel is the distortion of government spending caused by rent-seeking behavior. Corruption is actually associated with higher public investment, but lower expenditures on operations and maintenance.[14] In other words, corrupt politicians throw money at investment projects that provide kickback opportunities, but don't invest in their quality or maintenance.

As public spending is distorted toward investment projects, less investment is made in health and education services. Mauro showed, for example, that a country that improves its standing on the CPI from a 6 to an 8 will typically increase its spending on education by ½ of 1 percent of GDP.[15] Many researchers believe that there is a significant relationship between human capital investment – specifically in health and education – and economic development.[16]

Finally, it is worth noting that rent-seeking in the right (meaning corrupt) environment can be an extremely profitable activity. Transparency International estimates the amount lost due to bribery in

> *"Corruption in large-scale public projects is a daunting obstacle to sustainable development, and results in a major loss of public funds needed for education, healthcare and poverty alleviation… If we hope to reach the Millennium Development Goal of halving the number of people living in extreme poverty by 2015, governments need to seriously tackle corruption..."* - Peter Eigen[17]
>
> Founder, Transparency International

government procurement alone to be at least $400 billion per year worldwide.[17] It is little wonder then that talented people often turn their creative energy into finding ways to profit from the opportunities of uncontrolled corruption.

Corruption impacts economic development by:

1. Lowering Investment rates
2. Distorting the composition of government expenditure
3. Reducing the quality of public infrastructure and services
4. Suppressing investments in health and education, leading to lower levels of human capital
5. Decreasing tax revenue[18]
6. Providing incentives for talented people to pursue rent-seeking activities instead of producing

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[13] Mauro, 1997a

[14] Tanzi and Davoodi, 1997

[15] Mauro, 1997a

[16] There is significant debate on this. Although individual returns to education and health are robust, macroeconomic impacts are not. See Barro 2001, Pritchett 1999, Stevens and Weale 2003, and Bloom et al 2001.

[17] Peter Eigen on the launch of the CPI 2004 available at www.transparency.org/surveys

[18] see Johnson et. al., 1998 and Friedman et. al., 2000

Corruption & Political Development

For years, academics viewed corruption as largely benign in terms of its political consequences. Some even argued that it gave the alienated access to government services, helped bind and stabilize the relationship between government and people, and in general "greased" the bureaucratic systems of emerging

Figure 3. Corruption and Political Development
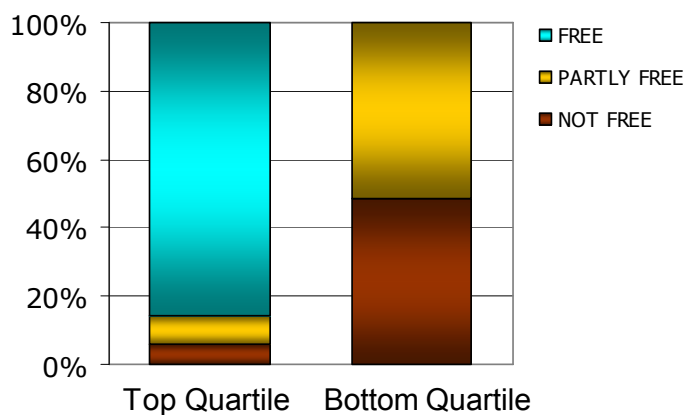
Source: Transparency International and Freedom House

democracies.[19] This view has been replaced, however, with a more sobering view of corruption as a potentially destabilizing force. Individual acts of corruption have a cumulative effect on the legitimacy of democratic institutions, draining the reservoir of goodwill from political parties, the judiciary, Congress, the police – eventually the ideals democracy themselves loose support.[20]   If a threshold of

support is crossed, we could expect some new democracies to collapse and revert back to authoritarian regimes. More likely, however, new democracies will simply cease to fully consolidate and will remain week.[21] Already in Latin America there are an alarming number of countries that, while nominally democratic, have lost their promise to deliver on the democratic ideals of openness, equality, transparency, and participation.

Figure 3 illustrates the strong correlation between corruption and political development. We've taken the top and bottom quartile of countries from Transparency's CPI and crossed them with the global survey on political rights and civil liberties from Freedom House. Of the 35 countries in the top quartile, all but five are classified as free, but of the bottom 35, not a single country is classified as free. Granted, there is clearly reverse causality in this relationship. When the institutions of freedom are weak, transparency and accountability break down and corruption goes unchecked. But the path from corruption to decreased political rights and civil liberties is just as strong. Corruption undermines the very institutions that enable economic and political freedoms to flourish. It erodes public support for democratic rule, hampers the consolidation of democracy, and increases the potential for political instability.

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[19] See Seligson 2002, Leys 1989, Huntington 1968, Bayley 1967, and Nye 1967

[20] See Ausland 2004, Bowler and Karp 2004, Anderson and Tverdova 2003, Doig and Theobald 2000, Della Porta 2000, Easton 1975, and Lipset 1959

[21] Norris 1999a

Protecting Decentralization

Policymakers responsible for the decentralization process should be concerned about corruption. When power and public resources are captured and misused for private gain, the aims of decentralization are undermined. Decentralization is supposed to bring the government closer to the people, increasing its accountability and responsiveness. The people expect to have greater influence over the decisions that are made and receive services that more closely match their economic and political needs. Corruption frustrates the high expectations of decentralization.

There is little question that perceptions of corruption in Peru have political fallout. In one town, an angry mob lynched its mayor in reaction to questionable charges of corruption.[22] In section 2.2 (fed up with corruption), we show a strong correlation between citizens' political support for their regional President and the levels of corruption in their region.[23]

Not only is corruption all bad news for Peru's prospects of economic and political development, it could also threaten to undermine the political support for the decentralization process. If poorly managed, decentralization itself may create new opportunities for corruption in the regions. Instead of bringing the government closer to the people, the devolution of rent seeking behavior would bring corruption closer to the people. It would be hard for any national political figure to continue supporting a policy that decreases investment, slows growth, undermines the democratic institutions of the country, and makes the citizens so angry that they'll lynch their mayor. Corruption needs to be taken seriously and should be explicitly dealt with in the design and implementation of decentralization, least well-meaning policymakers unwittingly unleash its dangers upon their country.

3. *Decentralization and Corruption: A Global Perspective*[24]

One might argue that the effects of decentralization - bringing government closer to the people and making it more accountable and responsive – should mean that decentralization itself ought to diminish corruption. We show in this section this is true as a general rule, but that it actually depends a lot on the institutional environment into which power, resources and responsibilities are decentralized. In this regard, both non-rich countries and Latin American countries fare worse than the average and reverse the general rule. This should be doubly worrisome for the advocates and leaders of decentralization in Peru – a non-rich, Latin American country.

Before we examine the data, we should have a look at what academics say about

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[22] see Story Box 1, p. 14
[23] see 2.2 - fed up with corruption, p. 17

[24] This section summarizes information from Tolmos, 2004

the general relationship between decentralization and corruption. Not surprisingly, there is wide disagreement among them. In this section, the major theoretical arguments on both sides are presented, the data examined, and the relevance of the mixed evidence for Peru described.

More Corruption

Those that argue that decentralization leads to more corruption emphasize three interrelated lines of rationale:

- Increased power and discretion with less accountability
- Overgrazing for bribes
- Local interest group capture

As one researcher points out, local officials tend to have more permanence and discretion than national decision makers. Decentralization empowers them to make more decisions over greater resources in a context where monitoring and auditing are less developed. Additionally the capacity of civil society and the media to provide vigilance and apply pressure is also less than at the national level.[25]

Others show that increasing the levels of government results in competition between them to extract bribes from the same economic actors. This is likely to increase overall corruption and result in "overgrazing"[26]

Finally, since corruption often requires the cooperation of both politicians and bureaucrats, the decreased distinction between them and their increased permanence at the local level make it more likely that unethical relationships will be established between them and with local interest groups, whose money and votes they depend on.[27]

Less Corruption

Those who argue the other side emphasize:

- Increased accountability
- Increased competition for votes
- Increased inter-jurisdictional competition for investment

Many argue that as a result of local government being located closer to the people it serves, it is more responsive and accountable than the national government and consequently less prone to be corrupted.[28] At the national level, accountability is defused because people vote based on national rather than local performance. But at the local level, accountability is stronger because citizens are better informed about the performance of their local government and can hold officials directly accountable through both vote and protest.[29]

Political decentralization allows local officials to be directly elected, increasing the competition for political office. The result is a political opening for leaders who are more

[25] Prud'homme, 1995 p. 211
[26] Treisman, 2000 p. 433
[27] Prud'homme, 1995
[28] Gurgur & Shah, 2000; Huther & Shah, 1998
[29] Seabright, 1996

responsive to local needs than to national politics.[30]

Not only do local politicians compete against each other to get into office, once there they compete against other jurisdictions for mobile factors, especially business investment.[31] Evidence exists that firms respond to incentives to relocate to areas with lower corruption.[32]

The Evidence

These competing theories can be tested against the evidence. Using measures of political and fiscal decentralization developed by Schneider,[33] a statistically significant association between both fiscal and political decentralization and corruption was confirmed.[34] But associations don't clarify the relationship as well as more rigorous econometric analysis. A cross-country model for 48 countries was developed using the CPI once again as the corruption variable and sub-national expenditures as a percentage of total expenditure for the decentralization variable. Controlling for a number of other relevant variables, a significant relationship

between greater fiscal decentralization and better perceptions of corruption was found.[35]

But the global relationship becomes ambiguous when you separate countries by levels of economic development, (as shown

Figure 4. Decentralization and Corruption
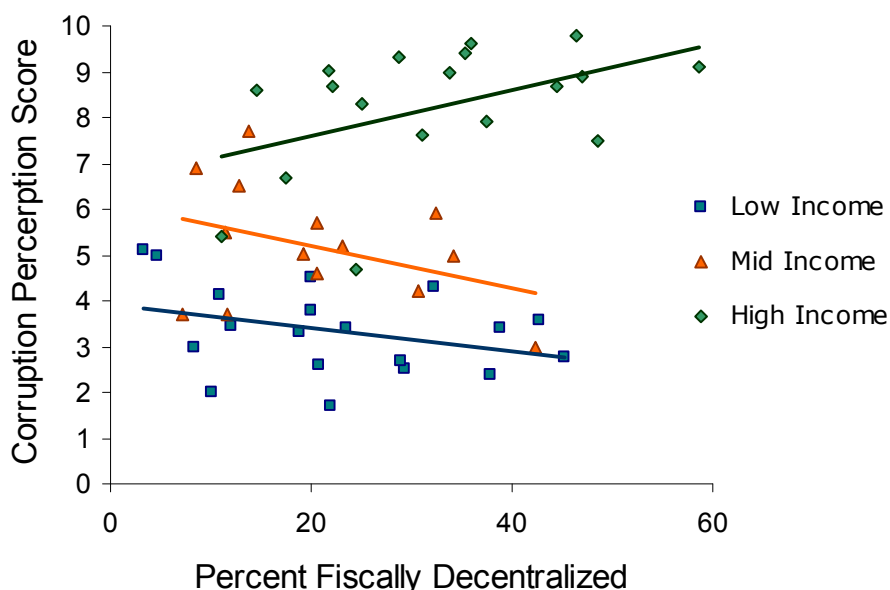
Sources: Transparency International and World Bank

in Figure 5), or by region. It turns out that in poor countries and among Latin American countries the positive relationship actually reverses itself. Among Latin American countries, those with best CPI scores (Chile, Uruguay and Costa Rica) are among the most fiscally centralized. It should be especially troubling for Peru that both non-rich countries and Latin American countries demonstrate a negative relationship between decentralization and corruption.

