TAX ASSIGNMENT TO LOCAL GOVERNMENTS

-The Case for Fiscal Decentralization in Peru-

by

ANDRES LOPEZ HOYOS

A mini-thesis submitted in partial fulfillment of the requirements

for the degree of Magister Philosophiae in Development Studies

at the Institute of Social Development,

University of the Western Cape

Supervisor: Hartmut Janus

Co-supervisor: Pieter Le Roux

Cape Town – South Africa, May 2004

TAX ASSIGNMENT TO LOCAL GOVERNMENTS
- THE CASE FOR FISCAL DECENTRALIZATION IN PERU -

Andres Lopez Hoyos

KEYWORDS

Fiscal Decentralization

Tax

Local Government

Transfers

Borrowing

Fees

Revenue

Expenditure

Peru

Development

i

ABSTRACT

TAX ASSIGNMENT TO LOCAL GOVERNMENTS – THE CASE FOR FISCAL DECENTRALIZATION IN PERU

A. Lopez Hoyos

M.Phil Mini-thesis, Institute of Social Development, University of the Western Cape

A country's decentralization process can be one of the pillars of democratic participation, local and regional accountability, sub-national empowerment, and under certain conditions, economic growth. Fiscal decentralization, a sub-division of decentralization, plays an important role in defining the assignment of expenditure and of revenue sources to sub-national levels of government. The proper assignment of revenue provides all the different governments of a country with the necessary financial resources to operate efficiently. In this mini-thesis, I analyze the assignment of taxes as revenue sources to local governments, giving special focus to the Peruvian case. It aims at proposing an optimal local taxation system for Peruvian local governments.

First, I explain what is meant by fiscal decentralization and highlight the importance of own revenue sources among the instruments that are used to finance sub-national governments. In this chapter I emphasize the tendency of local taxes towards and increase of accountability and of fiscal responsibility. I then analyze what is -in theory- the proper assignment of taxes and which taxes fulfill the characteristics of good local taxes. In this regard, it is commonly stated that the property tax is the only tax that passes the stringent characteristics of good local taxes. Taxes such as value added tax and the business tax are appropriate for sub-national governments if the services that local governments are supposed to deliver hold a great percentage of the national expenditure.

Subsequently, I examine how Peru, one of the most centralized countries in the world, finances local governments under its new decentralization process. In this regard, public services assigned to Peruvian local governments are being increasingly financed through

intergovernmental transfers, leaving no room for own tax efforts. Currently, Peruvian local governments have six taxes assigned. These taxes mainly benefit urban areas.

I then investigate whether Peruvian local governments levy taxes at their maximum tax-capacity (maximum tax-compliance) and how dependent they are on intergovernmental transfers from other tiers of government. I discovered three main problems when financing Peruvian local governments: (i) the expenditure assignment is broad and confusing, (ii) the current taxes benefit mainly urban municipalities and bring low revenues, and (iii) there is a generalized culture of non-payment among tax-payers.

I conclude by proposing the introduction of the tax on environmental damage and tax on advertisement; and also by introducing a new system for the current local taxation system. I also recommend the gradual removal of the culture of non-payment by presenting new payment systems that match tax-payers possibilities. Similarly, I propose further research on the expenditure assignment in order to accurately match local taxes as well as on the intergovernmental transfer system in Peru in order to enhance local own tax efforts.

The findings of this mini-thesis will be useful for local authorities and policymakers with an interest in improving the local revenue systems, for donor countries and their organizations when defining policies for development aid allocation to developing countries, for non-governmental organizations whose main focus is fiscal policy reform, and for any other person interested in local taxation and decentralization.

DECLARATION

I herby declare that the thesis on

Tax Assignment to Local Governments – The Case for Fiscal Decentralization in Peru

is my own work, that it has not been submitted before to any degree or examination in any other university, and that I have received no assistance other than the stated sources and citations.

ANDRES LOPEZ HOYOS

Place: Cape Town – South Africa
Date: May 2004

Signature:

iv

ACKNOWLEDGEMENTS

v

TABLE OF CONTENTS

LIST OF TABLES AND FIGURES

LIST OF ACRONYMS

CG	Central Government
CND	Consejo Nacional de Descentralizacion - *National Decentralization Council*
CVAT	Central Value-Added-Tax
DLG	District Local Government
IPM	Impuesto a la Promocion Municipal - *Municipal Promotion Tax*
LG	Local Government
LLG	Large Local Government
MEF	Ministerio de Economia y Finanzas - *Ministry of Economy and Finance*
MLG	Medium Local Government
MTC	Ministerio de Transporte y Comunicaciones - *Ministry of Transport and Communication*
NGO	Non-Governmental Organization
PIT	Personal Income Tax
PLG	Provincial Local Government
RER	Régimen Especial de Impuesto a la Renta – *Income Tax Special System*
RG	Regional Government
RGR	Régimen General de Impuesto a la Renta – *Income Tax General System*
RST	Retail Sales Tax
RUS	Régimen Único Simplificado – *Simplified Unique System*
S/	Nuevo Sol
SLG	Small Local Government
SUNAT	Superintendencia Nacional de Administración Tributaria – *National Tax Revenue Administration*
UIT	Unidad Impositiva Tributaria – *Tributary Unit*
VAT	Value-Added-Tax

CHAPTER ONE - INTRODUCTION

A country's decentralization process can be one of the pillars of sub-national empowerment, local democratic participation, local and regional accountability, distribution, revenue mobilization, and under certain conditions, economic growth. Sub-national governments[1] in a decentralized country have functions and services that are delegated from the central government (hereafter CG). Fiscal decentralization, a sub-division of decentralization, plays an important role in defining the assignment of expenditure and of revenue to sub-national levels of government. Revenue assignment provides regional governments (hereafter RGs) and local governments (hereafter LGs) the necessary financial resources to operate efficiently, and therefore it should be the object of special attention for policy makers[2]. Fiscal decentralization should not be seen in isolation but as part of an overall program, the elements of which are intended to support each other.

LGs can be provided with financial resources such as *own revenue sources, transfers* made horizontally and vertically*, loans* from private and public banks*, and support from donor countries* although the latter will not be considered in the theoretical part. Own revenue sources are those that come directly from the jurisdiction, such as taxes or user charges. The question of how and which taxes should be assigned to LGs is often called "The Tax Assignment Problem", which is central to the present analysis. In theory, a proper assignment of local taxes to LGs should fulfill four main criteria: (i) it should be in accordance to the responsibilities of LGs, (ii) it should fulfill the principles of good local taxes, (iii) it should bring enough revenue to LGs in order to be independent from superior tiers, and (iv) it should fulfill the benefit-tax principle at the maximum extent possible. If LGs are secured with sustainable revenue, the local efficiency will be enhanced. Likewise, if local taxes benefit the same tax-payers, local accountability and fiscal responsibility will be increased.

This mini-thesis analyzes the local tier of government since it is closer to the problems of the citizens than any other tier and is therefore the most suitable level to take responsibility for the quantity and quality of local services, encourage citizens to incorporate their preferences

---

[1] Sub-national Governments are all the levels of government below the central government, such as regional governments and local governments.
[2] Daniel Barle (2002) p. 69. This provision of financial resources to LGs is often called the "Revenue Assignment" and entails the design of intergovernmental transfers, loans, and taxation.

and those of their community, and fulfill the needs of people more efficiently and rapidly. On the other hand, although the CG does not have the capacity to understand clearly the preferences of each RG and LG, it should be the government in charge of regulating and controlling the financing of services for each level[3].

Peru, one of the most centralized countries in the world[4], has limited experience in local taxation policies. Since 2002, the country has been engaged in a new decentralization process whereby responsibilities are being shifted to sub-national governments. In this regard, public services assigned to LGs are financed through intergovernmental transfers, without securing LGs with sustainable own revenue sources such as taxes. Although there are several studies about intergovernmental transfer system in Peru, there is no detailed research about local taxation and/or fiscal decentralization. At the moment, LGs are very dependent on intergovernmental transfers due to the low fiscal responsibility they have and the great economic disparities the country faces. This mini-thesis analyzes, from the fiscal decentralization view, the possible enhancement of the Peruvian local taxation system by proposing taxes that could be levied by LGs. Hence, it aims to offer an optimal local tax system.

The findings of this mini-thesis can be useful for local authorities and policymakers with an interest in improving local revenue systems, for donor countries and their organizations when defining policies for development aid allocation to developing countries, for non-governmental organizations whose main focus is fiscal policy reform, and for any other person interested in local taxation.

The mini-thesis is divided into ten chapters in addition to this introductory chapter. It starts with chapter two where the fiscal decentralization is defined and the different means of financing LGs are appraised. Special attention is given to local taxation systems and their impact on LGs' efficiency to fulfill their tasks. The third chapter deals in detail with the characteristics of good local taxes and determines to what extent each tax can be assigned to LGs according to the local responsibilities. The fourth chapter assesses the principal taxes and their degree of fulfillment as possible local taxes. The results of this assessment help to narrow the possible local taxes to Peruvian LGs and give evidence of the taxes that can only

---

[3] Betty Alvarado (1994) p. 24.
[4] Markus Rühling (2002) p. 7.

be levied by certain tiers of government. The fifth chapter deals with the constraints on the implementation of local taxes and the reasons why LGs do not get enough revenue even with a well-designed local tax system. The outcome explains why even efficient LGs do not have substantial revenues from local taxes. The sixth chapter describes the field research period conducted in Peru and the methodology used to obtain data. In this chapter, the hypothesis and the research questions are presented. Chapter seven is an introduction to the Peruvian case study. Details about the decentralization process and the expenditure-revenue assignment to RGs and LGs are given in order to set the background for the empirical results. Particular attention is given to the LGs' revenue and expenditure assignment. Chapter eight describes the empirical results of the field research, where statistics of LGs tax revenue and tax potential are compared, concluding with the analysis of the vertical fiscal imbalance. Chapter nine revises the enhancement of the taxation system by assessing the possible candidates for local taxes, and in light of the theoretical basis, an optimal local taxation system is proposed for Peruvian LGs. The thesis ends with chapter ten where a summary and recommendations are given.
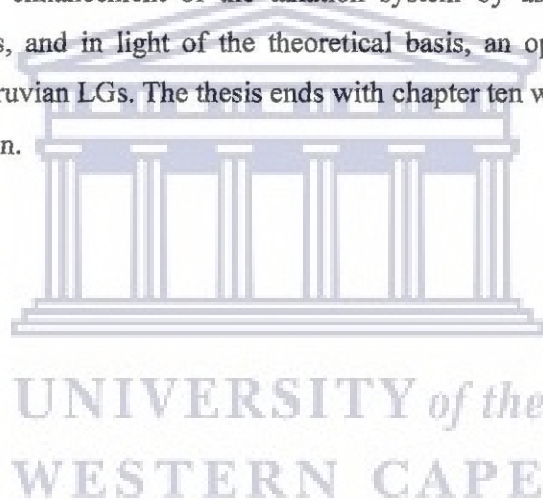
CHAPTER TWO – CONCEPTUAL FRAMEWORK

This chapter reviews the literature on fiscal decentralization, and gives the pros and cons of decentralization practices. It also analyses, from the fiscal decentralization point of view, the ways on how LGs can be financed.

2.1   DECENTRALIZATION – CONCEPTUAL BACKGROUND

Decentralization is a relatively new phenomenon that is being practiced by many developing and developed countries around the world. The process itself is approached differently in every country. Its definition is a matter of discussion by many experts on the topic. For instance, Litvack & Seddoni (1999) define decentralization as the transfer of authority and responsibility for public functions from the CG to subordinate or quasi-independent government organizations or the private sector. Cheema (1983) argues that decentralization is defined as the transfer of planning, decision-making, or administrative authority from the CG to its field organizations, local administrative units, semi-autonomous and parastatal organizations, LGs, or nongovernmental organizations. The Center for Democracy and Governance (2000) identifies decentralization as a process of transferring power to popularly elected LGs. In simple terms, decentralization is understood to be the transfer of administrative, political and fiscal powers to autonomous sub-national governments.

Decentralization is based on the premise that sub-national governments will perform certain functions the best. As Richard Musgrave described in his theory for the three relevant responsibilities of governments, the economic benefits of a country are enhanced when services are assigned to the level of government which is most likely to implement them more efficiently, rather than just manage and finance them for the overall administration of the central state. Sub-national governments are closer to the citizens, knowing their needs and preferences more so than the CG or a group of experts. Therefore, decentralization attempts to empower sub-national governments with decision and political power to best fulfill certain services. Furthermore, decentralization can increase competition among LGs which could be the recipe for innovation of ideas and efficiency (Robert & Yilmaz: 1999).

2.1.1   Forms of Decentralization

Decentralization can take up different forms that can be distinguished by the extent to which the process is planned and managed from the CG to RGs and LGs[5]:

- **Deconcentration**, often referred to as administrative decentralization, describes the transfer of specific functions to the peripheral agencies of the same central institutions, without the transfer of the faculty of inter-institutional or inter-sectoral coordination or integration. In this type of decentralization, LGs act as "agents" and remain dependent on the CG.

- **Delegation,** often referred to as political decentralization, is the attribution of certain specific functions to semi-autonomous autarchic or parastatal organizations, which execute them independently, without owing direct responsibility to either local or sectoral central government institutions. It is mandating sub-national governments with certain services under the supervision of the CG. This is frequently practiced in the energy, telecommunications and transportation sectors.

- **Devolution,** often referred to as privatization or as fiscal decentralization, is the transfer of specific functions to independent, established LGs. This includes the legal basis, capacity for the generation of material and human resources and discretionary decision-making power. The decentralized agencies in this context have little reliance on the CG, unless prescribed in the legal basis for the devolution.

Note that neither deconcentration nor delegation provides LGs with real decision-making power as LGs continue to be accountable to the CG as opposed to being accountable to their constituencies (Jameson Boex: 2001). Each type of decentralization has different characteristics, policy implications, and conditions for success. All these factors need to be carefully considered before deciding whether projects or programs should support reorganization of financial, administrative, or service-delivery systems.

---

[5] For a normative conception of the processes, see the Office of Oversight and Evaluation (2000).

2.1.2 Fiscal Decentralization

As described above, fiscal decentralization is the most comprehensive form of decentralization and involves a change in the design of the intergovernmental fiscal relations of a country. It deals with how the public sector is organized and financed (Jameson Boex: 2001). Fiscal decentralization cannot be achieved if broader elements of political and institutional arrangements are not first accomplished. Fiscal decentralization aims to[6]:

- **Bring the government closer to the citizens**. Decentralization empowers sub-national governments with decision-power and financial resources to deliver public services to their constituencies. The linkage between the benefits of local public services and their costs in decentralized systems will be enhanced.

- **Increase efficiency in service delivery**. Because decentralized governments are more likely to provide a better match of expenditures against local priorities and preferences, mismanagement of resources will be reduced and thus efficiency will be gained. Furthermore, decentralization reduces the complexity of decision-making. With fewer persons influenced by governmental decision, the choices can be directed toward their intended objectives or results instead of their means.

- **Support democratic governance**. Decentralization fosters democracy because it gives citizens the right to intervene in the political decision-making process. Decisions become more democratic, processes become more open, and civic freedom expands. The citizenry is more likely to participate because their participation has greater meaning and practical impact. Moreover, it is very likely that the accompanying increased level of sub-national accountability will reduce the level of corruption in government officials[7].

- **Increase sub-national accountability**. Since under fiscal decentralization reform national expenditures are decentralized to sub-national governments, the electorate knows exactly who is responsible for the quality and quantity of public services. Furthermore, as it will be explained in the coming chapter, the use of benefit-taxation increases the transparency of the use of financial resources.

---

[6] Waler Kaelin: n.d.
[7] Troy McGrath: 2004

Andres Lopez Hoyos 6

- **Enhance sub-national fiscal responsibility**. Because decentralized governments are less fiscally dependent on the national government, sub-national tiers are motivated to increase their tax revenue by encouraging tax compliance among citizens. In addition, the decentralization of revenue-raising power to sub-national governments encourages decentralized governments to take care of their economic base.

- With the right conditions, "**development from below**". Although local development is possible without decentralization, the latter gives the conditions for a faster response towards development. More efficient administration of sub-national governments helps to improve local development projects. Decentralized governments become very creative and innovative when looking for solutions to problems. Furthermore, with the right conditions, development from below will help to minimize the economic disparities among jurisdictions and regions.

After pointing out the advantages of fiscal decentralization, the immediate question is: Why do developing countries not carry out fiscal decentralization? There are three main reasons[8]:

(i) High political unwillingness to decentralize. Since decentralization implies the shift of decision-making power and financial resources to sub-national governments, many central officials are reluctant complete the transfers for fear of losing control of financial and political power.

(ii) High probability that services will be less coordinated both between localities and from the locality to higher tiers of government, mainly because of the inexperience of sub-national governments.

(iii) If sub-national governments behave fiscally irresponsibly by not repaying debts, the country will risk its macroeconomic stability. Instead, in a centralized scheme, the CG has the capacity to influence macroeconomic conditions in order to stabilize the economy.

---

[8] www.decentralization.org

Andres Lopez Hoyos

2.1.3   Components of Fiscal Decentralization

In normative terms, fiscal decentralization is composed by the legal basis, fiscal discipline, and intergovernmental fiscal relations. These are described below:

- The **legal basis** provides the framework for fiscal relation i.e. the *expenditure* and *revenue* assignment. Expenditure assignment refers to the decentralization of social services to LGs whereas revenue assignment is the decentralization of revenue sources to LGs. The assignment of expenditure is the first step in designing of fiscal decentralization, followed by the assignment of revenue sources. The assignment framework to the different tiers of government must be designed in such a way that it does not cause ambiguity or confusion at the local level (Robert & Yilmaz: 1999). Both assignments are two sides of the same coin and represent the backbone of fiscal decentralization.

- **Fiscal discipline** provides the guidelines to avoid a macroeconomic threat to the nation. Since LGs are potentially inclined to act fiscal irresponsibly, the CG is the tier to regulate most responsible for regulating the transfer system and the borrowing ability to ensure fiscal and monetary discipline.

- **Intergovernmental fiscal relations** provide support for policy objectives of sub-national governments. Robert and Yilmaz (1999) state that "…the system of intergovernmental fiscal relations should be transparent and promote fiscal harmonization, sub-national government accountability, and regional equity". Comprehensive fiscal decentralization approaches the three components at the same time, with each supporting the other.

2.1.4   What are the Constraints Limiting Fiscal Decentralization?

Decentralization, as any other political reform, can be affected by internal and external factors that limit its normal development. Internally, factors that limit decentralization are the lack of a legal framework, coordination between governments, CG leadership, extension of the local level, and number of LGs. Externally, factors that limit decentralization are the macroeconomic effects of the global economy. In order to overcome the lack of coordination between tiers, many countries establish a ministry or an autonomous entity whose main role

Andres Lopez Hoyos   8

is to secure the right development of decentralization, such as the National Decentralization Council in Peru.

2.1.5 Designing Fiscal Decentralization

Designing fiscal decentralization is not an easy procedure. There is a great deal of debate about which responsibilities should be assigned to LGs and which revenue sources are more appropriate to finance the set of expenditures. The fact is that there are no set rules to guide the process. However, many authors such as Bird (2002) and McClure (2003) agree that fiscal decentralization has to take into account the characteristics of the country (number of LGs, degree of centralization, poverty rate, and so forth) and the expenditure assignment. The latter is the basis for revenue assignment and intergovernmental transfer. Efficiency will be gained if the expenditure assignment is mainly linked to local accountability and delivery effectiveness; and if the revenue assignment is essentially linked to expenditure responsibilities. Therefore, the reform sequence should first fix the assignment of expenditures, and then assign revenues according to the expenditure dimension.

2.2   METHODS OF FINANCING LOCAL GOVERNMENTS

According to the literature, many decentralization reforms of developing countries have two main problems with financing LGs[9]:

- LGs do not have revenues assigned to them to carry out the expenditure assigned by the CG,
- Even with a revenue assignment, LGs are obliged to levy non-profitable taxes as well as to receive direct grants from other tiers of government that seldom produce the necessary revenues to finance the most important services (such as education and health).

In order to overcome the two above-mentioned problems, many countries use fiscal decentralization as a reform aimed to increase sub-national accountability by assigning

---

[9] World Bank Institute (n.d.) p. 24.

Andres Lopez Hoyos   9

expenditure responsibilities and revenue sources to LGs. Revenue sources such as *intergovernmental transfers*, *borrowing ability*, and *own revenue sources* (such as taxes and user fees) are the main ways to finance LGs. Although these instruments could give substantial revenue, they bring about problems and constraints that need to be clarified. In most of the countries, two or more ways are used to finance LGs. These are highlighted below.

2.2.1 Intergovernmental Transfers

The most common way –especially in centralized countries– to finance LGs is to transfer financial resources from other tiers of governments. Intergovernmental transfers represent the income that the recipient government has no authority to determine, administer, or levy; and thus, it does not demand any fiscal effort (Betty Alvarado: 2003, p.23). Vertical transfers are made from higher tiers of governments to LGs (CG and/or RGs to LGs), and horizontal transfers are made between the same level of governments e.g. LGs to LGs. There are two specific kinds of transfers:

a) Unconditional Transfers – This kind of transfer is not earmarked for any particular set of expenditures and LGs are free to spend them as they wish. Its rationale includes (i) equalizations in vertical and horizontal economic imbalances for LGs whose income is not enough for the expenditure bulk, (ii) to cover inter-jurisdictional spillovers; and (iii) to enhance and to promote the objectives of LGs with scarce sources (Jose Martinez Vazquez: 2002, p. 4; Betty Alvarado: 1994, p. 25).

b) Conditional or Block Grants – These grants are earmarked to a specific set of expenditures or a broad category (GTZ: 2002, p. 54). The rationale for these transfers is to pay RGs or LGs for the implementation of specific activities or programs, such as health or primary education provision.

Transfers are usually financed from taxes and/or other sources such as the sale of assets, bonds emission, privatization revenues, etc. The recipient government does not automatically receive the transfer as a percentage of the taxes levied in its jurisdiction, but at the discretion of the levying government (usually the CG) which uses a distributional formula. Although several countries use a similar formula, it can differ from country to country. The most

Andres Lopez Hoyos

10

frequent considerations are level of poverty, number of inhabitants, mortality rate, jurisdiction's own tax revenue (LG's fiscal efforts), and literacy level. For example, the Portuguese formula is based on the number of inhabitants, amount of per capita income of direct taxes, number of districts within the LG, and basic needs (Betty Alvarado: 1994, p. 70), whereas the Spanish experience uses the number of inhabitants, local tax revenue, and number of publicly-funded schools units in each LG (David King: 1992, p. 49). The choice of the criteria for transfers is usually linked to the functions of the transfers.

2.2.2 Sub-national Borrowing Ability

Sub-national borrowing represents the ability of LGs to borrow financial units from other sources[10]. There are two different channels through which sub-national governments can borrow: *public intermediary* such as an infrastructure bank or central bank, or *direct borrowing* from private capital markets. Local borrowing is mainly used by well-established municipalities in developed countries that have political and fiscal stability as well as investment assets that serve as collateral. Instead, LGs in developing countries hardly ever use loans as a revenue source because their high fiscal instability, their lack of managerial capacity, their undefined re-payment methods, and their lack of collateral assets are perceived as high risks by lending institutions (Vidarre Aguayo: n.d., p.24). Under the fiscal decentralization point of view, there are at least three reasons for limiting the existence of loans as a revenue source to sub-national governments[11].

a) If there are no proper controls and regulations over the borrowing ability, LGs are inclined to behave fiscally irresponsibly by borrowing more than necessary. This negligent behavior leads LGs' officers to make use of loans as the solution to cover any financial gaps. As in the case of intergovernmental transfers, the excessive use of loans neglects LGs' own tax efforts.

b) The CG is responsible for macroeconomic and stabilization regulations and it is important that it have full control over public debt. Sub-national governments' ability to borrow must be subject to market discipline in order to avoid economic destabilization.

---

[10] World Bank Web Page (Designing Tax structure).
[11] Bird (2000) p. 21, GTZ (2002) p. 109, Davoodi (2001), p.2.

c) Financing through borrowing certainly leaves the necessity to repay the debt through revenues coming from taxes, user fees and transfers (the latter is the case for vertical imbalances).

Therefore, if local borrowing is allowed, two key aspects should be taken into consideration: (i) the CG should establish limits for borrowing in order to avoid a macroeconomic threat within the nation, and (ii) the LGs should attempt to invest the loans in projects that secure the redemption of the loan, such as improvement of the tax collection.

2.2.3 Own Revenue Sources

This type of LG finance represents the income that comes directly from the jurisdiction. Own revenue sources represent the most appropriate way to finance LGs since it obliges governments to be fiscally responsible by increasing the local accountability and own tax efforts. Moreover, it enhances sub-national financial autonomy and efficiency. There are three types of own revenue sources: taxes, tax sharing, and user fees.

Taxes

Taxes are compulsory payments by individuals or private organizations to a government, customarily associated with no specific, explicit *quid pro quo* (Local Government Finance: 1991, p. 16). Taxes are used to *finance public services; to encourage some types of behavior* such as contributions to charity, the purchase of houses, having children, and so forth; *to discourage other types of behavior* such as drinking, smoking, polluting, natural resources exploitation, so on; *and to change the overall redistribution of income* when applying higher tax rates to richer citizens and lower tax rates to poorer. However, taxes bring about some disadvantages[12]:

a) High tax rates can reduce the reward for working, saving, taking risks, or investing. Citizens who are highly taxed on their income can be discouraged from engaging in new businesses and/or work. Their likelihood to invest is distorted when their assets are highly taxed.