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[30] Fiszbein, 1997 in Gurgur & Shah, 2000

[31] Fisman & Gatti, 2000, Huther & Shah 1998

[32] Kuncoro, 2000 in Gurgur & Shah, 2000

[33] Schneider, 2003

[34] Tolmos, 2004

[35] Correlation analysis suggests a similar relationship between political decentralization and corruption.

One explanation for these results is that decentralization may require well-developed institutions to work well. Where they are weak, decentralization dumps political power, fiscal resources, and administrative responsibilities into an uncertain local environment.

Part 2.   Defining the Situation in Peru

In the previous section we defined the aims of decentralization, the dangers of corruption, and the threat that the later poses to the former. In this section we review the current situation in Peru in terms of decentralization, corruption and good governance. Because policy is context-specific, it is important to keep the realities of Peru in the forefront of our minds as we move on to develop a conceptual framework and econometric model from which we draw policy implications.

I. Decentralization in Peru

The history of decentralization in Peru is an irregular one. In 1980, Peru emerged from military rule and wrote a new democratic constitution that enabled local elections for mayors. Between 1985 and 1990, the government attempted to decentralize to the regional level, but design flaws provoked the subsequent administration to reverse the process in 1992.[36] By 2002, pressure had built up among the general population as well as key economic and political actors to push forward once again with decentralization.

The new government made it a high-priority policy, and by early 2002, the legislature had developed a strong legal foundation to take the process forward. In January of 2003, elected regional presidents took up their posts.

One of the most salient characteristics of Peru's current decentralization is how few fiscal resources have been devolved to the administrative authority of the regional governments. There is a distinct mismatch between the levels of political and fiscal administrative decentralization. Officially, 23.5% of total national general expenditure is spent at the sub-national level, 6.5% by local governments and 17% by regional governments.[37] This is low compared to 34% in Latin America as a whole, and 43% in developed countries.[38] But even these low reported figures are somewhat misleading.

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[36] IADB, 2002

[37] Authors' calculations using data from Ministerio de Economía y Finanzas, 2005

[38] IADB, 2002

Nearly all of the money spent at the regional level has been transferred there by the national government to pay the administrative costs of nationally-managed programs like health and education. Only 13% of the money transferred is actually available for regional governments to manage with discretion, a mere 2% of total national general expenditure.[39]

Currently, there are no regional taxes. 100% of regional revenues are transfers from the national government. According to the Law of Fiscal Decentralization, the regional governments will continue to be funded this way until such a time (currently unspecified) in which macro-regions are formed [40] These macro-regions will be constituted by the voluntary union of current regions confirmed by a referendum of the affected constituency.

Once these macro-regions are constituted, the law allows for 50% of a specific set of taxes[41] collected by the national government to remain in the macro-regions. Currently, there are no plans to devolve tax-collecting authority to the macro-regions.

Peru has pursued political decentralization without a concomitant level of real fiscal and/or administrative decentralization. According to Carlos Casas, a local expert on decentralization in Peru, there are at least two reasons why this

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[39] Casas, 2005a

[40] Ley de Descentralización Fiscal, 2003

[41] value-added, excise, and income taxes

Table 1. Timeline of Peru's Sporadic Decentralization

Year	Summary
1980[a]	New constitution allows mayors to be elected in municipalities and creates transfers to local governments
1989[a]	Election of regional governors approved
1992[a]	Recentralization: constitution suspended, regional elections revoked and mayoral elections postponed amid economic crisis
1993[a]	New constitution reinstates local governments but Decree 766 revokes local taxes and transfers to local governments made discretionary.
2002[b]	Legal framework for current process developed, reestablishing elected regional governments, local taxes and regional transfers. Regional elections held.
2003	Elected regional governments begin functioning.

Sources: a: O'Niell (2003) b: Political Database of the Americas, www.georgetown.edu/pdba.

might be. First, there is widespread concern that lower levels of government do not yet possess the capacity to manage additional money and responsibilities. Second, there are concerns at the Ministry of Economy and Finance that more rapid decentralization will lead to macro-economic instability due to fiscal irresponsibility at the regional and local levels.[42] The fiscal crises in Brazil, Argentina, and Colombia, which some attributed in part to decentralization, have increased the caution in Peru.

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[42] Cynthia Sandburg of the University of the Pacific in Lima adds a third reason. According to her, national politicians loose a powerful clientelistic patronage-building mechanism when they devolve discretionary social programs such as "Vaso de Leche, a free milk distribution program.

According to Casas, Macroeconomic instability is one of the principal threats to the decentralization process because if economic health is deteriorated by it, voices may emerge demanding its reversal.[43]

Whatever the reasons, political decentralization without concomitant levels of fiscal and administrative can be dangerous. When people believe that their local government is empowered and resourced, they make demands of it. When local government cannot respond to these demands, unfounded accusations of corruption and mismanagement result, sometimes with tragic consequences. (see story box 1)[44]

Although we believe a better balance between political, fiscal, and administrative decentralization would be healthier for Peru, the central focus of this work is how to diminish corruption in the context of a decentralized Peru. This section briefly described how decentralization policy evolved to its present state in Peru. We turn now to the situation corruption as a potential threat to the benefits promised by decentralization.

Story Box 1

A Town Lynches its Mayor

In the small frontier city of Ilave, the confusion over just what had been decentralized to their local leaders ended in a riot that saw the city's mayor lynched. An angry mob had demanded that he account for a road project that was on his books but not completed. They demanded to know where all the money that had been transferred to his government had gone. When he tried to explain that the money had indeed been transferred, but that its administration, as with much of the money on his books, was not in his jurisdiction, but in that of the national government, the crowds remained unconvinced.

The coincidental fact that he was building a new home and the sensational goading by irresponsible local media further blurred the judgment of the crowds, which eventually stormed the offices of the mayor and lynched him in the public square. Were his administrative and powers aligned with the fiscal transfers, this might have been avoided.

2. *Corruption in Peru*

High Level Corruption

When people think of corruption in Peru, they tend immediately to recall the famous video tapes of the head of the National Intelligence Service, Vladimiro Montesinos, bribing Congressmen, media owners, judges, and other political and business leaders. The first tape, which aired in September of 2000, showed him paying opposition legislator-elect Alberto Kouri US$15,000 per month to switch sides in support of the president. Other *vladivideos*, as they came to be known, followed, and for a time became popular viewing as "Peru's own distinctive form of reality television."[45] In the end, over 1,600 Peruvians were found to have been receiving bribes from Montesinos.[46]

The effect on the political landscape in Peru was spectacular and swift. Prior to the tapes' broadcast, then president Alberto Fujimori enjoyed a comfortable 50% approval rating, even after the scandalous 2000 elections, which he was accused of rigging. But by October his approval had plummeted to 36% and continued dropping to 24% by the time he fled the country in November.[47]

The magnitude of the bribes and the breadth of complicity will forever mark the Fujimori administration as one of the most corrupt governments the region has ever

known. In addition to the US$1.1 million in discretionary funding under his control at the National Intelligence Service provided unsupervised by the Congress, Montesinos also received millions under-the-table from the Ministry of Interior, the military, and by skimming off of state contracts. With these nearly unlimited funds, he paid a dozen opposition politicians between US$10,000 and US$50,000 per month to switch sides. He had another dozen opposition moles and party member politicians on the take, as well as the Prime Ministers. He had dozens of judges, Supreme Court Justices, and the Ministry of Justice on the payroll. The most spectacular bribes, however, were paid to capture television and print media. The bribes paid to buy-off all five privately-owned television broadcasters and much of the print media were counted in millions. In at least two cases, television owners were paid over US$10,000,000 to do Montesino's bidding.[48]

It is little surprise that Peru's image in the world was marred by the scandals. Peru's score on TI's Corruption Perception Index prior to the scandals hovered around 4.5.[49] The year after, it dropped by nearly 10% and has continued to decline. (see figure 5)

Within Peru, corruption has become an important political theme. According to a survey published by Proética, the Peruvian

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[45] McMillan and Zoido, 2004, p. 5

[46] ibid

[47] Kenney, 2003

[48] The figures cited in this paragraph are provided in the tables of McMillan and Zoido, 2004

[49] The score is out of 10, with 10 being the least corrupt

Chapter of Transparency International, corruption is considered by Peruvians to be the third most important problem affecting Peru. Only unemployment and the economic situation/poverty rank as more important

Figure 5. Peru's Deteriorating CPI Score
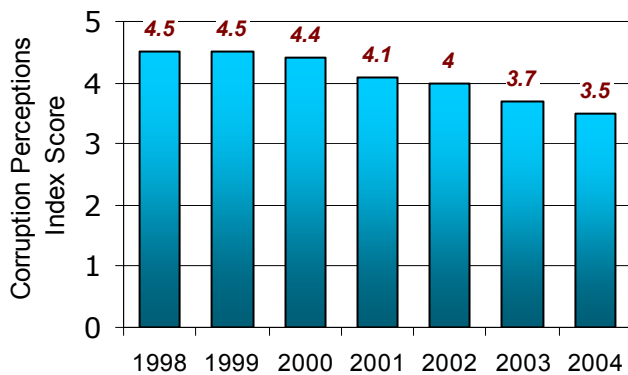
Source: Transparency International

issues. In 2004, 91% of all Peruvians considered their country to be "corrupt" or "very corrupt". Even though measures of bribery have shown a dramatic decline in actual rates of corruption, the *perception* within Peru is that it is increasing. This may be due, in part to a declining tolerance for corruption.[50]

Although high-level corruption captures the headlines, the average Peruvian is a mere spectator to the kinds of political favors and financial kickbacks involved at this level. Nevertheless, they too have first-hand experience with the kind of everyday, low-level corruption prevalent in Peru.

Everyday Corruption

According to Proética,[51] about 30% of the national population pays some kind of bribe each year, and 4.5% of all transactions in Peru in 2004 involved bribery. This is down from 5.3% in 2003, and 6.4% in 2002.