---

[12] Leuthold (n.d.) p. 4, IFS (1978) p. 7-23.

Andres Lopez Hoyos   12

b) Taxes on goods and services lower the individual's purchasing capacity and thus the people's consumption pattern is changed. Certain goods will be avoided due to the inability to afford them.

Although financing through taxation has the above-mentioned drawbacks, when compared to intergovernmental transfers and local loans, it is considered to be the most advantageous way to finance LGs because it increases the accountability and responsibility of sub-national government officials to their constituencies[13]. Local responsibility of services encourages LGs to pay more attention to the problems and needs of the society, and promotes new ideas which lead to competition and innovation of better services[14]. LGs become more accountable to their constituencies when tax payers know exactly what they are paying for, as it is the case when the benefit-tax principle is applied. Therefore, if the revenue coming from a specific local tax is used to finance specific local services, the transparency of such transactions is higher than intergovernmental transfers coming from other tiers that usually tend to blur the accountability and local responsibility[15]. Furthermore, the good management of taxes for the financing of services increases public good will for LGs' officers in future elections.

Tax Sharing

Tax sharing is the agreement between jurisdictions to share tax yield when all the jurisdictions involved have the competence with regard to the revenues coming from that tax. These revenues can be shared in the form of *quotas* among different levels of government or *piggy-backing*[16]. Tax sharing is seen as an "own" revenue source since the tax revenue comes from the LGs' jurisdiction. Nevertheless, there is a high risk that superior levels of government collecting the revenues will not forward the agreed amount to LGs. Where this happens, true ownership of revenues is reduced. Tax sharing involves questions of: (i) Which level of government chooses the taxes? (ii) Which level defines tax rates? (iii) Which level defines the tax base? (iv) Which level administers the taxes?[17]

---

[13] Jorge Martinez Chavez (2001), p. 7.

[14] GTZ (2002) p. 5.

[15] GTZ (2002) p. 90.

[16] Piggy-backing is the revenue coming from a surcharge of a certain tax which is levied by another tier of government but administered by a LG (GTZ: 2002, p. 54). Piggy-backing is a kind of intergovernmental transfer where the recipients have the authority to determine its creation, distribution and administration.

[17] McLure (1999) p. 31.

Andres Lopez Hoyos

13

User Charges

User charges are paid in exchange of goods or services that have a defined marginal cost and are usually visible, while taxes are compulsory payments to governments for the finance of general public goods and services (Bird: 2003, p. 8.). Its payment involves a direct return of the good. As with any economic firm, the price is set beforehand (it should cover the marginal costs) and will determine the demand for the good. There are at least two types of user charges. *Service fees* are the charges levied by LGs for performing specific services like marriages or dog licenses, and *public property prices* are revenues received from the sale of public assets[18]. User charges also enhance local accountability because the delivery of goods is directly linked to the marginal price (benefit-tax principle), and therefore it should be used whenever possible. Although user charges are appropriate for LGs, their revenues certainly cannot finance major public services.

---

[18] Public property prices are not always considered to be user charges.

CHAPTER THREE - ASSIGNMENT OF GOOD LOCAL TAXES

In the previous chapter the different means of financing LGs within a fiscal decentralization reform were investigated. This chapter deals with the analysis of the relevant responsibilities of governments and with the definitions and characteristics of good local taxes, and gives the theoretical definition of how the assignment of local taxes to LGs should be.

3.1   RESPONSIBILITIES OF GOVERNMENTS

In order to establish good local taxes to LGs, it is important to consider the responsibilities and functions that each level of government should provide. The following explanation is based on Richard Musgrave's theory of the three relevant functions of governments.

3.1.1   Macroeconomic Stabilization

This refers to the achievement of a high level of employment, reasonable price stability, surplus in the balance of payments, and an acceptable economic growth rate. Although sub-national governments can attempt to achieve macroeconomic stabilization, there are solid reasons why the CG should carry out this function;[19]

- Sub-national governments cannot significantly affect the macroeconomic environment of the country within their boundaries.
- As explained in 1.2, the extended power to borrow money to LGs often results in irresponsible behavior that threatens the macroeconomic stability of a nation if the money borrowed is not well invested and if the redemption of the debt is not properly planned.

3.1.2   Redistribution of Income

This government function refers to the achievement of equitable distribution of income among citizens. The instruments commonly used to redistribute income are progressive

---

[19] McLure (1999), p.2.

income tax, corporate income tax, and tax on dividends. As in the case of macroeconomic stability, the redistribution of income also seems appropriate for a CG for the following reasons:

- As McLure (1999) states, "sub-national attempts at redistribution may not be successful and they are likely to distort the geographic allocation of economic resources". Assuming that two LGs are levying different progressive individual Income Taxes on their area, the result would presumably be the reallocation of investment and human labor to jurisdictions where better conditions –lower tax rates– are given.
- Even if the attempt to redistribute within on LG's boundaries is successful, the overall interpersonal disparities will persist across jurisdictions.
- A tax on dividends by its very nature can only be levied on a national level.

3.1.3 Resource Allocation

This function refers to the efficient provision and use of private and public resources of a country. The economic benefits of a country are enhanced when the services are assigned to the level of government which is more likely to implement them more efficiently, rather than just manage and finance them from the overall administration of the central state. As the theory of fiscal decentralization shows, LGs are the level of government closer to the citizens and consequently LGs know their population's needs and preferences better than any other tier of government or group of experts. The efficient financing of public services is in accordance with the needs of the jurisdiction and should reflect the costs and benefits of the public good. Thus, a service should be allocated to LGs if the task would be predominantly serviced in their jurisdictions and if the local level is most likely to deliver it best. If a public service transcends LGs' boundaries, the task should be provided by either the CG or RG.

3.2   PRINCIPLES OF GOOD LOCAL TAXES

In order to increase the efficiency of tax assignment to LGs, alongside with the responsibilities of governments, taxes must fulfill the following criteria of good local taxes:

3.2.1 Non-exportability / Benefit-tax Principle

Local taxes should avoid the export of the tax burden to non-residents who derive no benefits. For example, assuming that there is only one producer of cigarettes in the country, a tax on tobacco imposed by the LG where the firm is located, would be exported to the consumers of cigarettes throughout the nation[20]. In this example, tobacco-tax-payers do not receive the benefits of the tax such as the financing of local hospital and clinics.

Non-exportability can be achieved using the *benefit-tax principle* which states that a tax must be imposed on the same citizens that benefit from the services financed by the tax revenue. Consequently, the tax should be imposed depending on how people benefit from government expenditures (Jorge Martinez-Vazquez: 2001, p.6). For instance, the tax burden on gas that serves to finance street repairs should be borne by the street users e.g. those driving cars[21]. If citizens reside in several overlapping jurisdictions (local-regional-nation), they should, according to the so called "principle of fiscal equivalence", pay taxes to each level corresponding to the benefits they receive from each jurisdiction[22].

Moreover, the use of benefit-tax principle enhances the accountability and efficiency of the delivery of services at the local level. If the tax is exported, the accountability is lost since citizens do not know who is getting the revenue or what is done with it. Furthermore, tax exporting causes unfairness and it encourages over-expansion of the sub-national public sector at the expense of non-residents. In cases where the tax burden crosses LGs' boundaries, the tax should be levied by superior levels of government for reasons of fairness, stabilization, income distribution, and accountability.

3.2.2 Revenue Stability and Elasticity

A tax yield that remains sheltered from cyclical variations of economic activity should be allocated to LGs in order to secure a sustainable source of income, accountability and

---

[20] For the sake of the example, one has to assume that there is neither importation of cigarettes nor smuggling. (McLure 1999 p.8).

[21] If in this example one considers tourists as streets users, the burden should be borne by them as well, and the allocation of the Fuel Tax should be assigned to either RGs or the CG since they have more control on the macro level.

[22] To keep the fiscal equivalence among jurisdictions, intergovernmental transfers should be done when some taxes are levied by one jurisdiction and taxes are paid by citizens residing in other jurisdiction. Bird (2003b) p.3.

Andres Lopez Hoyos   17

efficiency (GTZ: 2002, p. 90). Additionally, the lack of power to access loans as well as the unreliability and lack of accountability of transfers oblige LGs to have stable tax revenue. In order to guarantee the delivery of public services, an increase in responsibility for any local expenditure should be accompanied by an increase on the LGs' revenue side.

3.2.3 Easy to Administer

This principle states that local taxes should be relatively easy to administer and comply with, where the costs of levying and administering the tax should be as low as possible for both tax-payers and LGs[23]. It involves the managerial capacity of local officers as well as the costs of administration of taxes. Since smaller jurisdictions face potentially higher administrative costs per unit of revenue raised than larger ones, the local system as a whole is constrained by the former's ability to administer taxes (GTZ: 2002, p. 96). The managerial capacity of local tax administration offices is usually low because of the lack of experience and resources, hampering the cost-effective collection of revenues. Therefore, a local tax system should be coherent, simple, straightforward, and should entail[24]:

- Transparency and visibility - Taxpayers should know that a tax exists and how and when it is imposed upon them and others.

- Certainty - The tax rules should clearly specify when the tax is to be paid, how it is to be paid, and how the amount to be paid is to be determined.

- Convenience of payment - A tax should be due at a time or in a manner that is most likely to be convenient for the taxpayer in order to ensure compliance.

- Economy in collection - The costs to collect a tax –time and money employed to file taxes– should be kept to a minimum for both the government and taxpayers.

- Simplicity - The tax law should be simple so that taxpayers can understand the rules and comply with them correctly and in a cost-efficient manner.

As user charges fulfill at maximum the benefit-tax principle, they should also be easy to administer and to levy, so that LGs can rely on them as much as possible[25].

---

[23] Jorge Martinez-Vazquez (2001) p.7.

[24] AICPA (2001) p. 10.

[25] Bird (2003b p. 6) gives the example of the province of San Juan/Argentina where the LGs have a poor-designed structure for user levels based on any rational principle and where their administration is more expensive than the tax yield itself.

Andres Lopez Hoyos   18

3.2.4 Tax Competition

The local tax system should give room for healthy competition. In the past, many tax experts affirmed that the differences in tax rates among jurisdictions often produced an unfair competition among LGs causing massive movements of capital and persons to cheaper tax rate jurisdictions, which is the recipe for economic disaster (IFS: 1978, p. 7). This is not entirely true. There is an idea of efficiency behind competition among LGs that helps taxpayers to get what they paid for (Benefit-tax). The tax rate can be seen as a positive incentive for LGs to improve the quality of services. Just like any market of goods, healthy competition among producers is an incentive to be more efficient by reducing prices and offering more quality[26]. If one thinks of LGs as enterprises offering public services, the competition would be an incentive to offer services more efficiently, to innovate and create new ideas, and to use economy of scale production; with the purpose of attracting investment in the jurisdiction. The use of economy of scale and joint programs between LGs will help to reduce tax rates[27].

Tax competition can be minimized if the tax is borne at the source of residence (where people live and invest) instead of the source of income (where people earn income). A tax on source of income is more likely to cause distortions in that it moves activities to another country or prevents activities from taking place (people often work less or shift their productive enterprise to places where there are no taxes -or lower taxes-). If one taxes the source of residence there may be some shifts too, but most people will react neutrally since public spending is done according to where one's family lives (e.g. the payment for education of one's children, house improvements)[28]. LGs, by their limited nature, would tend to tax on source of residence instead of source of income.

In addition, LGs become more accountable when they are responsible for their fiscal issues and their decision to choose tax rates[29]. Fiscal responsibility is a pre-requisite for fiscal autonomy and the latter for fiscal decentralization. Therefore, it is imperative to let LGs

---

[26] This can be achieved through the use of economy of scale.

[27] LGs might not have the potential to use economy of scale production but this research finds that the joint programs between LGs to provide the service will help to achieve the reduction of rates. For instance, if two LGs have to build a road between their jurisdictions, the contract with the same provider of materials will reduce the costs due to the use of economy of scale of the provider.

[28] Jorge Martinez-Vazquez (2001) p. 9, McLure (1999) p.7.

[29] Bird (2003) p. 5, McLure (1999) p.6.

Andres Lopez Hoyos 19

impose different tax rates as a healthy system of competition. The question of whether it is suitable to have equality of tax rates among LGs at the beginning of the decentralization process is not clearly discussed; although it seems appropriate to have an equal system of tax rates for stabilization and harmonization purposes in a country with severe economic disparities among LGs.