These are the everyday kinds of transactions that the average

Ave. ECI Score	
2002 :	64
2003 :	5.3
2004 :	4.5

person engages in, from paying a parking ticket to getting a copy of their birth certificate; from obtaining a building permit to getting a cable hook-up. They involve a variety of public and private institutions including private business, the judiciary, municipal governments, police, and a number of other social service organizations such as social security, public health, and customs. Appendix III lists the 35 types of transactions measured by Proética and the percentage of each type that involved a bribe in 2003.

These types can be grouped into three broad categories, transactions with the national government, with local governments, and with private business. In

	2003	2004
Central Gov't :	6.0	5.2
Local Gov't :	3.6	3.4
Private Bus. :	2.5	1.6

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50 Proética, 2004b

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51 Data for this sub-section comes from three national surveys on everyday corruption available online at www.proetica.org.pe

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both 2003 and 2004, the most corrupt types of transactions were those involving the national government.

The average bribe is approximately US$16, but this figure does not include bribes paid for either winning or collecting a bid (for a government concession or contract), where the sums are much larger and have greater variation. Their inclusion as outliers would pull the average up significantly and mask the true size of the typical bribe paid by the average person engaging in an everyday transaction. Nevertheless, it is worth noting that both of these transactions have some of the highest rates of corruption. (19% and 11% respectively, see Appendix III)

Within the regions, there is substantial variation in the percentage of transactions involving bribes. Table 2 lists the Everyday Corruption Index (ECI) score for each of the 25 regions for the past three years. While most regions have seen a moderate decline in corruption over this period, a few have stood out – Junín and Huánuco for having made outstanding improvements, Cajamarca and Ucayali for having worsened badly.

Fed up with Corruption

Corruption is not an isolated or abstract concept to the average Peruvian. Rather, it is part of his or her daily life. They have seen it seep into the highest levels of public office and rot the very institutions of democracy. They have seen the *vladivideos* with their own eyes – judges being bought,

Table 2. Regional Corruption

Region	Everyday Corruption Index		
	2002	2003	2004
Amazonas	1.9%	3.6%	1.5%
Ancash	3.5%	5.2%	3.2%
Apurimac	12.1%	8.5%	8.2%
Arequipa	5.5%	3.3%	3.8%
Ayacucho	5.6%	10.3%	6.9%
Cajamarca	2.0%	1.8%	6.3%
Callao	-	6.3%	4.8%
Cusco	3.6%	4.5%	4.0%
Huancavelica	3.5%	6.0%	3.4%
Huánuco	5.7%	3.6%	2.2%
Ica	6.3%	5.0%	4.8%
Junín	12.5%	9.1%	4.2%
La Libertad	9.3%	4.4%	4.3%
Lambayeque	5.4%	3.8%	6.0%
Lima capital	7.2%	6.2%	4.5%
Lima provincias	-	2.1%	5.0%
Loreto	3.1%	3.8%	2.9%
Madre de Dios	4.4%	1.6%	1.5%
Moquegua	2.3%	1.4%	2.6%
Pasco	11.2%	8.2%	7.3%
Piura	6.3%	4.1%	4.3%
Puno	8.4%	8.2%	4.0%
San Martín	0.9%	3.8%	1.7%
Tacna	2.2%	2.0%	3.1%
Tumbes	6.1%	4.4%	8.7%
Ucayali	4.2%	3.6%	9.1%

Source: Proética

elected lawmakers selling their loyalties, the free press going to the highest bidder. Corruption spoils nearly every type of interaction with nearly every institution of government. Over 60% of the population believes that the judiciary, national police, Congress and national government are all corrupt.[52] Peruvians are fed up with corruption; their tolerance is on the decline, and their revulsion drives their political support.

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[52] Proética, 2004b

Figure 6. Political Impact of Corruption
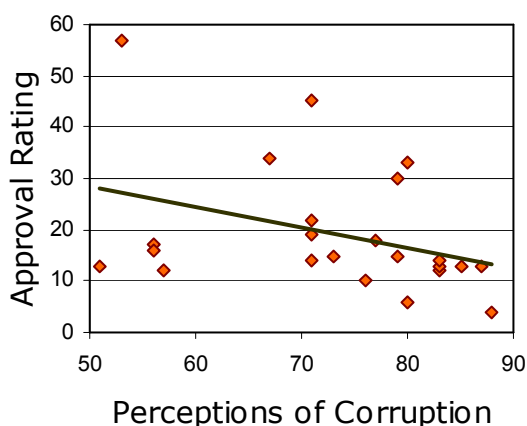
Source: Proética 2004b

The approval ratings of the Presidents of the regional governments are strongly correlated with the perceptions of corruption in their respective regions. Figure 6 illustrates this 35% correlation.

Political Commitment

The magnitude of corruption and the heights to which it has reached in Peru have contributed to the creation of a political environment strongly supportive of anti-corruption efforts. One recent demonstration of this is the 2004 Compact to Promote Transparency and Combat Corruption, signed between Peru and the G8 countries. At the Evian 2003 Summit, the G8 countries committed to work together with developing countries to fight corruption and improve transparency. The following year at the Sea Island Summit, Peru was among the first to enter into a compact with the G8,[53] committing itself to taking a number of specific steps to combat corruption. In the compact, Peru affirms the view that "corruption is a threat to democratic institutions, economic development and to the integrity of the international system of trade and investment," and reaffirms its commitment to "fighting corruption and improving transparency in the conviction that these are key underpinnings of democratic government, development, and poverty reduction."[54]

Peru has agreed to push for greater transparency in public budgets, including revenues and expenditures, government procurement, the letting of public concessions and granting of licenses. To this end much has already been done. The Superior Council for State Procurement and Contracting is working to harmonize administrative and contracting regulations and creating oversight institutions at the regional and national levels.

Beginning even before the Montesinos scandal broke, Peru began taking a number of important steps, demonstrating its commitment to combating corruption. Today, more than ever, anti-corruption efforts in Peru are undertaken in a political milieu of supportability. A few milestones:

- The Law on Fiscal Responsibility and Transparency was written in 1999 and amended in 2003.

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[53] The others were Nicaragua, Nigeria and Georgia
[54] G8 and Peru, 2004, p. 1

- In 1999, the Ministry of Finance introduced the Integrated System of Financial Management, and made it more user-friendly in 2004 to facilitate public access.

- In November, 2001, the National Anti-Corruption Commission was created.

- In April, 2003, Peru issued the Law for Transparency and Access to Public Information.

- In 2003, the Electronic System of Procurement and Contracting (SEACE) was created.

- In December, 2003, Peru signed the United Nations Convention Against Corruption, ratifying it in late 2004.

- In May, 2004, the Ministry of Justice established a working group to propose ways to strengthen the fight against corruption.

- In June, 2004, Peru signed the Compact to Promote Transparency and Combat Corruption with the G8.

3. *Good Regional Governance*

According to a recent report published by the Office of the Public Defender (OPD), there is a lot of room for improving the governance at the regional level in Peru.[55] The OPD created a measure for good governance based on more than 70 requisites grouped in 4 main categories: Access to Public Information, Transparency, Accountability and Coordination. The average score indicated that just 59% of the requirements are currently being met (see Table 3).[56] This score means that, on average, the regional governments could

improve their level of good governance by at least 70% from their current levels. As we demonstrate in section 3, such an improvement would have a dramatic impact on the levels of corruption in the regional governments.

Access to Public Information

The regions score highest in the Access to Public Information component, with an average of 83%. However, only two sub-components were actually measured in 2004 out of the five that the OPD proposes as theoretically relevant: the formal designation of an official responsible for public information and the cost of information. Consequently, the results did not clearly differentiate the regional governments' performances in this area. More than half actually received the maximum score available. The only regions to dramatically underperform the rest were Junín and Apurimac, with 37.5% and 20% of the ideal score, respectively.

The OPD hopes to include the other sub-components when the next index is published in January, 2006. One would expect major changes once these are included. Specifically, we expect most of the scores to pull in toward the middle as the component measurements are able to more finely differentiate performance.

Transparency

The regions scored lowest in the category of Transparency, with an average score of 44.3%. Transparency is defined by

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[55] Data for this section is drawn from Defensoría del Pueblo, 2004a

[56] see Appendix III for a more detailed ranking table

the quality and timeliness of information related to public finances that the regional governments make available to the public.

However, according to OPD, there were some omitted sub-components in this category as well. While the OPD measured the information available on the web sites (Transparency Portals) of the regional governments, they did not measure the publication and diffusion of such information through other means of communication. Therefore, we also expect some differences in results of this component in the next GGI, but not as drastic as those of the first.

Table 3. Regional Good Governance Scores

Region	I	T	A	C	GGI
Lambayeque	100%	83%	67%	58%	76%
Amazonas	100%	62%	62%	84%	75%
Tacna	75%	49%	86%	95%	75%
Pasco	100%	50%	89%	50%	70%
Tumbes	100%	59%	57%	68%	69%
Cajamarca	63%	73%	71%	67%	69%
Ucayali	75%	64%	72%	63%	68%
Ancash	100%	58%	69%	42%	65%
Ica	100%	60%	48%	50%	62%
Cusco	100%	41%	44%	68%	60%
Piura	63%	62%	40%	72%	59%
Lima	63%	41%	64%	72%	59%
San Martin	100%	26%	74%	48%	58%
Ayacucho	100%	30%	48%	68%	58%
Huanuco	75%	25%	76%	65%	58%
Callao	100%	29%	57%	58%	57%
Moquegua	100%	28%	58%	57%	57%
Arequipa	100%	53%	43%	32%	55%
Loreto	75%	46%	56%	48%	55%
Huancavelica	75%	59%	37%	50%	54%
La Libertad	75%	32%	31%	75%	51%
Apurimac	25%	0%	79%	70%	42%
Madre de Dios	75%	41%	n.a.	17%	42%
Puno	100%	0%	70%	45%	41%
Junin	38%	41%	35%	48%	40%
Average	**83%**	**44%**	**60%**	**59%**	**59%**

Source: Office of the Public Defender, Lima, Peru.

I – access to public information; T – transparency; A – accountability;
C– coordination; GGI – Good Governance Index score

Lambayeque earned the highest transparency score by meeting 83% of the measured requirements. Cajamarca and Ucayali also performed strongly with scores of 72.7% and 64%, respectively. On the other side of the spectrum, there were two regions that scored 0%: Puno and

Figure 7. Average Regional Good Governance Score
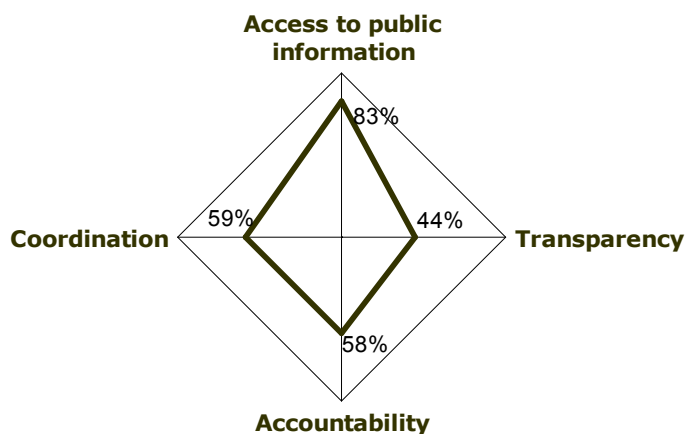
Source: Office of the Public Defender

Apurimac, neither of which had an operable web site, nor a formally designated official responsible for public information.

Accountability

The average score for accountability was similar to the overall average GGI score: 58.5%. In measuring accountability, the OPD focused exclusively on the evaluation of public audiences, which are events very similar to the U.S. concept of town hall meetings. The regional governments are expected to hold several public audiences each year, giving the public adequate information through a number of communication mediums about when and where they will be held and what will be on

the agenda. They are expected to discuss openly, and with active citizen participation, a number of issues at these meetings, including information about budgeting, planning, the acquisition of goods and services, and other official activities. In this component, Pasco and Tacna earned the highest scores with 89.2% and 86%, respectively, while Junín and La Libertad earned the lowest, with 35.2% and 31.2%, respectively.

Coordination

Finally, the score of Coordination is 58.8% of the ideal. Tacna has not only the highest score with 95.2% in this component, but the highest score in comparison with other components, without considering Access to Public Information because of its measurement problems mentioned. Amazonas also stands out with an 84% score. The lowest scores in this component are 32.4% and 16.8% for Arequipa and Madre de Dios, respectively.

Part 3.   Modeling Regional Corruption in Peru

1. Framing the Model

Our goal is to identify effective policy handles to better combat corruption in a decentralized Peru. Although much can be done using theory and the information we have about the situation in Peru, we can also use more rigorous methods. Specifically, we can test our theory that good governance has a significant causal effect on the levels of corruption in Peru's regions. We use regional-level data, most of which has just recently become available, to build an econometric model of corruption in which good governance is our independent variable of interest and in which we control for a number of other relevant variables.

The biggest potential threat to such a model is the possibility of getting caught in a web of reverse causation. In theory, institutional quality, economic development,

and corruption form an interdependent web; improving any one is likely to improve the others. As Mauro points out, "The truth is that probably all of these weaknesses are intrinsically linked, in the sense that they feed upon each other … and that getting rid of corruption helps a country overcome other institutional weaknesses, just as reducing other institutional weaknesses helps it curb corruption."[57] Treisman also notes, "…even though corruption hinders growth, countries can at times grow their way out of corruption. If other factors lead to vigorous economic development, corruption is likely to decrease."[58]

Thus corruption, in theory, is both a cause and an effect of weak institutions and poor economic performance, which are themselves interrelated. Just as some

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[57] Mauro, 1998, p. 12
[58] Treisman, 2000, p. 401-402

symptoms produce negative feedback that reinforces the disease, corruption may be a symptom of both that further erodes institutional quality and hinders economic development.

Our model, however, avoids these problems. First, we use a measure of institutional quality (the Good Governance Index) that affects levels of corruption, but is not itself affected by corruption. It would be a stretch to think that poor performances in the more than 70 sub-components that make up the index are *caused* by corruption. More likely causes of underperformance are poor planning, mis-prioritization, and a lack of administrative resources, technical knowledge, and awareness of their legal obligations.

Second, although we know that a problem of reverse causation exists between corruption and economic development, we aren't concerned about this in our model. We are only concerned about getting a correct coefficient on the good governance variable, and to do this, we need to control for levels of economic development, which we do. It is inconsequential to the results of interest that the directional relationship between our dependent variable and a control variable is unclear.

And finally, we avoid the problem of having our independent variables related to each other (multicollinearity) by choosing variables that are uncorrelated. In this case, theory led us to be somewhat concerned about measures of economic development and institutional quality being correlated. However, the correlation between our good governance variable and GNP per capita variable is just 4.2%, which is, for all practical purposes, the same as zero.

So, if we can show the Good Governance Index to be a significant predictor of levels of corruption, then we will be able to draw out specific recommendations to strengthen good governance and be confident that their implementation would effectively combat corruption.

2. *Dependent Variable: Corruption*

Our econometric model is built to explain corruption in Peru's regions, for this reason we use a measure of regional corruption as our dependent variable. The measure we use is a corruption index developed by the National Consortium for Public Ethics, otherwise known as Proética, the Peruvian chapter of Transparency International.[59] The Everyday Corruption Index (ECI) measures the percentage of transactions where a bribe was paid for each of the 25 regions in Peru.[60]

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[59] "National Chapters of Transparency International are financially and institutionally independent but observe [the] guiding principles of non-investigative work and independence from government, commercial and partisan political interests." (www.transparency.org/contacting_ti/ chapters/index.html)

[60] See Appendix IV for a complete list of the 35 types of transactions measured.

Nov 02
First Proetica
Survey

Dec 03
Second Proetica
Survey

Jan 03 - Jun 04
Construction of Good Governance Index
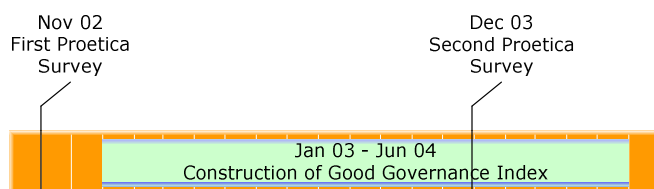
To best match the measuring timing of our dependent variable to that of our independent variable, we averaged the first Proética survey, released at the end of 2002, with the second survey, released a year later. This gives us a close temporal match to the field work done by the Office of the Public Defender in constructing the Good Governance Index.

each year. The survey population is defined as head's of household in urban locations of age 18 and over from all 25 regions of Peru.[61] The surveys were conducted by Apoyo Opinion y Mercado.

3. *Independent Variable: Good Governance*

Our key independent variable is the Good Governance Index (GGI) developed by the Office of the Public Defender (OPD). The GGI was developed within the Decentralization and Good Government

Table 4. Components of the Good Governance Index

Components	Weights	Sub-components	Weights
Access to public information	20%	• Designated functionary (0) • Information costs (3)	50% 50%
Transparency	30%	• Designated functionary (2) • Operability of web portal (3) • Content of portal (17)	7.5% 7.5% 85%
Accountability	25%	• Number of public audiences held (3) • Existence of rules for public audiences (4) • Evaluation of public audiences (18)	20% 15% 65%
Coordination	25%	• Elections of Regional Coordination Councils (2) • Representation in RCC (2) • Installation (2) • Functioning (3)	20% 20% 10% 50%

Source: Office of the Public Defender; Lima, Peru.

The data for Proética's ECI comes from samples of 5125 (2002) and 5810 (2003) representative households, systematically selected according to socio-economic ratios from randomly selected blocks within each region of the country. At least 200 households were surveyed in each region

Program to periodically measure the fulfillment of the relevant laws on transparency, access to public information,

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[61] Head of household designation resulted in a survey sample 71% male.

accountability and coordination at the regional government level. [62]

The index covers all 25 regions and measures more than 70 sub-components. The weight of each component and sub-component was determined by a group of experts at the OPD and from the Institute of Economic Studies. Here we have shown just the first level of sub-components to the four main components, noting in parentheses the number of level II and III subcomponents. [63]

Notice that the GGI does not include any measure of corruption as do other well-known measures of good governance such as Kauffman's Good Governance Index. [64] Our independent variable includes no measure of corruption, and can thus be used as an explanatory variable of the degree of corruption at the regional level as the literature predicts. [65]

4. Control Variables

We have included a number of control variables that theory predicts could be correlated both with our dependent and independent variables. Their inclusion helps us isolate the effects of our independent variable on the dependent so that we can calculate a coefficient that describes their relationship, holding all other relevant

factors constant. In various versions of our model we control for the following variables:

- Economic development
- Physical distance from the capital
- Participation in a religious organization
- Levels of primary education
- Size of government
- Ethnic fractionalization

In this section, we describe briefly the measurement we use for each control variable.

Economic development

Although we have already shown the Good Governance Index to be totally independent of levels of regional economic development[66] we still control for it in the model. We do this because there is a strong theoretical basis for believing levels of economic development to be correlated with both the institutional quality that would affect good governance and with levels of corruption. Every model with corruption as the dependent variable that we've seen in the relevant literature controls for levels of economic development.[67] The measure we use is the 2001 regional GDP per capita in millions of Nuevos Soles (in constant 1994 prices), estimated by the National Institute of Statistics and Information.

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[62] See legal framework in Appendix III

[63] see Appendix II for a more complete list of the index's sub-components

[64] Kauffman, Kraay and Mastruzzi, 2003

[65] Guerring and Thacker, 2004

[66] the correlation is 4.2%

[67] Gurgur and Shah (2000) and Huther and Shah (1998) use an index that includes a variable of income; while Treisman (2000), Montinola and Jackman (2002), Arikan (2004), Fisman and Gatti (2000), Gerring and Thacker (2004) use either the log of GDP per capita or GDP per capita.

Distance from Lima

Another interesting variable considered in our model measures the distance in kilometers from Lima to the capital city of each region. We developed it using the Map Generator available at www.world-map.perbang.dk. We include this variable because it could be helpful to understand what happens with corruption the more isolated the region is from the seat of the national government.

Religious participation

Religion is considered by many authors as an important explanatory variable for corruption.[68] Our measure is the percentage of people who participate in a religious group. Our data source is NISI's 2001 National Household Survey. Although most other models use the percentage of Protestantism, we do not specify any particular religion. Our theory is premised on the fact that all major religions in Peru, including traditional indigenous ones, teach systems of ethics that proscribe corrupt behavior.[69]

It may also be useful to think of participation in organized religious as a

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[68] Treisman, 2000; Gerring and Thacker, 2004, who also cite La Porta, Lopez-de-Silanes, Shleifer and Vishny, Lipset and Lenz, Persson, Tabellini and Trebbi, and Sandholtz and Koetzle.

[69] It is also reasonable to think of our measure of organized religious *participation* as capturing a larger share of Protestants than would be reflected in a measure of religious *affiliation*. In other words, a larger share of self-reporting Protestants would show up in our measure than those self-reporting affiliation with other religions. According to the 1991 census, 90% of the population reported affiliation with either the Catholic or a Protestant church, with Protestantism being the fastest growing.

measure of social capital.[70] In Peru, religious groups are the most common organizations that people participate in, representing 34% of the total participation in social organizations.