CHAPTER FOUR - REVISION OF THE PRINCIPAL TAXES AS LOCAL TAXES

Taxes that fulfill the characteristics mentioned in the previous chapter should be allocated as revenue sources for LGs. Although each tax has some advantages and disadvantages, all cannot be allocated to LGs. As stated by Jorge Martinez (2001, p.12), "there are hardly any taxes that comply with all the desirable features for sub-national taxation, but clearly, there are better and worse tax assignments". The following are the principal taxes in the system of a government. They are analyzed in relation to the characteristics of good local taxes:

4.1   PROPERTY TAX

This tax is imposed on real estate that citizens own. In most developing countries it takes up two basic forms, one related to "undeveloped land" and the other to "developed land"[30]. This tax becomes extremely important in the local budget when it is compared to the total income of the LG. Even in industrialized countries the tax revenue percentage in the total income of LGs ranges from 50% (Australia 1984) down to 2.5% (Norway 1984). There is no room for tax-exportability since this tax fulfills at maximum the benefit-tax principle, taxing and benefiting only the citizens who own assets in the jurisdiction. If garbage is accumulated on the streets, tax-payers will immediately question the property tax burden and local authorities who are supposed to clean streets (supposing that this tax is served to finance street cleaning). Consequently, since citizens' assets are taxed, its visibility is high and thus the accountability is increased.

It could be simple and easy to understand when the tax base is clearly set up and when there are neither exemptions nor favorable treatment in the tax base. Although it seems this tax meets all the criteria for local taxes, it is (i) often difficult to levy and administer especially in rural areas where the collection is precarious, (ii) difficult to increase the tax base very fast and thus its revenues, and (iii) complicated to give a property value since valuation is an art, not a science (taxpayers can compare similar valuations in neighboring jurisdictions - Bird:

---

[30] King (1992) p. 3.

2003, p. 2). Even a well-administered property tax cannot finance major social expenditures such as health or education except perhaps in the richest jurisdictions[31].

4.2   EXCISES

Exercises are imposed on sumptuous items such as alcohol, cigarettes or luxury automobiles. Often, the tax burden is paid directly to finance specific public services, such as health expenditures from tobacco tax revenue or roads maintenance from vehicles and fuel tax revenue[32] though this is not always the case. The CG or RG can use its revenue to finance public services that transcend jurisdictions' boundaries while LGs can use it to finance services within their jurisdictions. For example, CG can levy a national fuel tax that serves to finance interstate highway construction and to pay transfers to LGs to finance street construction and cleaning within their jurisdictions. It is generally more efficient to let upper levels of government levy this tax due to the economy of scale that the CG and RGs have.

Even though most excises are easy to administer (paid by few producers), some types of excises are easily evaded and there are high compliance costs due to smuggling and importation. Therefore, it is more efficient for higher levels of government to levy this tax since they can diminish smuggling more easily due to their expanded territorial administration, resulting in fewer compliance costs. If this tax is applied on a destination/residence basis it may have less economic distortionary effects within jurisdictions. Also, this tax does not have a very high elasticity, and thus elastic social expenditures cannot be financed with its revenue.

The most reliable excise taxes are vehicle-related ones, like the fuel tax. The fuel tax is the simplest and most economical tax from an administrative point of view. The compliance costs are avoided when gas stations are used as tax collectors. Fuel taxes may fulfill the benefit-tax principle since their revenue could be closely linked to the finance of roads maintenance and pollution. It does not give room for tax-exportability since taxpayers from other jurisdictions also make use of roads.

---

[31] Bird (2003) p. 11.
[32] Bird (2003) p. 16.

Andres Lopez Hoyos   22

Another type of excise is the automobile tax. It can be used for redistributional purposes and is therefore more suitable for higher tiers of government. It is very costly to administer when there are several different tax rates, as it is in the case of the RGs in Argentina, where the tax rate depends on the year, model and weight of the car[33].

Automobile and fuel taxes are more appropriate for LGs and should be used to a maximum extent if they are closely linked to a specific service. Nevertheless, the use of this tax is more likely to be successful in urban areas since rural areas do not have enough tax yield to enjoy substantial revenues. In the latter case, an intergovernmental transfer system should be established to equalize the local fiscal inequalities. Just like the property tax, automobile and fuel taxes do not bring enough revenue to finance elastic and expensive social expenditures.

4.3   PERSONAL INCOME TAX

The personal income tax (PIT) taxes income that citizens earn in their economic activity. It is very visible and therefore entails accountability and responsibility. It is often used as a redistributive tax if it is imposed in a progressive way. As explained in 2.1.2, redistributive functions are more likely to be a responsibility of the CG since local attempts will not affect the overall structure of the country. Furthermore, as long as income levels remain low this tax will produce little revenue (GTZ: 2002, p. 98), especially in developing countries where the labor-force is cheap, this tax will not bring sustainable income for LGs. In the same sense, it will bring about high administrative costs in a country with high levels of informal businesses. If levied at the central level, the high administrative costs will be diminished since the national tax administration office operates in an inter-jurisdictional perspective. Therefore, PIT is also more appropriate for the CG, and with a piggy-backing system, its income can be shared with LGs in order to pay generalized benefits of public services. There is, however, possible reluctance from the CG to share the income to sub-national governments, especially in developing countries[34].

---

[33] This tax administration has poor rationale for redistributive purposes, and also penalizes newer and less-polluting cars. Bird (2003) p. 12.

[34] Bird (2003) p. 21, states the even in developed countries CGs rely very much on this source of income.

4.4   PAYROLL TAX

Payroll tax is easy to administer –at least when collected from large enterprises– and very productive at low rates. It is often linked to the finance of social security systems which is usually a national expenditure and thus a CG responsibility[35]. As in the case of PIT, a high payroll tax rate will limit employment caused by a higher expenditure burden on companies, distorting the economic system of the jurisdiction. Therefore, the CG is the most appropriate level at which to levy this tax. Should the LGs need more income for the financing of general public services within their jurisdictions, they should rely on a piggy-backing system with the CG.

4.5   CONSUMPTION TAXES

The variety of consumption taxes are generally found as retail sales tax (RTS) or value-added tax (VAT). They are not generally earmarked for any specific benefit but serve to finance general public services. Because of their high elasticity, they bring sustainable and increasing source of income to the levying government. The levy of consumption taxes is complicated and quite expensive due to its multiple production cycles, especially when the yield crosses several LGs' boundaries. Therefore, it is a more appropriate source of income for the CG than for LGs.

The implementation of sub-national RST implies local responsibility since its burden usually falls on residents, like the property tax or user fees. The implementation of sub-national VAT would be administratively costly since there are high compliance costs and companies can argue that there are VAT tax-payers located in other jurisdictions. Hence, macroeconomic control would be lost since it faces cross-border trade and smuggling[36].

In general, it seems to be more administratively viable to let the CG levy this tax. In the literature it is affirmed that a surcharge of central VAT (CVAT) for sub-national governments is possible for efficiency purposes, especially for countries with poor tax administrations; although there is also the potential reluctance of the CG to share this tax revenue with LGs.

---

[35] Bird (2003) p. 21.
[36] Bird (2003) p. 17.

Andres Lopez Hoyos   24

4.6   BUSINESS TAX/CORPORATE INCOME TAX

This tax is imposed on business' gains in the form of corporate income tax, capital tax, and non-residential property tax. On the one hand, this tax is very elastic and therefore produces substantial revenues for governments. On the other hand, the expenditure grows with the revenues. Wherever possible, businesses should be charged for specific public services that the same businesses enjoy, for the fulfilling of the benefit-tax principle. Even though it is commonly stated in the literature that corporate income tax and capital tax are not linked to the benefit-tax principle (there is no rational interpretation of how corporations benefit from public services)[37], they can be linked to improve the local economic infrastructure. Considerations for the tax rate are commonly payroll, property, and sales. The administration of this kind of tax is complicated since there is no clear location of a corporation's profit. It is also propitious to tax exporting since corporations tend to cross-border jurisdictions. If LGs were to levy this tax, the migration of corporations would be to the jurisdiction with the lowest tax rate (although it would not happen if all jurisdictions were to apply the same tax rate). Therefore, local levying of this tax could be a recipe for severe economic disparities among jurisdictions. It also produces unfair competition among jurisdictions since not all of them have a sufficient number of businesses to tax (especially in poor countries). Therefore, it seems to be more efficient to let the CG levy this tax.

4.7   ENVIRONMENTAL TAX

Environmental tax is intended to compensate for degradation of the environment. It is related to the benefit-tax principle when it serves to cover costs associated with environmental damages caused by environmental degradation[38]. It should be assigned to LGs if there is a special additional task that a LG should fulfill due to the environmental use (like health care for contamination). It has a visible tax base and it is easy to collect. The considerations for its tax rate and base are difficult to set since there is no specific measurement of environmental damage. Whenever the environmental damage is located in more than one LG jurisdiction, the tax should be allocated to a superior level of government (RGs preferably) to cover the services in the region.

---

[37] McLure (1999) p.12, Bird (1999b) p. 29.

[38] This is not usually the case. This research points out that the income of this tax is in reality another source of income with no specific service, like in the case of tax on plastic bags in supermarkets.

Andres Lopez Hoyos   25

4.8 NATURAL RESOURCES TAX

This tax is imposed on citizens and enterprises that use and exploit natural resources. As in the case of the environmental tax, this tax can be seen as fulfilling the benefit-tax principle. The allocation of this tax to any level of government raises the issue of unfairness and vertical imbalance among jurisdictions; mainly due to the fact that not all the LGs possess valuable natural resources to be taxed. Furthermore, resource-rich jurisdictions can employ the revenue in socially less productive projects than those that must be foregone in low-resource jurisdictions (McLure: 1999, p.37). The advantage of this tax is the immobility of the tax yield, while the disadvantages are that it is highly unstable and that it violates equity among LGs due to the fact that not all LGs can enjoy its tax revenue.

4.9 MAIN TAXES COMPARATIVE

In order to simplify comparison, the principal taxes noted above are presented in Table 1 to indicate the level to which they fulfill the principles of good local taxes:

Table 1 - Comparative Analysis of the Principal Taxes

Tax	Benefit / Tax Principle	Easy to administer		Revenue stability / elasticity		Tax competition	Should be levied by
Property tax	✓	Visibility ✓ Collection X		Stability ✓ Elasticity X		X	LGs
Excises	✓	Tax on Cigarettes X Fuel Tax ✓		✓		✓	CG, RGs and LGs
Personal Income Tax	✓	X		X		✓	CG and RGs
Payroll Tax	X	✓		X		✓	CG
Consumption Tax	X	X		✓		✓	CG and RGs
Business Tax	✓	X		✓		✓	CG and RGs
Environmental Tax	✓	Collection ✓ Tax rate X		X		✓	LGs
Natural Resources Tax	✓	✓		X		✓	RGs

As the table shows, the only tax that passes almost all the principles of good local taxes is the property tax, and to a lesser extent, the environmental tax and the excises on fuel. The rest of the taxes are more appropriate for levy by higher levels of government.

CHAPTER FIVE - CONSTRAINTS AND LIMITATIONS OF LOCAL TAX SYSTEMS

This chapter deals with ill-designed revenue systems that limit LGs in the levying of taxes and by extension, hamper the efficient delivery of services. The following are problems regarding the collection and administration of taxes at the local level[39]:

5.1   TRANSITIONAL PROBLEMS

Any unexpected change in the taxation system should not affect the stability of the revenue structure. LGs should be secured with sufficient revenues to finance their public services[40] as they are easily affected by sudden changes in the economy and in the tax system. Therefore, the revenue should remain at least at a minimum level even when the system of local taxation is changed.

5.2   LACK OF TAX BASE

A number of LGs fail to produce any significant revenue even with a well-designed local tax system when, if do not have sufficient economic organizations or properties to be taxed in the form of business tax, income tax, property tax, or consumption tax. This is usually the problem of centralized countries where certain cities are home to the majority of businesses. Also, in many developing countries there is the issue of the informal sector, where businesses neither pay taxes nor are registered as possible tax payers.

5.3   INTEREST GROUPS

There may be interest groups as well as political pressure trying to influence the avoidance of taxes in the jurisdiction through changes in the tax law or corrupting local officers, thus

---

[39] McLure (1999) p.39.
[40] IFS (1978) p. 22.

Andres Lopez Hoyos   27

minimizing the revenue LGs have. Businesses as well as properties are frequently excluded from paying taxes. Furthermore, corruption within local authorities makes the revenue system vulnerable, resulting in an indisputable fiscal gap to cover their expenses. The limitations on LGs to tax certain activities undermine the principle of healthy competition, although not all the legal limitations are bad. Rational limitations may help to ensure equity in the taxation structure of LGs[41].

5.4   POOR LOCAL TAX ADMINISTRATION

Another problem in tax collection may occur when administration officers are unprepared. Trained tax collectors can keep tax administrative costs low. Investing in the specialization of tax administrators and tax collectors can lead to an improved tax administration office and the latter to a more efficient collection and administration of taxes.

5.5   NUMBER OF TAXES

The assignment of excessive numbers of taxes to sub-national governments that cannot easily be administered poses another potential problem. Other things being equal, the more different kinds of taxes levied by a government, the higher the administrative costs of collecting a given amount of revenue will be. This proposition is based on the idea that there are economy of scale in tax levying and administration. By concentrating efforts on a smaller range of taxes, tax administrations can achieve greater specialization and thereby keep costs down[42].

5.6   UNWILLINGNESS TO PAY

The local tax structure is also constrained by the unwillingness of citizens to pay taxes, primarily due to (i) the low benefits they get from the tax payment, (ii) the lack of confidence in their LG, (iii) and a high tax rate. The mismanagement of the local resources leads taxpayers to doubt local officers and therefore lower tax revenues for the LG.

---

[41] Local Government Finance (1991) p. 193.
[42] World Bank Web Page (Designing Elements for Administrative Simple Taxes).

CHAPTER SIX – RESEARCH DESIGN AND METHODOLOGY – EMPIRICAL WORK

The hypothesis used by the present thesis for the field research period helped the researcher to propose an optimal taxation system for Peruvian LGs. The answers generated to the critical questions asked to verify or falsify the hypothesis of the mini-thesis.

6.1 HYPOTHESIS

Peruvian LGs are not being provided with sufficient tax revenues to finance the social services that are assigned to them within the new decentralization process in the country.

6.2 RESEARCH QUESTIONS

1. What services are assigned to LGs and what are the expenditures associated with these assignments?
2. What is the fiscal capacity of Peruvian LGs?
3. To what degree does this fiscal capacity lead to own revenues of the district?
4. What are the problems and constraints that Peruvian LGs have in levying taxes?
5. What is the vertical imbalance between expenditures and revenues?

After the verification or falsification of the hypothesis, the mini-thesis will attempt to recommend an optimal tax system in order to provide an efficient and equitable fiscal structure to LGs.

6.3 METHODOLOGY OF THE FIELD RESEARCH

Peru has 25 departments[43] and more than 1800 municipalities. Due to time and financial constraints, the empirical research for this mini-thesis focused on LGs of six representative

---

[43] Peruvian departments are regional governments, comparable to the South African provinces.

Andres Lopez Hoyos

29

departments within the country. Lima, Cajamarca, La Libertad, Lambayeque, Cuzco and Huanuco are departments with economic disparities[44] and represent rural and urban environments with severe differences in fiscal capacity. For purposes of clarification, LGs have been categorized in two broad types, each with subdivisions. First, LGs are categorized in rural LGs and urban LGs. Rural LGs have more than 40% rural inhabitants while urban LGs have less than 39.9% rural inhabitants. LGs are subdivided into Small LGs (SLGs), Medium LGs (MLGs) and Large LGs (LGs). SLGs contain up to 10,000 inhabitants, MLGs between 10,001 and 99,999 inhabitants, and LLGs 100,000 inhabitants and more.

The research entailed both quantitative and qualitative methods. Quantitative data was derived from statistical and quantification procedures obtained from visits to the Ministry of Economy and Finance, Non-Governmental Organizations (NGOs), 7 Local Governments (*Cajamarca* and *La Encañada* in Cajamarca, *Cuzco* and *San Sebastian* in Cuzco, *Lambayeque* in Lambayeque, and *San Borja* and *Surco* in Lima), and secondary resources. The numerical data were derived from municipalities' budgets, local income and expenditure projections, national statistics, and a country poverty map. The sample used in this study is composed of all the LGs which presented the "Local Budget Projections 2003" to the Ministry of Economics and Finance (MEF).

Qualitative data was obtained from primary resources such as books, journals, and interviews with a National Decentralization Council (CND) officer, LG officers and local tax-payers. Face to face interviews with the support of open-ended questions were conducted from June to August 2003 with local tax authorities and a CND officer in order to get information about the constraints and limitations of the local taxation system. The number of local authorities planned to be interviewed (15) was not achieved since the majority of them were unwilling to hold discussions. Four interviews were carried out using the following guiding questions:

- What are the taxes assigned to the jurisdiction?
- What are the user charges this jurisdiction has?
- What are the services the municipality is supposed to perform?
- Is there any restriction imposed by the CG, RG or PLG?
- Why do people not pay taxes?

---

[44] 80% of the national revenue from taxes is obtained within Lima. Cajamarca, Cuzco and Huanuco are among the poorest provinces within the country whereas La Libertad and Lambayeque have more fiscal advantage. Markus Rühling (2002) p. 3.

Andres Lopez Hoyos
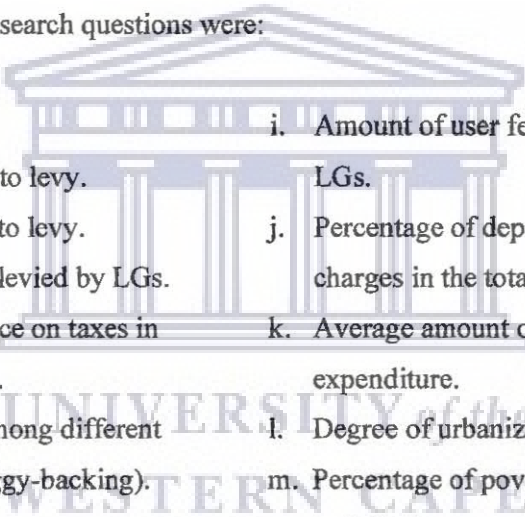
•   How can the local taxation system be improved?

Similarly, interviews were held with twelve local taxpayers in order to get information about (i) the reasons for which citizens do not pay taxes and (ii) citizens' degree of confidence in their Local Governments. The questions posed were the following:

•   What taxes do you pay in your jurisdiction?
•   How satisfied are you with the services offered by your Local Government?
•   Why do some people not pay taxes?

Primary sources of qualitative data were obtained from the decentralization laws, related researches, and journals. The variables obtained from qualitative and quantitative approaches that helped to answer the research questions were:

a.   Taxes CG levies.
b.   Taxes RGs are allowed to levy.
c.   Taxes LGs are allowed to levy.
d.   Amount of tax revenue levied by LGs.
e.   Percentage of dependence on taxes in the total income of LGs.
f.   Taxes that are shared among different tiers of government (piggy-backing).
g.   Amount of resources that are transferred to LGs.
h.   Percentage of dependence on intergovernmental transfers in the total income of LGs.

i.   Amount of user fees income levied by LGs.
j.   Percentage of dependence on user charges in the total income of LGs.
k.   Average amount of monthly expenditure.
l.   Degree of urbanization.
m.   Percentage of poverty in each jurisdiction.
n.   Tax base exemptions and limitations (legal regulations) stated in tax laws.
o.   Reasons why citizens do not pay taxes.

Two computer packages, Microsoft Excel and Microsoft Word, were used to analyze the data and to obtain graphical results of the statistics. The field study entailed an evaluation of districts in respect to their characteristics and constraints in their taxation system, whereupon a study of LGs according to their fiscal capacity and their expected expenditure of public services was undertaken.

CHAPTER SEVEN – BACKGROUND OF THE CASE STUDY

This chapter reviews the Peruvian public sector and the details of the new decentralization process of the country. It also points out the revenue and expenditure assignment of the different tiers of the county with especial attention paid to LGs finance. The expenditure bulk of LGs will set the background for the revenue assignment viz. the tax assignment should give enough revenue to match the expenditure assignment.

7.1   GOVERNMENT STRUCTURE

Peru is a unitary state with a presidential form of government. The current president is Alejandro Toledo. The president appoints the cabinet who advises him on affairs of the state. The parliament and the state house are located in Lima, the capital. The country, with GNP per capita of US$ 2,050, is considered to be a medium-income country. It has 26.7 million inhabitants, 1.3 million sq. km, and a density of 20.3 people per square Km[45]. The official currency is the "Nuevo Sol" (S/) which at the time of this mini-thesis was US$ 1 = S/ 3.5.

Before 2002, the country's public sector was *geographically* divided into departments, provinces and districts; where provinces were sub-divisions of departments and districts were subdivisions of provinces. Provinces and districts represented the local tier (See Figure 1 below). *Administratively,* the country was divided into a central government and local governments. LGs were composed by provinces (Provincial local government, or PLG) and districts (District local government, or DLG). Both PLGs and DLGs had similar characteristics. Departments (or regions) did not have an administrative structure but were only a territorial division of the country.

The decentralization process begun in 2002 brought about the inclusion of one more government into the government structure i.e. the departments now have an administrative unit and represent the regional tier of the government (see Figure 2 below). Both PLGs and DLGs remain as the local tier with different administrative units. Therefore, the Peruvian governmental structure is as follows: one Central Government (CG), 24 Departments

---

[45] Government of Peru Web Page (www.perugobierno.gob.pe)

Andres Lopez Hoyos   32

(Regional Governments or RGs), 194 provinces (Provincial Local Governments) and 1828 districts (District Local Governments)[46].

Figure 1 - Peruvian Government Structure Before 2002
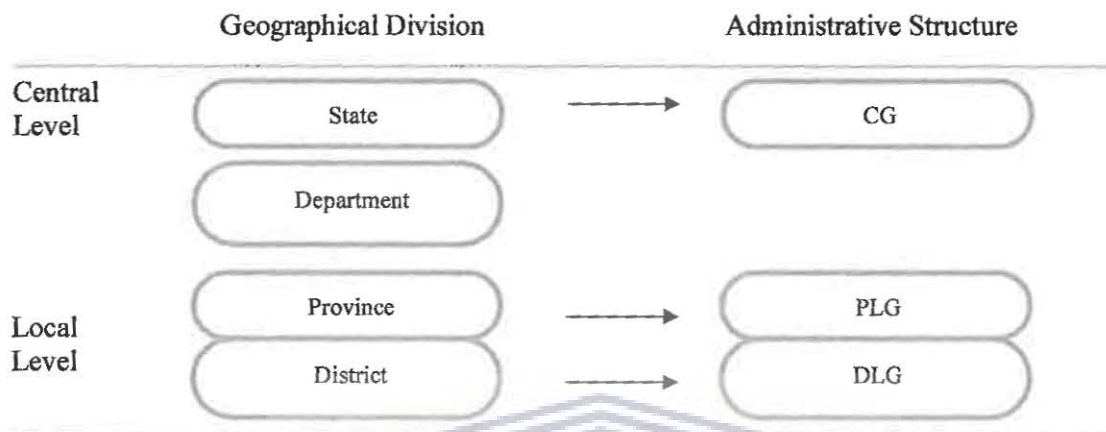
Figure 2 - Peruvian Government Structure After 2002
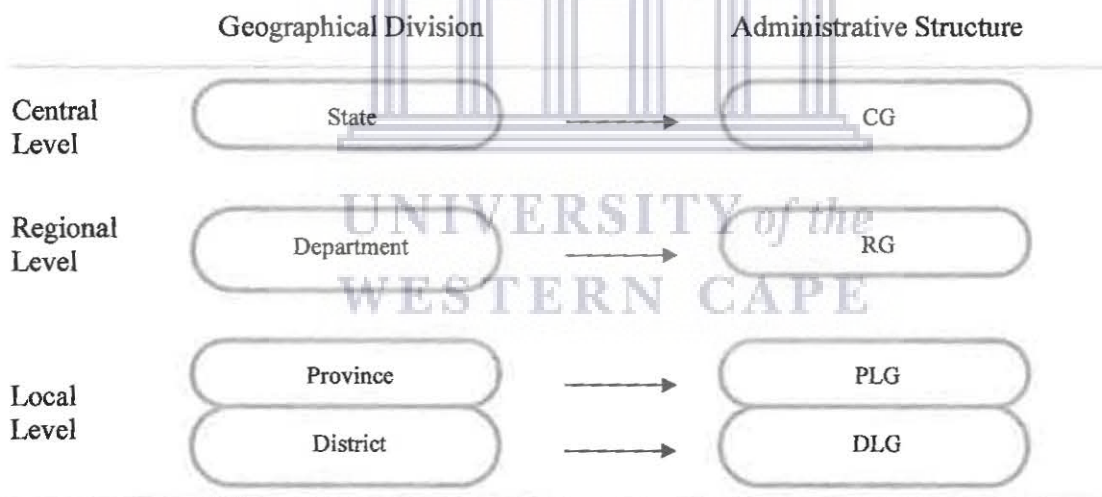
7.2   THE PERUVIAN DECENTRALIZATION PROCESS

Peru, one of the most centralized countries in the world, has little experience in delegation of expenditure and revenue assignments to lower tiers of governments. The centralization legacy is reflected in the excessive legislative and executive power that the CG possesses and

---

[46] Data until January 2004.

Andres Lopez Hoyos   33

in the economic supremacy of Lima among all other Peruvian cities. Table 2 shows the level of centralization in the country.