Primary Education

According to Ades and Di Tella, education should be included based on the "presumption that in more educated countries with better information flows the costs of corruption will be better understood and will be socially condemned accordingly".[71] Our measure is the percentage of population enrolled in either pre-school or primary education as of 2003. The data was provided by the Ministry of Education.

Size of Government

We measure size of government as the 2003 expenditures per capita of the regional governments in thousands of Nuevos Soles according to the Ministry of Economy and Finance, including not only their autonomous resources (13% of regional resources) but also the de-concentrated resources (87%). It is important to mention this distinction because despite the de-concentrated resources have not been formally transferred to the regional governments yet, unlike the autonomous resources, they are an important part of the size of the government, national or regional, at the regional level. The theory and

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[70] See Putnam, 1993

[71] cited in Arikan, 2004, p. 187

evidence of the direction of impact that size of government should have on corruption is mixed.[72]

Ethnic Fractionalization

Finally, we develop two separate measures of ethnic fractionalization, a variable which has significant theoretic support in the literature to be included as explanatory of corruption.[73] Our first measure (ethnic homogeneity) uses the percentage of the regional population belonging to the largest ethnic group. The larger this number, the greater the ethnic homogeneity. The second measure (ethnic fractionalization) uses the percentage of the regional population belonging to the second largest ethnic group. The larger this number, the great the ethnic fractionalization.

5. Results and Analysis

Good Governance

The most important result from the model is the direction and significance of the impact that our measure of good governance has on levels of corruption in the regions. Even with few degrees of freedom and controlling for enough relevant variables to explain 57% of the variance between regions, we find that good governance significantly reduces

corruption.[74] Not only is the impact statistically significant, but it is also practically significant, which is to say that our independent variable provides a practical lever for policy makers interested in significantly reducing corruption in the regions.

We illustrate the impact in figure 8, using our results to predict the likely impact on corruption of making realistic improvements in government performance in the region of Junín. According to the GGI, Junín has the worst performing regional government, coming in last place in the index ranking. This region accomplished just 40.5% of the requirements for good governance according to the standards defined by the Office of the Public Defender. As figure 8 illustrates, our model predicts that were Junín to improve its standing to that of the Region of Cusco, which is at the 40th percentile – ranked 10 of 25 with a score of 60.3% - it would see a 2 percentage point drop in the number of transactions marred by corruption. Currently 10.8% of all transactions in Junín require a bribe. If its governance were as good as Cusco's, our model predicts that just 9.1% would. That is to say, that for every 1000 transactions in Junín, instead of 108 acts of corruption, there would be just 81 – a 16% reduction in the rate of corruption. The improvements needed to make this transition are practical and

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[72] Goel and Nelson, 1998; Fisman and Gatti, 2002a

[73] Arikan, 2004; Treiman, 2000; Gurgur and Shah, 2000; and Fisman and Gatti, 2000.

[74] Referring to version 3 in table 5. See Appendix IX for a full table of our econometric results using all control variables.

realizable. The results are powerful and significant. When the Office of the Public Defender created the GGI, they theorized that better performance would lead to lower levels of corruption. Now, with this data, they can definitively say it is so with confidence.

To underscore the relevance and practicality of our findings, we have tracked the efforts of Junín to improve their good governance score since the index was published and the remarkable results they have had on reducing their corruption. In the next section, Tale of Two Regions, we compare their efforts and results of Junín with that of Ucayali.

Our model predicts that accurate compliance with 100% of the requirements measured in the Good Governance Index would reduce the level of corruption in

Figure 8. Interpreting the Results
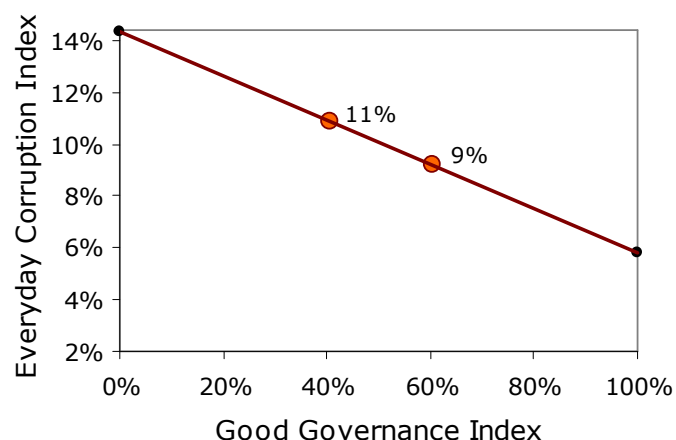
Peru's regional governments by nearly half. This is a powerful prediction, while at the same time a recognition that the GGI does not explain all of the corruption in the regions. Even with all of our control variables included, our model only explains just 57% of the variation between regional levels of corruption. This means that there are other factors out there that we aren't measuring that influence the levels of corruption. If we believe that some of these unmeasured factors are related to good governance, than one implication is that we might be able to construct a better measure of good governance and increase its power to explain corruption. In fact, the Office of the Public Defender recognizes this explicitly in their

Table 5. Ordinary Least Squares Regressions			
Explanatory Variable	(1)	(2)	(3)
Good Governance	-0.12 ** (2.12)	-0.11 ** (2.12)	-0.09 * (2.08)
GDP per capita		-0.004 ** (2.18)	-0.004 (1.58)
Distance to Lima			-0.00004 ** (2.15)
Religious Participation			-0.15 (1.54)
Primary Education			-0.13 (0.94)
Constant	0.12 *** (3.57)	0.13 *** (3.95)	0.18 *** (4.16)
Observations (n)	24	23	23
R Square	0.22	031	0.57

Dependent Variable: Proética's Everyday Corruption Index
Confidence Levels: * 90% **95%   ***99%
t-statistics are shown in parentheses

publication of the index.[75] One of our recommendations then is to improve the measure of good governance to capture more of these factors. By doing so, we would expect the improved GGI to show even more powerful results.

Control Variables

When we calculate our model with no control variables, we find that the GGI alone explains 22% of the variation in levels of corruption between the regions. As we add in the control variables, our model's ability to explain corruption increases to 57% (see table 5). Although most of the controls are not statistically significant at the 90% level, both GDP per capita and religious participation are very close in many of the model's variations (see Appendix IX for a t-statistics for each specification). As we previously state, in the literature, some measure of economic development is always used as a control variable in models explaining corruption. As expected, our results show that higher levels of economic development are associated with less corruption. If GDP per capita were to increase by 14%, the model predicts a 0.5 percentage point decrease in the corruption rate. Given that the GDP per capita annual growth rate in Peru is 2.2%,[76] it will take 7 years to realize this modest gain in corruption outcomes through the channel of current economic growth rates. This result

hovers around statistical significance in each variation of our model. One should take caution, however, when interpreting the coefficient because of the problem of reverse causality.[77]

Interestingly, the variable Distance from Lima has statistical significance across all model specifications. The further the regional government is located from the national government, the lower its level of corruption. Although this is an interesting and statistically significant result, it has no practically significance. For every 100 kilometers of additional distance, the predicted corruption rate decreases by a mere 000 4 percentage points. In other words, the impact is negligible and we find no policy implications in them.

As expected, the greater the percentage of people participating in religious organizations, the lower the corruption. As mentioned, this may be due religious organizations teaching systems of ethics that proscribe corrupt behavior. Alternatively, this may be because the participation rates act as a proxy measure of social capital, which points to a more active and vigilant civil society that demands more responsive government.[78] Although the predicted impact is very strong

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75 Defensoría del Pueblo, 2004, p.55

[76] 2003 Human Development Report data available at http://.hdr.undp.org/statistics/data

[77] Treisman (2000) notes that "whatever the effect of corruption on growth, higher economic development does itself reduce corruption." (p. 430) He uses an instrumental variable to correct for the problem. We don't because our intent is to understand the effects of good governance on corruption, controlling for levels of economic development, not in exploring policy options to improve economic development in order to potentially decrease corruption.

[78] Putnam, 1993

– a 10 percentage point increase in the participation rate is associated with a 1.4 percentage point decrease in the corruption rate – the statistical significance falls below the 90% level. Nevertheless, we find this result interesting both because of the magnitude of the predicted impact and because the significance level stays between 74% and 86%, depending on the model's specification. With more degrees of freedom, we might expect to find statistical significance in this variable as do many of the cross-country models that explain corruption using Protestantism as a control.

The Primary Education control variable shows a coefficient with the expected sign – more education associated with less corruption – but again, the result is not statistically significant. The controls for size of government and ethnic fractionalization show neither a strong predicted impact nor statistical significance.

Conclusion

Our model shows that better governance, as measured by the Good Governance Index, leads to lower levels of corruption, as measured by the Everyday Corruption Index. The result is statistically significant, even with few degrees of freedom and controlling for many other relevant variables. It is also practically significant and indicates that the more than 70 sub-components of the GGI, provide a good place to begin looking for policy recommendations to decrease corruption in the regional governments.

6. *Tale of Two Regions*

When the Good Governance Index was published in July, 2004, it caused quite a stir among the regional governments who found themselves ranked against one another by the Office of the Public Defender (ODP) according to their performance in good governance. Knowing that the OPD is

Figure 9. Tale of Two Regions
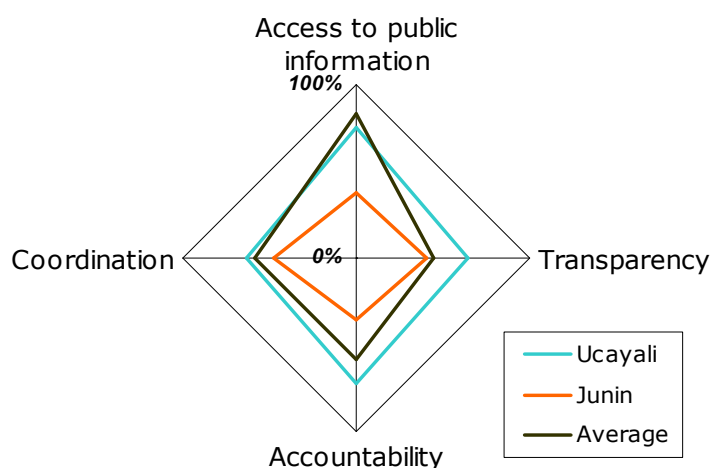
Source: Office of the Public Defender

non-partisan, the regional governments could not discount the rankings as driven by partisan politics. When the President of the region of Junín found his administration ranked last, he traveled to Lima to discuss the results with the OPD and to ask for help in improving his position. Clearly, he felt his political future threatened by the results and he wanted to improve his standing in the next ranking due out January, 2006 before the next regional elections in November, 2006.