Table 2 - Degree of Centralization
53% of the national GDP is produced in Lima
66% of the national income is generated in Lima and Callao
55% of the banking savings deposit occurs in Lima and Callao
55% of the industry is in Lima and Callao
61.9% of the trade is done in Lima and Callao
52.9% of the construction is done in Lima and Callao
29.9% of the population is concentrated in Lima
85.9% of the taxes are levied in Lima
46% of the active economic population is in Lima
53% of the doctors work in Lima
17% of the Foncomun[47] is distributed in Lima
33% of the Glass of Milk Program[48] is distributed in Lima

Source: Instituto Apoyo, Boletín No. 1 – Descentralización en el Perú

Although several attempts at decentralization have been made in the history of the country, the most recent effort initiated in 2002 by the current Presidential Cabinet has started developing a decentralization framework. This has raised several discussions within the government and in opposition parties. President Toledo has included the decentralization process as a priority in the agenda for the country. On March 6th 2002, his government enacted a law called *Constitutional Reform about Decentralization* that modifies the Acts on decentralization in the constitution. The new law defines decentralization as a gradual process that will be implemented in phases according to the criteria that allow the transfer of resources from the central government to Regional and Local Governments.

The first Decentralization Law (*Ley de Bases de la Descentralización* – Law No. 27783 issued on 17/07/02) gives the framework for the process of decentralization in the country. All the entities involved in the decentralization reform –including representatives from all the tiers of government– define the legal framework for the expenditure and revenue of sub-national governments[49]. One important aspect of the new Decentralization Law is the determination of the territorial ambit, creation, structure, competencies and functions of the

---

[47] Foncomun is the unconditional grant from the CG to LGs, comparable to the South African Equitable Share.
[48] The Glass of Milk program is a conditioned grant from the CG to LGs to fight poverty.
[49] Markus Rühling (2002) p. 4.

Andres Lopez Hoyos

new RGs and their relations with LGs[50]. On Nov 17th 2002, the first elections for regional authorities were held across the country. By Jan 1st 2003, Regional Governments were established in the respective regions.

Another aspect of the Decentralization Law is the establishment of the National Decentralization Council (*Consejo Nacional de Descentralización*, or *CND*). It is an autonomous entity in charge of the legislation related to administrative, judicial and fiscal decentralization. This entity is headed by a representative of the president alongside two representatives of the line ministers, two representatives of the MEF, two representatives of the RGs, one representative of the PLGs, and one representative of the DLGs. The laws that give the framework for the decentralization process are:

- Law on Constitutional Reform of Chapter 16, Act 4 about Decentralization (Law No. 27680).
- Law on Regional Elections (Law No. 27683).
- Law on Basis of Decentralization (Law No. 27783).
- Law on Demarcation and Territorial Organization (Law No. 27795).
- Regional Governments Organic Law (Law No. 27867).
- Local Governments Organic Law (Law No. 27972).
- Fiscal Decentralization Law (forthcoming).
- Tax Reform Law (forthcoming).

Although it is clear that the current government led by President Toledo has shown willingness to develop the decentralization process by enacting laws that guide the political and administrative decentralization, fiscal decentralization has not been of major importance and seems still illusive.

7.3   CENTRAL GOVERNMENT FINANCES

The CG has always been in charge of macroeconomic issues and of the redistribution of income. It has constantly managed all the finances of the country causing a high degree of

---

[50] Before the recent decentralization process, the regions never had any kind of competencies or representation in the parliament.

Andres Lopez Hoyos   35

centralization. It is the new decentralization process that brought about the principle of subsidiarity, allocating new tasks to lower tiers of government.

7.3.1 Central Government Expenditure

The CG, as the superior level of government, is in charge of the following issues:

Table 3 - Central Government Expenditures

Exclusive Functions	Expected shared Functions with other levels
• Defense and National security • Foreign Relations • Internal order and Justice • Currency, Financial and Insurance System • Taxation Policies and Public Borrowing • Establishment of External Trade Policies • Regulation of the Marina Merchant and Commercial Flights • Regulation of all the Public Services under its responsibility • Management of National Public Infras-tructure	The CG will be transferring the competencies and functions to the RGs and LGs, in the way and extent established by the Organic Laws of the Executive Branch (Forthcoming). The functions that would be gradually transferred are Education, Health, Agriculture, etc.

As the table shows, there are some social services like education, health, agriculture, and others; that will be gradually transferred to sub-national governments. No precise method or date of transfer is mentioned, but it is expected that the forthcoming fiscal decentralization law will dictate the transfer of responsibilities to other tiers.

7.3.2 Central Government Revenue

The CG obtains income from taxes, sale of assets, bonds emission, and privatization revenues, among others. Taxes are the main source of income. It is enshrined in the

Andres Lopez Hoyos   36

legislative decree No 771 and in the law No 24829 (08-06-88)[51] that SUNAT (*Superintendencia Nacional de Administracion Tributaria*) is the decentralized entity of the MEF in charge of levying taxes on behalf of the CG. The levying process is done through the banking system as well as through 1,200 branches all over the country. Table 4 describes the characteristics of Peruvian central taxes.

Table 4 - Central Government Taxes

Tax	What does it tax?	Tax Base	Tax Rate
Income Tax First Category	All rents of assets and automobiles	Rental price	12% on the rental price
Income Tax Second Category	Interests and profits of investments	Profits	13.5% on the interests or profits
Income Tax Third Category	Commercial and industrial activity as well as natural resources exploitation	Profits	RUS** RER** RGR**
Income Tax Fourth Category	Income of independent professionals (doctors, lawyers, etc) and non - professionals (carpenters, bricklayers, etc)	Income	10% on the gross income
Income Tax Fifth Category	Taxes income of dependent professionals (wages and salaries)	Income	Progressive rate from 10% to 27%, only applicable to those taxpayers who get more than 3 UIT per year*
VAT	Sales of goods and services as well as Imports	Price of the good or service	17%
IPM (Municipal Promotion Tax)	Consumption	Price of the good or service	2% surcharge on the VAT
Excises	Consumption of luxury items	Price of the good or service + VAT	From 1.5 to 2% depending on the item
Tariffs	Imports	Price of the good + VAT + Excises	7%, 10%, and 12% depending on the item
Solidarity Tax	Salaries of independent employees and firms turnover	Income	2% surcharge on the Income Tax Fourth Category
Solidarity Tax for Helpless Children	Salaries of firms and salaries of independent employees	Passport (US$ 40)	US$ 5 every time a passport is issued
Tax on Casinos	Use of Casinos	Profits	12% on the difference of net income and machine maintenance

* 1 UIT (*Unidad Impositiva Tributaria*) = S/ . 3100 or US$ 885.
** RUS (*Régimen Único Simplificado*), RER (*Régimen Especial de Impuesto a la Renta*) or RGR (*Régimen General de Impuesto a la Renta*).
Source: Sunat Arrendamiento 2003
       Sunat Web page

As the table describes, the CG has 12 main taxes revenue sources. The VAT, PIT, and tariffs are the major tax revenues. The income tax takes five categories in Peru and it is aimed at

---

[51] Sunat (1994) p. 5.

Andres Lopez Hoyos

facilitating the understanding and recognition of the tax. In practice, it causes more confusion than understanding of the system. There are special provisions for the payment of the income tax third category. Tax payers can choose one of the special options such as RUS, RER or RGR. Each of these options brings about different tax rates and conditions. In general they take the difference of annual sales and purchases, and the tax rate varies from 15% to 30%. For example, the RGR obliges tax payers to retain other taxes (like the income tax fifth category and solidarity tax) and the tax rate is 2% monthly plus 30% annually. The RER obliges tax payers to retain VAT, excises, solidarity tax, and income tax fifth category; and the tax rate for the income tax third category is 2.5% of the monthly income. The RUS is a form of levy that taxes small firms and natural citizens whose gross income does not exceed S/ 18,000, with a monthly income tax third category rate from S/20 to S/540 depending on the gross income. This system is obviously complicated and is a disincentive for small and medium-sized firms to pay taxes.

The municipal promotion tax (IPM - *Impuesto de Promoción Municipal*), created in 1993 as a surtax of 2% on the VAT, serves to finance the unconditional grant (Foncomun) to LGs. Its distribution formula is described in the LGs Revenue.

7.4   REGIONAL GOVERNMENT FINANCES

As mentioned before, since 2002, the country has 25 Regional Governments. These correspond to the 24 Departments and Callao as an autonomous province[52] (See Table 5). The first election of the regional authorities took place on Nov 17th 2002. It is worth pointing out that the Decentralization Law leaves room for the creation or integration of one or two more regions. To do this, the populations of these regions will have to call for a referendum in 2004. If the referendum approves the change, the Congress will enact new laws with the new regional structure. Lima, by its centralized nature, has a special status. It has the competencies of a RG but maintains the structure of a LG.

---

[52] The terminology used for Callao is "Constitutional Province of Callao"

Table 5 - Characteristics of the Regional Government

Department (Regional Government)	# of Inhabit.	Area (Km2)	% of Rural Inhabit. 1993	Literacy Rate	Infant Mortality Rate
Amazonas	428.1	39,249	62.0	18.8	64.3
Ancash	1,107.8	35,865	63.1	28.0	57.1
Apurimac	463.1	20,896	67.6	38.0	82.5
Arequipa	1,101.0	63,344	44.6	16.2	55.2
Ayacucho	550.8	43,815	62.8	37.2	78.0
Cajamarca	1,498.6	33,318	84.2	26.0	56.7
Callao	787.2	129	0.0	2.6	19.5
Cuzco	1,208.7	72,104	68.2	33.0	93.5
Huancavelica	443.2	22,131	72.6	31.8	93.9
Huanuco	811.9	36,887	76.6	27.5	70.0
Ica	687.3	21,306	41.3	8.9	39.9
Junín	1,246.7	44,197	45.8	16.7	61.1
La Libertad	1,506.1	25,495	60.9	20.7	46.8
Lambayeque	1,121.4	14,213	36.2	14.0	43.1
Lima	7,748.5	34,797	29.9	8.3	45.1
Loreto	907.3	368,852	68.6	16.0	70.3
Madre de Dios	99.5	85,183	60.0	10.4	48.8
Moquegua	156.8	15,734	47.7	15.1	49.0
Pasco	364.7	25,320	45.2	18.4	63.9
Piura	1,636.0	35,891	43.4	20.7	59.6
Puno	1,264.0	66,988	75.9	26.2	89.6
San Martín	757.7	51,253	46.2	14.0	56.1
Tacna	294.2	16,076	36.0	13.5	53.7
Tumbes	202.1	4,657	30.5	8.5	49.2
Ucayali	456.3	102,411	67.1	18.2	64.2

Source – Richard Webb & Graciela Fernandez - Peru en Numeros 2002
Mapa de los distritos de FONCODES y el MEF

7.4.1 Regional Governments Expenditures

The functions and responsibilities of the RGs are expressed in the "Regional Government Organic Law" (*Ley Organica de Gobiernos Regionales* – Law No. 27867 issued on 16/11/02). These are presented in the following table:

Table 6 - Regional Governments Expenditures

Exclusive Functions	Shared Functions with other levels
• Plan the integral regional development in cooperation with their LGs, and execute the respective socioeconomic projects. • Promote and execute the energetic and communication projects within their jurisdiction.	The Regional Organic Law establishes the competencies and functions that RGs will share with other tiers of government, such as: • Management of primary, secondary and

• Promote the establishment of firms and economical units in their region. • Develop regional tourism programs. • Establish joint programs with other regions for social, economical and environmental development. • Administer national properties within their jurisdiction, with the exception of LGs owned properties. • Promote the modernization of education, job-generation, and technology related firms. • Promote the sustainable use of natural resources.	technical education. • Public health. • Promotion and management of economical units in agriculture, fishery, industry, trade, tourism, energy, hydrocarbon, mining, transport, communication, and environment. • Preservation of protected areas and environment. • Diffusion of regional cultural activities.

Under the decentralization process RGs have several functions allocated, though none are being implemented yet. The Organic Law for RGs also mentions the allocation of responsibilities that should be shared with other tiers, especially LGs.

7.4.2 Regional Governments Revenue

Even though RGs do not have any source of income yet, the Regional Government Organic Law (Article 72) states that the RGs will be allocated taxes and grants to finance regional public services. As soon as regional taxes are defined, RGs will be allowed to subscribe to agreements with SUNAT for the minimization of administrative costs. FONCOR (*Fondo de Compensación Regional*) is the transfer that will serve to finance the RGs' expenditure. Its income comes from the revenues of privatizations and concessions; and its distribution will be based on RG poverty rate, needs, border location, number of inhabitants, LGs' tax revenue, and project fulfillment indexes. Regional borrowing from financial entities will also be allowed with prior authorization from the MEF.

7.5 LOCAL GOVERNMENT FINANCES

As mentioned before, the local level is represented by PLGs and DLGs. The main difference between a PLG and a DLG is that the former has a bigger geographical extent and a higher status than the latter. Nevertheless, a PLG is actually a DLG within its jurisdiction because one DLG of a province (usually the biggest DLG) is elected to be a PLG. Both LGs have the same responsibilities, though PLGs by their extended nature have to deal with problems of a larger scale. Municipalities are the lowest tier of government and represent a direct way that citizens can participate in issues related to their community. Municipal mayors are elected every four years. Given that PLGs are DLGs within their jurisdictions, it brings problems and confusion when defining their obligations, competencies, responsibilities, and revenue assignment[53]. The following table presents the division of LGs in every department:

Table 7 - Number of PLGs and DLGs

RG	PLGs	DLGs	Total
Amazonas	7	83	90
Ancash	20	166	186
Apurimac	7	80	122
Arequipa	8	109	117
Ayacucho	11	111	122
Cajamarca	13	127	140
Callao	1	6	7
Cuzco	13	108	121
Huancavelica	7	94	101
Huanuco	11	76	87
Ica	5	43	48
Junin	9	123	132
La Libertad	12	83	95
Lambayeque	3	38	41
Lima	10	171	181
Loreto	6	49	55
Madre de Dios	3	11	14
Moquegua	3	20	23
Pasco	3	28	31
Piura	8	64	72
Puno	13	108	121
San Martin	10	77	87
Tacna	4	27	31
Tumbes	3	12	15
Ucayali	4	14	18
Total	**194**	**1828**	**2022**

Data until September 2003

Source: Richard Webb & Graciela Fernandez, p. 120

---

[53] Gonzales de Olarte, Pinas, Trivelli (1994) p. 35.

Andres Lopez Hoyos

There are 2022 LGs comprised by 194 PLGs and 1828 DLGs (See Table 7 above). Ancash and Lima have the greatest number of LGs, whereas Callao and Tumbes are the departments with the smallest number of LGs.

7.5.1 Local Governments Expenditure

The functions and responsibilities of LGs are expressed in the Municipal Organic Law (*Ley Orgánica de Municipalidades*). The following table shows the expenditure assignment to LGs:

Table 8 - Local Government Expenditures

Exclusive Functions	Shared Functions with other levels
• Plan and promote the urban and rural development within their jurisdictions. • Manage local public services. • Approve the local budget. • Formulate the local development plan. • Execute and supervise the local projects.	The new Municipal Organic Law dictates the competencies and functions that LGs share with other tiers of government, such as: • Education. • Public health. • Culture, tourism, and sports. • Preservation of protected natural resources within their jurisdictions. • Civil security. • Historical monument maintenance. • Public transport and transit. • Urban modernization. • Management of solid waste.

As described in Table 8, the current expenditure assignment to LGs is broad and imprecise and does not give guidance on what the exact role of LGs is (Cebrecos Rufino: 1995, p. 34). For example, rural road repairs can be the responsibility of the DLG, PLG, or even the Ministry of Transport and Communications (MTC). The same happens with education facilities, where either the DLG or the Ministry of Education is able to build or finance public schools. This problem is aggravated by the fact that the tasks mentioned in the Municipal

Andres Lopez Hoyos

Organic Law only account for urban LGs. e.g. in urban LGs there are essential tasks such as: (i) street cleaning, (ii) parks and gardens maintenance, (iii) public guard, and (iv) city development. On the other hand, rural LGs do not have the same tasks, since their priorities are totally different from urban LGs. For instance, street cleaning and public safety might not be their main concern but construction of streets and creation of irrigation channels are. Town development and poverty reduction are their priorities and thus what they account for.

Although LGs do not have any decentralized service to this point, the Decentralization Law and the Municipal Organic Law indicate that responsibilities such as education and public health will be gradually transferred to LGs in the timeframe mentioned in the forthcoming laws. These expenditures will be financed and managed by LGs in conjunction with RGs.

7.5.2   Local Governments Revenue

According to the Municipal Tax Law (*Ley de Tributacion Municipal – Decreto Legislativo No 776*, issued on 30-12-1993), Peruvian LGs obtain income from (i) local taxes, (ii) user fees, contributions, sale of assets, and fines that are determined by the municipalities' councils, (iii) unconditional and conditional transfers from shared taxes with the CG, and (iv) loans that LGs can have with one or more financial entities.

Municipal Taxes

As Table 9 describes, Peruvian LGs have four taxes assigned as own revenue sources. PLGs, by their extended nature, have two more taxes assigned i.e. vehicles tax and gambling tax. The revenues of both taxes should be shared with the DLGs of their jurisdiction, though in practice such transfers do not happen.

Table 9 – Distribution of Local Taxes between DLGs and PLGs

DLGs	PLGS
Property tax	Property tax
Games tax	Games tax
Tax on transfer of assets	Tax on transfer of assets
Tax on non-sport public shows	Tax on non-sport public shows
	Vehicles tax
	Gambling tax

Andres Lopez Hoyos

43

An important note of the Peruvian local taxation policy is that it does not allow LGs to either create new taxes or change the tax rates. The characteristics of local taxes are presented in Table 10 below. The current Municipal Tax Law has eliminated several exonerations in the property tax, and has incorporated new taxes such as the gambling tax and the tax on non-sport public shows. The current tax exemptions benefit mainly natural resources exploiter firms, which are exempted from the property tax, and firms located in the country border limits which are exempted from payment of VAT and excises[54]. The tax on transfer of assets burden falls on the buyer. In the case of the gambling tax, it is levied by the PLGs, then 15% is distributed to the DLG where the gambling takes place, and then 25% is allocated to the finance of Foncomun. As it is in the case of any tax sharing agreement, there is no guarantee that the PLGs will transfer this income to the DLGs or to the CG.

Table 10 – Local Government Taxes

Tax	What does it tax?	Levied by	Tax Base	Tax Rate
Property tax	Real Estate citizens and firms own	DLGs	Property Price set by the MTC	Depends on the land and edification price, age and state of conservation, as well as a depreciation factor set by the MTC
Tax on transfer of assets	Paid or donated transfer of assets	DLGs	Real estate value	3% of the asset's price
Vehicles tax	All types pf automobiles not more than three years old	PLGs	Price of the vehicle according to the MTC	1% of the price of the vehicle (the latter set by the MTC)
Tax on non-sport public shows	The consumption of the tickets to Non-Sport Public Shows Exemption: Cultural related shows	DLGs	The price of the ticket to watch or participate in the show	15 % for bull fighting and horse race shows, 10% for cinemas, and 15% for others
Gambling / Lotteries tax	Gambles on horse racing competitions and similarities.	PLGs	Income of organizer firms of gambling games	60% of the tax base (60% of the income goes to the PLG, 15% to the DLG, and 25% to the Foncomun)
Games tax	Activities related to games such as bingo, raffles, pinball, and similarities	DLGs	The value of a cardboard or tickets for bingo and raffles, and 1 UIT for each pinball machine	10% of the prize for bingos and raffles. 3% of the total UIT for pinball

Source: Municipal Tax Law

---

[54] Vidarre Aguayo (n.d.) p. 11.

Andres Lopez Hoyos   44

User Fees

Although Peruvian LGs are allowed to create and administer user fees within their jurisdictions, a formal authorization request to the PLG is compulsory prior to the creation of new user fees or changes in the rates. User fees for LGs are presented in Table 11.

Table 11 – Local Government User Fees

User fees	What does it tax?	Levied by	Base	Rate
User charges & Licenses	Fees that citizens pay for receiving the benefits of a) Street cleaning, b) Parks and gardens maintenance, and c) Civil Security. Also all the fees that firms and citizens pay for specific services or licenses. E.g. when opening business enterprises or authorization for transport service within the jurisdiction.	DLGs & PLGs	Property value and/or marginal cost of the service.	Varies in every jurisdiction
Contributions	All the fees that citizens pay for house improvements and others.	DLGs & PLGs	Marginal cost of the service.	Varies in every jurisdiction
Sell of goods, services and formularies	Sell of specific goods and services such as stickers for public transport, publications, or tax formularies	DLGs & PLGs	Marginal cost of the service.	Varies in every jurisdiction
Services	Specific services such as parking, medical attention, training, fumigation, etc.	DLGs & PLGs	Marginal cost of the service.	Varies in every jurisdiction
Rent of assets	Rents of real estate and others.	DLGs & PLGs	Marginal cost of the service.	Varies in every jurisdiction
Penalties and Fines	Public transport and tax infringements.	DLGs & PLGs	Marginal cost of the service.	Varies in every jurisdiction
Sale of assets	Sell of real estate and others.	DLGs & PLGs	Marginal cost of the service.	Varies in every jurisdiction

Source: Municipal Tax Law

User charges are monthly payments used to finance public services such as waste management, civil security, and ornate; while licenses are trimester-based duties paid for the privilege of carrying out a certain trade. Although there are also penalties and fines as sources of income, they represent minor revenues for LGs.

Intergovernmental Transfers

The intergovernmental transfer system is regulated and created by the CG through laws and acts. In practice, they are often called concessions (*concesiones*), sharing tax agreements (*impuestos compartidos*), among others. They are differentiated in unconditional grants and conditional grants.

As Table 12 below shows, Foncomun (*Fondo de Compensación Municipal*) is a grant created in 1993 with equalization purposes (horizontal equalization scheme), which represents the most important source of income for LGs. It is composed primarily of the IPM, which is a surcharge of 2% on the VAT, and secondarily of taxes levied by the CG (fuel tax and tax on recreation crafts) and a tax levied by the PLGs (gambling tax). The minimum amount LGs receive from this transfer is S/ 300,000. The formula used to redistribute this grant benefits rural LGs primarily since it gives double weight to rural areas. Foncomun represents the largest transfer in Peru with US$ 97 millions in 2001[55].

Table 12– Local Government Intergovernmental Transfer System

Transfer	Type	Composed by	Formula
Foncomun	Unconditional (30% in capital expenditure, 70% in infrastructure expenditure)	Municipal promotion tax (2% surcharge to the VAT, levied by CG) 8% of the fuel tax (levied by the CG) 5% of the tax on recreation crafts (levied by the CG) 25% of gambling tax (levied by PLGs)	First Step (Provinces): Mortality rate Number of inhabitants. Second Step (LGs) 20% to the PLG 80% to the DLGs Third Step (DLGs)* Rural LGs with double weight Urban LGs one weight
Canon	Unconditional	50% of the business tax that the exploiter firms pay to the CG	First Step (PLGs): 20% to PLGs within the RG (number of inhabitants, 2x rural PLGs and 1x urban PLGs) Second Step (LGs within RG) 60% to all PLGs and DLGs (density) Third Step (RGs) 20% to RGs
Tariff Revenue	Unconditional	2% of all the income coming from customs profits	It is proportional in every LGs: 40% to the number of inhabitants 10% to the area 50% to the number of LGs
Glass of Milk	Conditional	General public fund	Children between 0-6 years old Pregnant women Elderly (65 years old or more) Children between 7-13 years old (only for Lima) Tuberculosis rate Poverty rate

* DLGs in Lima have a different formula. It takes the number of inhabitants, literacy rate for people older than 15 years old, households with less than 1 child going to school, households without water supply, households without electricity supply, rural households without water supply, and households with 3 or more people per bedroom.
Source: Municipal Tax Law

---

[55] Stifel, David (2003) p.1.

Andres Lopez Hoyos

Canon is a grant that compensates LGs for the exploitation of natural resources within their jurisdictions. The grant exists in different forms, such as a petroleum canon, a mining canon, a forest canon, and a hydro-energetic canon. It benefits the RGs and LGs that are located where the natural resource is exploited. For instance, if petroleum is extracted from Piura, only Piura RG and LGs benefit from the Petroleum Canon. The same happens for Cajamarca RG and LGs if a mineral is extracted within its boundary (Mining Canon). The income for this transfer comes from 50% of the business income tax that exploiter enterprises pay to the CG. Its formula benefits primarily urban areas as population density and number of inhabitants are taken as indexes for its distribution. This transfer is very important for poor LGs as it represents the third major grant from the CG. Unfortunately, there are exemptions in the tax base that benefit exploiter firms. This results in a lower amount being transferred to the LGs.

As in the case of Canon, the Tariff Revenue (*Renta de Aduanas*) is a grant with refunding and redistributive characteristics. LGs that are located next to customs[56] (maritime, air, lake, river, and terrestrial) receive 2% of all the income coming from customs profits.

The Glass of Milk transfer (*Vaso de Leche*) forms part of a program implemented by the CG which is earmarked for tackling poverty by providing a free daily milk diet to children and the elderly. This program is not financed by taxes (as in the case of previous transfers) but from other sources (such as sale of assets, privatization, sale of bonds, etc). Since 1995 it has become the second major transfer to LGs after Foncomun. Its distribution is according to the poverty level and the LGs' assistance request. Ironically, LGs within Lima, the richest municipalities within the country, receive more of this transfer than any other LG.

Because of their redistributive and compensating nature, Foncomun and "Glass of Milk" tend to increase the amount of funds transferred each year. However, transfers such as the Canon and Tariff Revenue are dependant on the income generated from the exploitation of their natural resources. That is, the lower the income obtained from the business tax (income tax third category), the lower the amount transferred to the LGs.

---

[56] With the exception of LGs in Callao.