Following the ODP's advice, he contracted a consultant from the Institute of

Peruvian Studies,[79] to advise him in ways to improve his good governance performance. Although his administration has not been officially remeasured yet, officials from the ODP indicate that his government is making significant progress in improving its good governance performance.[80] Not surprisingly, the annual measures of the corruption rate in Junín have fallen as its government has pushed to improve good governance, as our model predicts. In 2002, Junín was the most corrupt region in Peru according to Proética's First Everyday Corruption Index, with 12.5% of its transactions corrupted. By the end of 2004, it moved to the middle of the ranking with an index score of just 4.2%[81]

Junín's success can be set against the relative failure of Ucayali. When the GGI was published, the government of Ucayali

Figure 10. Tale of Two Regions II

Source: Proética

was content to find itself ranked 7 of 25. While other governments have made efforts to improve their governance, Ucayali has done less than most. Again, although the next GGI is not due out until January of 2006, officials at the OPD suspect that Ucayali will fall in the rankings. Some initial reports show it already falling behind Junín in several sub-component measures.[82] It is not surprising to see that their ECI score has deteriorated. They started in 2002 with the same score that Junín ends 2004 with, 4.2%. They end 2004 with 9.1%. In other words, the percent of corrupted transactions has more than doubled in Ucayali while in the same period in Junín, they have been cut to a mere third of their previous levels.

Figure 9 illustrates the relative positions of Junín and Ucayali according to the Good Governance Index. Junín, shown in orange, is below average in all four components of the index. Ucayali, on the other hand, shown in blue, is above average in all components except access to public information. Figure 10, shows the evolution of these two region's Everyday Corruption Index scores. They crossed not long after the publication of the GGI.

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[79] The Institute of Peruvian Studies had helped the ODP construct the index

[80] e-mail correspondence with OPD, 3/15/05

[81] Proética's Third National Survey on Corruption was published in September, 2004.

[82] DDP, 2005b

Part 4. Recommendations for Combating Corruption

1. Pushing Good Governance

Corruption threatens the success of the decentralization process in Peru. It interferes directly with the aims of decentralization – improved democratic participation, more accountable and responsive government, and better service delivery. Additionally, it impairs economic development and undermines the legitimacy of government institutions. Given the current anti-corruption mood in Peru, the best way to protect the decentralization process from being undermined politically is to take concrete steps to ensure that it does not lead to an increase in corruption.

There is good reason to worry about corruption increasing in a decentralized Peru. Evidence shows that decentralized middle- and low-income countries are perceived as more corrupt than centralized ones. What is more, countries within Latin America that decentralize are perceived as more corrupt than centralized ones. According to both empirical trends, one might expect Peru to experience an increase in corruption as a result of decentralization.

According to the results of our econometric model of corruption in Peru's regions, the good governance framework described by the Office of the Public Defender offers a powerful policy strategy to buck these trends, combat corruption,

and ensure a successful decentralization process in Peru. Good governance should therefore be pushed at the regional level by the institutions responsible for directing the decentralization process. Foremost among these is the NCD, but the Office of the Prime Minister, Ministry of Economy and Finance, Office of the Public Defender, Congress, the Comptroller, the Regional and Local Governments and Civil Society should also be pushing this agenda. According to Proética, Peruvians believe that each of these institutions should play an active role in combating corruption.[83]

Since it is the NCD that is specifically charged with coordinating the process of decentralization, it should lead this effort. It should leverage its Ministry-ranked President and high-level members within the government to prioritize the good governance agenda in Peru and ensure a successful decentralization process.

The Office of the Public Defender also plays a key role. Their strong reputation as a non-partisan office able to work closely with civil society, and their demonstrated expertise in issues of good governance position them to support the NCD, the regional and municipal governments and civil society organizations in this effort.

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[83] Proética, 2004b

2. *Implementation by the National Council of Decentralization*

1) Strengthen institutions of good governance

The NCD should act to strengthen the institutions of good governance identified in the framework developed by the Office of the Public Defender. Specifically, they should strengthen the capacity of the regional governments to a) define administrative rules and manage public information to improve public access to information, b) create and manage web portals to increase transparency, and c) host effective town hall meetings, known as public audiences, to strengthen accountability. Additionally they should d) strengthen the Regional Coordination Councils role to enhance coordination with the different levels of government and with civil society.

Building regional capacity

The Law of Transparency and Access to Information states that any government institution should have an administrative procedure defined in a document called the TUPA (*Texto Unico de Procedimientos Administrativos*) to facilitate access to public information. According to the OPD, the TUPA should be updated and distributed by the regional governments. According to the OPD, the regional governments should also have a designated official responsible for handling requests for public information, as well as a system for receiving and processing citizens' complaints and suggestions.[84]

Every government institution is required by law to publish a specific set of grouped information on their web site in a section called the transparency portal. For the regional governments, this includes the TUPA, the budget and financial reports, investment projects, procurement and contracting information, the legal framework, the organization chart and salary information, official activities, and general public announcements.

According to the Law of Regional Governments[85], there should be at least two public audiences each year to keep the public informed and updated on regional governance matters.

As part of the ongoing public management training at the regional level, the NCD should provide the regional governments with legal information, technical assistence, and training so that officials there have the capacity to define and publish their administrative rules in the TUPA, to administer a system of public feedback, to collect and manage public information, to build and maintain a website that contains adequate, reliable, standardized and accessible public information, and to host effective public audiences.

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[84] Defensoría del Pueblo, 2004a

[85] Law of Regional Governments, Title II, Chapter III

Strengthening the RCCs

According to the Law of Regional Governments[86], the Regional Coordination Councils act as consultative entities for the regional governments and play a coordinating role between the regional governments, local governments and civil society. The councils meet at least twice a year in ordinary sessions, primarily to give input on the development of the Annual Participatory Budget and the Concerted Regional Development Plan. The councils are made up of the regional president, local mayors, and key representatives from civil society, including members of the business community.

If the aims of decentralization are to improved democratic participation, make government more accountable and responsive, and improve service delivery, then the input of the RCCs is critical for the making decentralization work. Our findings also suggest that their functioning plays an important role in combating corruption. The greater the breadth and depth of citizen participation in the decision-making, planning and administration of government, the harder it is to hide corruption.

The NCD is charged with the coordination of the national, regional and local development plans. In execution of this charge, they should ensure the full participation of the RCCs in the process of developing the regional plans. They should also help the regional governments to

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[86] Law of Regional Governments, Title II, Chapter I

better understand how to work with the RCCs to achieve its governing objectives.

2) Develop a regional tax revenue system proposal

Currently, the operation of regional governments is wholly dependent on financial transfers from the national government. Taxes are collected nationally by SUNAT and then redistributed following a formula that allocates funds according to the needs and poverty level of each region (and sometimes political pressure). There are no fiscal incentives under the current system for the regional governments to improve their performance, and in fact, when higher levels of poverty are rewarded with larger revenue transfers, there may even be some perverse incentives. If, on the other hand, a portion of locally-raised and collected taxes stayed in the regions as a variable revenue stream, then the incentive structure would be changed, both for the regional governments and for the citizenry.

Increasing horizontal competition

If the amount of fiscal resources available to be managed with discretion at the regional level depended in part on regional tax receipts, then regional governments would have an incentive to compete with one another for mobile resources that would grow their tax base. The horizontal competition for business investment would compel regional governments to create more inviting

businesses environments, clearing bureaucratic obstacles, investing in infrastructure and human capital, and rooting out sources of corruption (which act like a tax on investment).

The incentives to increase tax collection within their region would compel regional governments to broaden and deepen current tax collection. With greater local knowledge and greater incentives, they would likely do a better job than the national government. The proposal should therefore call for SUNAT to coordinate the creation of regional tax collection agencies for the set of taxes from which a portion is designated to stay.

Finally, the regional governments would also have an incentive to formalize informal productive activities, bringing essentially illegal businesses into the formal sector where they could be both regulated and taxed.

The upshot is that as each region works to increase its tax base, the country as a whole benefits. The cumulative effect would result in an overall increase in both competitiveness and tax collection.

Increase citizen oversight

If a portion of the regionally-collected taxes were destined to fund regional government programs, then tax-paying citizens would have greater incentives to monitor their regional government and to demand better service delivery. Currently, the people rightly view regional revenue levels as the result of a decision made by the national government in Lima. There is no real connection between the money that was collected from them as taxes and the money that is spent by their regional governments. If there was an explicit relationship, then they would have a greater incentive to monitor the management of these resources. They would demand greater accountability and transparency, more access to information and a greater say in the decision-making process of how to spend their own money.

Implementation details

The NCD should create a special taskforce within the NCD to design the regional tax revenue system proposal. It would make both practical and political sense to ask the two representatives from the Ministry of Economy and Finance (MEF) on the council to lead this taskforce. Both representatives are powerful decision-makers at the MEF, whose influence and knowledge of what would and would not be politically supportable would increase the likelihood of the proposal being adopted by the MEF.

The proposal should go beyond what the current Law of Fiscal Decentralization allows for regional taxes. According to Carlos Casas, 50% of the taxes included in the legal framework for the macro-regions, should they ever come to be, is inadequate to cover the programs and responsibilities being devolved to the regional

governments.[87] Therefore, the proposal should ensure either a larger percentage of these taxes or a broader set of taxes beyond those specified in the current macro-region framework, to adequately cover the full needs of the regional governments. Additionally, as mentioned, the proposal should seriously evaluate the gradual transfer of tax-collection responsibility to the regional level.

The preparation of this proposal should consider the opinion of relevant academics in Peru as well as the IFIs, especially the Inter-American Development Bank and World Bank. Once approved by the full NCD, the proposal should be presented to the Congressional Commissions of Economics, Public Finance and Decentralization for approval. From there, the proposal would be drafted into law, voted on by the Congress and given to the President to sign into law.

3. *Implementation by the Office of the Public Defender*

1) Improve good governance measurements

Good governance goes beyond what the OPD currently measures. Their Good Governance Index emphasizes only what is currently included in the legal framework and what the OPD has a direct or indirect interest in. Also, although they are interested in how good governance impacts corruption, they don't currently measure corruption, nor do they coordinate the

timing of the GGI with those that do. They should make a concerted effort with civil society organizations and others to strengthen their measurement of good governance and to time it with the measurement of corruption in the regions to facilitate analytical accuracy.

An accurate measure

Even the OPD recognizes that there are several relevant factors that are not yet being measured in their index, and they have already described two additional components that they intend to measure for the second index due out January, 2006. They intend to develop sub-components that measure the neutrality and impartiality in the activities of public administration as well as the level of inclusion and preferential treatment for special needs citizens such as pregnant women, the handicapped, and children.

Even within the components measured in the current GGI, there were several sub-components not measured. For example, into the component of Access to Public Information, they decided to measure only two out of the five sub-components defined. As a result, over half of the regional governments obtained a perfect score in this component. It is unlikely that the measured homogeneity of performance reflects the reality of the regional governments. More likely, there is variation in the access to public information between the regions.

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[87] Casas, 2005

The exclusion of sub-components in the existing four components and of two whole other components results in an incomplete measure of good governance. These omissions have implications.

First, the ranking of the regions in the forthcoming index is likely to change as much as a result of improving the measurement as actual changes in the regional governments' performances. New additions will change the weights on the existing components and sub-components. This means that comparisons across the indices in terms of rank and score change will lose some degree of validity.

Second, since at least some of these additional factors are likely to influence levels of corruption, our econometric model has a measurement error. Luckily, correcting the impact on our results would actually work in favor of our analysis, because this measurement error gives our coefficient an attenuation bias. This means that we likely underreport the impact of good governance on corruption. Our analysis therefore is based on conservative results.

A coordinated measure

Additionally, it would improve the analytic usefulness of the GGI if it were coordinated with a measure of corruption. For our analysis we compared the GGI to Proéticas measure of corruption, which is done on a regional-level about once a year. It happened to be that we were able to combine two sets of data from Proética to

align nicely with the timing of the GGI fieldwork, but without conscious coordination, such fortuitous alignment is unlikely to ease the work of researchers and analysts interested in these variables. Therefore, in support of future research, some of which they may be interested in conducting themselves to bolster the credibility and power of their GGI, the OPD should either develop its own measure of corruption or coordinate the timing of its work on the GGI with a partner in the private or non-profit sector (like Proética) that works to quantify corruption.

Implementation details

It would be better to radically alter the index one time than to continue making small changes every time it is calculated. Obviously, this implies a concentration of time and resources, but the benefit of having a stable measurement standard is that meaningful comparison across time is made possible. On the other hand, if the OPD thinks that it is too soon in the decentralization process to develop a definitive measurement of good regional governance, then it may make sense to make small improvements over time. As long as the changes are explicit, good analysis is likely to be able to work with them to draw strong inferences regarding comparability in the rankings and score across time.

In any case, the OPD should work hard to improve upon the current measurement. Expanding their coordination with other

partners from academia, research centers, non-profits and the private sector would expand their knowledge resources and enhance their work. Specifically, we recommend that the OPD look to forge a relationship with a partner at the regional level, like *Participa Peru,* and at the local level*,* like *Ciudadanos al Día.* There are surely many good options for partnership; we mention these two because they are examples of civil society organizations, with a high degree of credibility, concerned specifically with monitoring the decentralization process in Peru and measuring good governance and/or corruption.

2) Expand measurements to the municipal level

Although our econometric analysis focused exclusively on the regional level, there is reason to believe that our findings are relevant to the local level. The theoretic framework we built in this paper does not distinguish between regional and local levels of government. Consequently, the theory that supports our hypothesis of the relationship between good governance and corruption at the regional level should apply equally well at the local level.

The role of the OPD in defining and pushing the good governance agenda at the regional level is vital in the battle against corruption. It makes sense to leverage the work they have begun at the regional level

of government to combat corruption at the local level as well.

Already, civil society organizations (CSOs) have demonstrated an interest in pushing the good governance agenda at the local level. CSOs like *Ciudadanos al Dia* (CAD) have made important progress in measuring and supporting components similar to those defined by the OPD. For example, among many other activities, CAD has measured transparency at the local level and created a ranking for the capital provincial municipalities in each of Peru's regions[88] as well as the district municipalities in Metropolitan Lima.[89]

The OPD should take into consideration the progress achieved by CSOs like CAD and create partnerships to support these initiatives with technical assistance and information exchange. The OPD could even develop strategic alliances with CSOs that have the resources and specific expertise to measure and support good governance at the municipal level. OPD could allow them to use its brand and credibility to expand and increase the effectiveness of their work.

We have shown that better governance decreases corruption at the regional level. By pushing the good governance agenda both at the regional and local levels, it should be possible to strengthen the institutional environment into which rascal resources, political power, and administrative responsibilities are being

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[88] Ciudadanos al Día, 2004a

[89] Ciudadanos al Día, 2004b

decentralized. With these institutions of good governance functioning and with an active and engaged civil society, it may be possible for Peru to break the trend in Latin American and low-income countries. Instead of decentralization being associated with more corruption, Peru may be able to realize the benefits of decentralization, without paying for them with higher corruption. They may even be able to use the decentralization process, as we suggest, to consciously make a concerted effort to beat back corruption, both at the regional and local levels.

Imagine Peru with improved democratic participation, with a more responsive and accountable government, with better public service delivery, *and* with *less* corruption, all thanks to well-designed policies that guide and complement the decentralization process. Imagine Peru with greater economic and political development. Peru needs a breakthrough. The current decentralization process is still in its early stages; its not too late to make a breakthrough happen.

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Appendices

Appendix I

Transparency International's Corruption Perceptions Index Ranking

#	Country	#	Country	#	Country	#	Country	#	Country
1.	Finland	31.	Botswana	60.	Colombia	90.	Gambia	114.	Sierra Leone
2.	New Zealand	31.	Estonia	62.	Cuba	90.	India	114.	Uzbekistan
3.	Denmark	31.	Slovenia	62.	Panama	90.	Malawi	114.	Venezuela
3.	Iceland	34.	Bahrain	64.	Ghana	90.	Mozambique	114.	Zimbabwe
5.	Singapore	35.	Taiwan	64.	Mexico	90.	Nepal	122.	Bolivia
6.	Sweden	36.	Cyprus	64.	Thailand	90.	Russia	122.	Guatemala
7.	Switzerland	37.	Jordan	67.	Croatia	90.	Tanzania	122.	Kazakhstan
8.	Norway	38.	Qatar	67.	Peru	97.	Algeria	122.	Kyrgyzstan
9.	Australia	39.	Malaysia	67.	Poland	97.	Lebanon	122.	Niger
10.	Netherlands	39.	Tunisia	67.	Sri Lanka	97.	Macedonia	122.	Sudan
11.	United Kingdom	41.	Costa Rica	71.	China	97.	Nicaragua	122.	Ukraine
12.	Canada	42.	Hungary	71.	Saudi Arabia	97.	Serbia and	129.	Cameroon
13.	Austria	42.	Italy	71.	Syria	97.	Montenegro	129.	Iraq
13.	Luxembourg	44.	Kuwait	74.	Belarus	102.	Eritrea	129.	Kenya
15.	Germany	44.	Lithuania	74.	Gabon	102.	Papua New	129.	Pakistan
16.	Hong Kong	44.	South Africa	74.	Jamaica		Guinea	133.	Angola
17.	Belgium	47.	South Korea	77.	Benin	102.	Philippines	133.	Congo, Dem.
17.	Ireland	48.	Seychelles	77.	Egypt	102.	Uganda		Republic
17.	USA	49.	Greece	77.	Mali	102.	Vietnam	133.	Cote d´Ivoire
20.	Chile	49.	Suriname	77.	Morocco	102.	Zambia	133.	Georgia
21.	Barbados	51.	Czech Republic	77.	Turkey	108.	Albania	133.	Indonesia
22.	France	51.	El Salvador	82.	Armenia	108.	Argentina	133.	Tajikistan
22.	Spain	51.	Trinidad and	82.	Bosnia and	108.	Libya	133.	Turkmenistan
24.	Japan	51.	Tobago	82.	Herzegovina	108.	Palestinian	140.	Azerbaijan
25.	Malta	54.	Bulgaria	82.	Madagascar		Authority	140.	Paraguay
26.	Israel	54.	Mauritius	85.	Mongolia	112.	Ecuador	142.	Chad
27.	Portugal	54.	Namibia	85.	Senegal	112.	Yemen	142.	Myanmar
28.	Uruguay	57.	Latvia	87.	Dominican	114.	Congo, Rep. of	144.	Nigeria
29.	Oman	57.	Slovakia		Republic	114.	Ethiopia	145.	Bangladesh
29.	United Arab	59.	Brazil	87.	Iran	114.	Honduras	145.	Haiti
	Emirates	60.	Belize	87.	Romania	114.	Moldova		

Source: Transparency International: www.transparency.org/cpi/2004

Office of the Public Defender's Good Governance Index

| Components - Weights		Sub-components (level I)		Sub-components (level II)		Final weights
Access to public information	20%	Designated functionary	50%			10%
		Information costs	50%	Costs published	50%	10%
				No additional charge for requesting information	50%	
				Additional charge for requesting information	-25%	
Transparency	30%	Designated functionary	7.5%	Designation by resolution	75%	2%
				Published in web portal	25%	1%
		Operability of web portal	7.5%	Functioning in January 2004	33%	1%
				Functioning in March 2004	33%	1%
				Functioning in June 2004	33%	1%
		Content of portal [1]	85%	Legal framework (3)	15%	4%
				Budget information (8)	40%	10%
				Procurement (3)	30%	8%
				Official activities (2)	10%	3%
				Others (1)	5%	1%
Accountability	25%	Number of public audiences held	20%	Announced, but not held	17%	1%
				Announced in 2003, but held in 2004	33%	2%
				Announced and held in 2003	50%	3%
		Existance of rules for public audiences	15%	No rules	0%	0%
				Rules approved by Regional President	50%	2%
				Rules approved by Regional Council	25%	1%
				Rules formed in consultation with RCC	25%	1%
		Evaluation of public audiences [1]	65%	Timing of announcements (4)	25%	4%
				Modes of communication (3)	25%	4%
				Discussion topics regarding accountability (7)	20%	3%
				Executive summary (3)	20%	3%
				Meeting agenda (1)	10%	2%
Coordination	25%	Elections of Regional Coordination Councils (RCC)	20%	Regional Electoral Committee	50%	3%
				Monitoring from National Elections Committee	50%	3%
		Representation in RCC	20%	Quota for women and indigenous people	50%	3%
				Presence of distrital mayors	50%	3%
		Instalation	10%	No rules for formation of RCC	0%	0%
				Rules approved by President of Regional Gov't	67%	2%
				Rules approved by Regional Council	33%	1%
		Functioning [1]	50%	Number of RCC meetings (6)	40%	5%
				Topics discussed (3)	20%	3%
				Participation of President of Regional Gov't (6)	40%	5%
Total	100%					100%

1: Sub-components have level III details not shown in this chart. The number of evaluated requirements is shown in parentheses.

Regional Government	Access to public information	% of max score	Transparency	% of max score	Accountability	% of max score	Coordination	% of max score	Good Governance Index	% of max score
Lambayeque	0.20	100%	0.25	83%	0.17	67%	0.15	58%	**0.76**	**76%**
Amazonas	0.20	100%	0.19	62%	0.15	62%	0.21	84%	**0.75**	**75%**
Tacna	0.15	75%	0.15	49%	0.22	86%	0.24	95%	**0.75**	**75%**
Pasco	0.20	100%	0.15	50%	0.22	89%	0.13	50%	**0.70**	**70%**
Tumbes	0.20	100%	0.18	59%	0.14	57%	0.17	68%	**0.69**	**69%**
Cajamarca	0.13	63%	0.22	73%	0.18	71%	0.17	67%	**0.69**	**69%**
Ucayali	0.15	75%	0.19	64%	0.18	72%	0.16	63%	**0.68**	**68%**
Ancash	0.20	100%	0.17	58%	0.17	69%	0.10	42%	**0.65**	**65%**
Ica	0.20	100%	0.18	60%	0.12	48%	0.13	50%	**0.62**	**62%**
Cusco	0.20	100%	0.12	41%	0.11	44%	0.17	68%	**0.60**	**60%**
Piura	0.13	63%	0.19	62%	0.10	40%	0.18	72%	**0.59**	**59%**
Lima Provinces	0.13	63%	0.12	41%	0.16	64%	0.18	72%	**0.59**	**59%**
San Martin	0.20	100%	0.08	26%	0.18	74%	0.12	48%	**0.58**	**58%**
Ayacucho	0.20	100%	0.09	30%	0.12	48%	0.17	68%	**0.58**	**58%**
Huanuco	0.15	75%	0.07	25%	0.19	76%	0.16	65%	**0.58**	**58%**
Callao	0.20	100%	0.09	29%	0.14	57%	0.15	58%	**0.57**	**57%**
Moquegua	0.20	100%	0.08	28%	0.15	58%	0.14	57%	**0.57**	**57%**
Arequipa	0.20	100%	0.16	53%	0.11	43%	0.08	32%	**0.55**	**55%**
Loreto	0.15	75%	0.14	46%	0.14	56%	0.12	48%	**0.55**	**55%**
Huancavelica	0.15	75%	0.18	59%	0.09	37%	0.12	50%	**0.54**	**54%**
La Libertad	0.15	75%	0.10	32%	0.08	31%	0.19	75%	**0.51**	**51%**
Apurimac	0.05	25%	0.00	0%	0.20	79%	0.18	70%	**0.42**	**42%**
Madre de Dios	0.15	75%	0.12	41%	n.a.	n.a.	0.04	17%	**0.42**	**42%**
Puno	0.20	100%	0.00	0%	0.10	40%	0.11	45%	**0.41**	**41%**
Junin	0.08	38%	0.12	41%	0.09	35%	0.12	48%	**0.41**	**41%**
Maximum score	**0.20**	**100%**	**0.30**	**100%**	**0.25**	**100%**	**0.25**	**100%**	**1.00**	**100%**
Average	**0.17**	**83%**	**0.13**	**44%**	**0.15**	**58%**	**0.15**	**59%**	**0.59**	**59%**
Variance	**0.002**		**0.004**		**0.002**		**0.002**		**0.011**	

Source: Indice de Buen Gobierno 2004, Defensoria del Pueblo

Note: Hall Town Meetings were not supervised in the case of Madre de Dios, so the sum of the other components are weigthed by 0.75.

Levels of Corruption Across Types of Everyday Transactions

Transaction	Percent
recover a stolen or impounded vehicle	22.7
make a police report	21.4
process or "fix" driving tickets	19.4
win a bid (concession/contract/etc.)	18.9
process court papers	14.8
work on a public thoroughfare	12.3
obtain a drivers license	11.8
get the police to patrol a zone	11.8
collect a bid	10.9
pass things through customs or control	10.6
visit a patient outside of visiting hours	9.2
lodge a complaint with the public	8.1
obtain a certificate of criminal record	8.0
obtain a military service booklet	6.9
process an operating license	6.2
get demolition or construction permit	5.8
obtain retirement pension	5.1
obtain a passport	5.1
connect to cable service	4.7
obtain health certificate	4.6
obtain diploma from state highschool	4.1
instalation or maintenance of water or	3.3
receive help from government programs	3.1
electrical instalation or maintenance	2.9
obtain transcript of studies	2.6
obtain birth, marriage or divorce	2.6
obtain a vehicle title	2.4
get medical attention at the Social	2.4
obtain credit from a public institution	2.3
obtain a property title	1.5
pay property tax	1.4
obtain an ID card	1.3
realizar declaracion jurada	1.2
get the municipality to collect the	1.1
connect to telephone service	0.7

Percent of Transactions Involving a Bribe

Source: Proética, 2004a

Appendix V

Legal Framework for Decentralization and Good Governance

Decentralization[90]	Key Legal References
o Municipal elections	(1997). Ley de Elecciones Municipales. N° 26864
o Basic legal framework	(2002). Ley de Bases de la Descentralización. N° 27783
o Regional governments	(2002). Ley Orgánica de Gobiernos Regionales. N° 27867
o Regional elections	(2002). Ley de Elecciones Regionales. N° 27683
o Constitutional reform	(2002). Ley de Reforma Constitucional del Capítulo XIV del Título IV sobre Descentralización. N° 27680
o Municipalities	(2003). Ley Orgánica de Municipalidades. N° 27972
o Participatory budgeting	(2003). Ley Marco del Presupuesto Participativo. N° 28056
o Decentralized investment	(2003). Ley Marco de Promoción de la Inversión Descentralizada. N° 28059
o Megaregions	(2003). Ley de Incentivos para la Integración y Conformación de Regiones. N° 28 274
o Fiscal Decentralization	(2003). Decreto Legislativo de Descentralización Fiscal. N° 955

Good Governance[91]	
o Access to public information	▪ Constitución: Artículo2, Numeral 5 ▪ TUO de la Ley 27806, Ley de Transparencia y Acceso a la Información Pública
o Transparency	▪ TUO de la Ley 27806, Ley de Transparencia y Acceso a la Información Pública ▪ Ley 27867, Ley Orgánica de Gobiernos Regionales, Artículo 8, Numeral 2
o Accountability	▪ Ley 27783, Ley de Bases de la Descentralización, Art. 21 ▪ Ley 27867, Ley Orgánica de Gobiernos Regionales, Artículo 8, Numeral 3, Art. 24, y Art. 87
o Coordination	▪ Constitución, Artículo 191 ▪ Ley 27783, Ley de Bases de la Descentralización, Art. 17 y Art. 20 ▪ Ley 27902 que Modifica la Ley Orgánica de Gobiernos Regionales, Art. 2 y Art. 3
o Inclusion and preferential treatment	▪ Ley 27408. Ley de Atención Preferencte ▪ Ley 27867, Ley Orgánica de Gobiernos Regionales, Artículo 8, Numerales 4 y 7
o neutrality	▪ Ley 27867, Ley Orgánica de Gobiernos Regionales, Artículo 8, Numeral 9

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[90] available through the CND website (www.cnd.gob.pe) and the Congress's website (www.congreso.gob.pe)
[91] from Office of the Public Defender, 2004a, p.54

Research Interviews Conducted in Lima, Peru; January, 2005

1. **Mario Ríos Espinoza**
   Vice Minister of Social Development
   Ministry of Women and Social Development

2. **José Carlos de la Torre**
   Coordinator
   National Council of Decentralization

3. **Otoniel Velasco Fernández**
   Chief of Advisors
   National Council of Decentralization

4. **Dr. Jorge Jara Valencia**
   Regional Development Manager
   National Council of Decentralization

5. **Raúl Molina**
   Municipal Development Manager
   National Council of Decentralization

6. **Gerardo Távara Castillo**
   Director
   Decentralization and Good Governance Program
   Defensoría del Pueblo

7. **Johnny Zas Friz Burga**
   Committee Member
   Decentralization and Good Governance Program
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11. **Cynthia Sanborn**
    Director
    Political and Social Science Department
    University of the Pacific

CAD	Ciudadanos al Día (a local CSO)
CND	Consejo Nacional de Descentralización (see NCD)
CPI	Corruption Perceptions Index
CSO	Civil Society Organization
ECI	Everyday Corruption Index
GCI	Growth Competitiveness Index
GDP	Gross Domestic Product
GGI	Good Governance Index
GNP	Gross National Product
IADB	Inter-American Development Bank
MEF	Ministerio de Economía y Finanzas (Ministry of Finance)
NCD	National Council of Decentralization (see CND)
OPD	Office of the Public Defender (Defensoría del Pueblo)
RCC	Regional Coordination Councils
TI	Transparency International
TUPA	Texto Único de Procedimientos Administrativos
WB	World Bank

Appendix VIII. Ordinary Least Squares Regressions

Explanatory Variables	(1)		(2)		(3)		(4)		(5)		(6)		(7)		(8)	
Good Governance	-0.12 (2.12)	**	-0.11 (2.12)	**	-0.11 (2.42)	**	-0.08 (1.91)	*	-0.09 (2.08)	*	-0.09 (1.98)	*	-0.08 (1.92)	*	-0.08 (1.92)	*
GDP per capita			-0.004 (2.18)	**	-0.002 (1.21)		-0.003 (1.49)		-0.004 (1.58)		-0.005 (1.64)		-0.004 (1.39)		-0.004 (1.48)	
Distance to Lima					-0.00004 (2.13)	**	-0.00004 (1.97)	*	-0.00004 (2.15)	**	-0.00005 (1.87)	*	-0.00004 (1.94)	*	-0.00004 (1.96)	*
Religious Organization							-0.16 (1.53)		-0.15 (1.54)		-0.14 (1.20)		-0.14 (1.17)		-0.14 (1.16)	
Primary Education							-0.13 (0.94)		-0.15 (0.90)		-0.14 (0.85)		-0.14 (0.85)	
Government Size									0.01 (0.20)		0.02 (0.21)		0.02 (0.23)	
Ethnic Homogeneity													0.009 (0.32)	
Ethnic Fractionalization															-0.007 (0.25)	
Constant	0.12 (3.57)	***	0.13 (3.95)	***	0.15 (5.37)	***	0.15 (6.33)	***	0.18 (4.16)	***	0.18 (4.01)	***	0.17 (3.21)	***	0.18 (3.82)	***
Number of observations	24†		23		23		23		23		23		23		23	
R square	0.22		0.31		0.50		0.55		0.57		0.57		0.57		0.57	

Dependent Variable: Proetica's Everyday Corruption Index
* 90% confidence level, ** 95% confidence level, *** 99% confidence level.
t-statistics are shown in parentheses.
Sources: Proetica - Transparency International Peru, Defensoria del Pueblo, INEI.
† Here we are able to also use Provincial Lima as a measure in both variables. In the other specifications, no distinction was made between Metropolitan Lima and Provincial Lima and thus was excluded.