Andres Lopez Hoyos   47

As part of the decentralization process in the country, the assignment of new tasks to RGs and LGs such as Pronaa (*Programa Nacional de Asistencia Alimentaria*), Inabif (*Instituto Nacional de Bienestar Familiar*), Wawa Wasi Program, and Foncodes (*Fondo Nacional de Compensacion y Desarrollo Social*), among others, is expected to be linked to the assignment of new transfers for their finance. Clearly, these transfers will be earmarked to fulfill the delegated programs and projects.

Local Loans

Although local borrowing is not frequently used, LGs are allowed to get internal or external loans up to a certain amount limited to their tax revenues. That is, the loan cannot exceed the local tax revenue. Also, LGs are allowed to get their Foncomun share in advance if the MEF permits it. The MEF and the Peruvian Reserve Bank are the entities that authorize LGs to borrow from internal and external sources.

CHAPTER EIGHT – EMPIRICAL RESULTS – PRESENTATION AND DISCUSSION

This chapter deals with the empirical results of the field research done in Peru and the characteristics of the revenue and expenditure sides of the LGs of six different departments. The chapter also answers the research questions and the hypothesis.

8.1   PRELIMINARY RESULTS / SAMPLE

Of the 205 LGs analyzed in this mini-thesis, 46% are SLGs, 40% are MLGs and 13% are LLGs. The proportion for rural LGs and urban LGs is 64% and 36% respectively (see Table 13). The sample of LLGs does not include cases of Rural LLGs.

Table 13 - Number of Cases

	SLGs	MLGs	LLGs	
Rural LGs	83	48	0	131
Urban LGs	12	35	27	74
	95	83	27	205

The departments (RGs) researched were Lima, Cajamarca, La Libertad, Lambayeque, Cuzco and Huanuco. Cajamarca holds the majority of PLGs (10) and DLGs (46) while Cuzco has 2 PLGs and 3 DLGs (See Table 14). It is important to stress that the LGs analyzed in this mini-thesis are those which presented the "Budget Projections 2003" to the MEF. The complete list of LGs that were analyzed in this mini-thesis is shown in Annex 1.

Table 14 - Number of Cases by Department

	PLGs	DLGs	Total LGs
Cajamarca	10	46	56
Cuzco	2	3	5
Huanuco	7	36	43
La Libertad	6	28	34
Lambayeque	4	21	25
Lima	1	41	42
	30	175	205

The centralization of the country is shown in Table 15, where Lima has revenue of more than S/ 1.3 billion, and Huanuco a revenue of only about S/ 62 million. Lambayeque, the smallest RG of the sample, has more income than Cajamarca or La Libertad which are geographically bigger.

Table 15 - Income of LGs by Department

Cajamarca	Revenue
Taxes	2,550,550
User Fees	12,197,427
Transfers	65,661,173
Total	80,409,150

Huanuco	Revenue
Taxes	4,517,372
User Fees	13,041,960
Transfers	43,890,096
Total	61,449,428

La Libertad	Revenue
Taxes	18,907,120
User Fees	37,899,988
Transfers	45,858,546
Total	102,665,654

Lambayeque	Revenue
Taxes	18,686,311
User Fees	36,694,980
Transfers	49,655,260
Total	105,036,551

Cuzco	Revenue
Taxes	3,901,100
User Fees	20,756,800
Transfers	17,832,564
Total	42,490,464

Lima	Revenue
Taxes	310,598,555
User Fees	778,967,820
Transfers	282,945,900
Total	1,372,512,275

As shown in tables 16 and 17, LGs have an annual total revenue of more than S/ 1,764 million. S/ 1,623 million accrues to urban LGs and S/ 141 million to rural LGs. In the sample, urban LGs rely on own revenue sources for 76% of their income, whilst rural LGs rely mainly on intergovernmental transfers, which represent nearly 83% of their total income. These preliminary figures already demonstrate the low fiscal capacity and fiscal efforts of rural LGs. The analysis of the dependency of LGs on intergovernmental transfers reveals that 12 LGs (rural LGs from Cajamarca and Huanuco) do not have any own revenue source and thus depend entirely on intergovernmental transfers. 107 LGs depend on transfers in the range of 75% to 99% of their revenue and 36 LGs have transfers amounting to 50% to 74% of their revenues. Only 50 LGs (mainly urban LLGs) depend on transfers of less than 24% which shows that primarily urban LGs are able to collect tax revenues within their jurisdictions.

	Urban				Rural			
Source of Revenue								
	SLGs	MLGs	LLGs	Total Urban	SLGs	MLGs	Total Rural	Total LGs
1) Own Sources of Revenue	**13,949,580**	**318,422,289**	**901,219,885**	**1,233,591,754**	**6,023,992**	**19,104,237**	**25,128,229**	**1,258,719,983**
a) **Tax Revenue**	**2,810,160**	**94,356,881**	**257,693,485**	**354,860,526**	**1,365,492**	**2,934,990**	**4,300,482**	**359,161,008**
Property tax	2,694,900	77,570,800	183,546,000	263,811,700	1,123,352	2,162,710	3,286,062	**267,097,762**
Tax on transfer of assets	72,000	7,578,600	20,092,400	27,743,000	213,270	695,290	908,560	**28,651,560**
Vehicles tax	2,700	295,660	31,466,900	31,765,260	230	9,900	10,130	**31,775,390**
Tax on non-sport public s.	40,560	2,601,621	9,425,000	12,067,181	28,640	63,090	91,730	**12,158,911**
Gambling / Lotteries tax	0	0	3,918,700	3,918,700	0	0	0	**3,918,700**
Games tax	0	6,310,200	9,244,485	15,554,685	0	4,000	4,000	**15,558,685**
b) **Total User Fees**	**11,139,420**	**224,065,408**	**643,526,400**	**878,731,228**	**4,658,500**	**16,169,247**	**20,827,747**	**899,558,975**
User charges & Licenses	8,367,700	180,907,500	460,978,000	650,253,200	806,310	3,171,400	3,977,710	**654,230,910**
Contributions	21,900	596,458	1,279,900	1,898,258	10,420	49,552	59,972	**1,958,230**
Sale of G/S and formularies	782,220	1,768,100	4,205,100	6,755,420	383,820	1,317,100	1,700,920	**8,456,340**
Services	704,400	16,590,900	28,650,600	45,945,900	1,410,400	2,119,900	3,530,300	**49,476,200**
Rent of assets	548,600	6,023,500	11,197,500	17,769,600	1,815,100	8,739,900	10,555,000	**28,324,600**
Penalties and Fines	446,100	15,352,350	131,601,400	147,399,850	19,550	469,895	489,445	**147,889,295**
Sale of assets	209,000	2,404,500	4,669,500	7,283,000	210,300	300,500	510,800	**7,793,800**
Others	59,500	422,100	944,400	1,426,000	2,600	1,000	3,600	**1,429,600**
2) Transfers	**5,970,441**	**65,112,082**	**318,862,160**	**389,944,683**	**40,242,961**	**75,655,895**	**115,898,856**	**505,843,539**
Foncomun	4,791,673	45,427,670	193,152,657	243,372,000	30,527,971	58,445,684	88,973,655	**332,345,655**
Glass of Milk	1,070,814	13,321,165	106,996,080	121,388,059	7,322,234	14,732,185	22,054,419	**143,442,478**
Mining Canon	54,269	766,008	2,665,510	3,485,787	1,683,412	2,105,632	3,789,044	**7,274,831**
Hydroe Canon	40,961	1,882,199	2,471,012	4,394,172	291,762	296,897	588,659	**4,982,831**
Forestal Canon	8	155	1,000	1,163	4,201	369	4,570	**5,733**
Petroleum Canon	0	34	0	34	313,841	74,958	388,799	**388,833**
Tariff Revenue	10,516	347,650	575,901	934,067	99,480	0	99,480	**1,033,547**
Donations	2,200	3,367,201	13,000,000	16,369,401	60	170	230	**16,369,631**
Total Income	**19,920,021**	**383,534,371**	**1,220,082,045**	**1,623,536,437**	**46,266,953**	**94,760,132**	**141,027,085**	**1,764,563,522**

Table 16 – LGs Revenue (In Soles)

Source of Revenue	Urban				Rural			Total LGs
	SLGs	MLGs	LLGs	Average Urban	SLGs	MLGs	Average Rural	
1) Own Sources of Revenue	70.03%	83.05%	73.86%	75.99%	13.01%	20.16%	17.81%	71.33%
a) Tax Revenue	14.10%	24.62%	21.12%	21.86%	2.95%	3.09%	3.05%	20.35%
Property tax	13.53%	20.23%	15.04%	16.25%	2.43%	2.28%	2.33%	15.14%
Tax on transfer of assets	0.36%	1.98%	1.65%	1.71%	0.46%	0.73%	0.64%	1.62%
Vehicles tax	0.01%	0.08%	2.58%	1.96%	0.00%	0.01%	0.01%	1.80%
Tax on non-sport public shows	0.20%	0.68%	0.77%	0.74%	0.06%	0.07%	0.07%	0.69%
Gambling / Lotteries tax	0.00%	0.00%	0.32%	0.24%	0.00%	0.00%	0.00%	0.22%
Games tax	0.00%	1.65%	0.76%	0.96%	0.00%	0.00%	0.00%	0.88%
b) Total User Fees	55.93%	58.43%	52.74%	54.13%	10.06%	17.07%	14.76%	50.98%
User charges & Licenses	42.01%	47.17%	37.78%	40.05%	1.74%	3.35%	2.82%	37.08%
Contributions	0.11%	0.16%	0.10%	0.12%	0.02%	0.05%	0.04%	0.11%
Sale of G/S and formularies	3.93%	0.46%	0.34%	0.42%	0.83%	1.39%	1.21%	0.48%
Services	3.54%	4.33%	2.35%	2.83%	3.05%	2.24%	2.50%	2.80%
Rent of assets	2.75%	1.57%	0.92%	1.09%	3.92%	9.22%	7.48%	1.61%
Penalties and Fines	2.24%	4.00%	10.79%	9.08%	0.04%	0.50%	0.35%	8.38%
Sale of assets	1.05%	0.63%	0.38%	0.45%	0.45%	0.32%	0.36%	0.44%
Others	0.30%	0.11%	0.08%	0.09%	0.01%	0.00%	0.00%	0.08%
2) Transfers	29.97%	16.97%	26.14%	24.02%	86.99%	79.84%	82.19%	28.67%
Foncomun	24.05%	11.84%	15.83%	14.99%	65.98%	61.68%	63.09%	18.83%
Glass of Milk	5.38%	3.47%	8.77%	7.48%	15.83%	15.55%	15.64%	8.13%
Mining Canon	0.27%	0.20%	0.22%	0.21%	3.64%	2.22%	2.69%	0.41%
Hydroe Canon	0.21%	0.49%	0.20%	0.27%	0.63%	0.31%	0.42%	0.28%
Forestal Canon	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%	0.00%	0.00%
Petroleum Canon	0.00%	0.00%	0.00%	0.00%	0.68%	0.08%	0.28%	0.02%
Tariff Revenue	0.05%	0.09%	0.05%	0.06%	0.22%	0.00%	0.07%	0.06%
Donations	0.01%	0.88%	1.07%	1.01%	0.00%	0.00%	0.00%	0.93%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Table 17 - LGs Revenue (In Percentage)

8.2   OWN REVENUES

As shown in Tables 16 and 17, the importance of own revenue sources for LGs differs depending on their size (small, medium or large) and their degree of urbanization (urban or rural). For instance, the revenue from own sources of urban LGs (75.9% of their total income) is much higher than that of rural LGs (17.8% of their total income). The same applies for urban SLGs and rural SLGs (70.3% and 13% correspondingly). Peruvian LGs rely more heavily on own revenue sources than LGs in other countries such as Holland, where LGs rely only 16% on own revenue sources, but less heavily than Swiss LGs, for example, where LGs rely 87% on own revenue sources[57].

The difference of the weight between local taxes and user fees is considerable. In all LGs, user fees represent the most significant own revenue source. User fees represent the major source of revenue for urban LGs (54.1%) and the second source of revenue for rural LGs (14.7%). The analysis shows that rural LGs attempt to finance services more from user fees than from taxes; mainly due to their narrow tax base.

Tax revenue is of little importance for both rural and urban LGs. It represents only 21.8% and 3% respectively of their total income. The tax revenue tends to decrease according to the size and degree of urbanization. For rural SLGs and rural MLGs the tax revenues are 2.95% and 3.09% respectively. Even though the figures of taxes are more positive for urban LGs (14.1% for SLGs, 24.6% for MLGs, and 21.8% for LLGs), their tax revenue is still insufficient to finance locally-provided services. Urban LGs get more tax revenues as a result of their wider tax base and also probably their larger tax compliance.

Two key aspects are distinguished in the analysis: (i) the low amount of own revenues sources for rural LGs demonstrates the low fiscal capacity and fiscal effort that they have, and (ii) the separation of LGs according to the size and degree of urbanization reveals that urban MLGs seem to have the capacity to levy more own revenue sources than urban LLGs (83.5% and 73.8% accordingly), even when the latter are supposed to have a larger taxable base. This indicates that even though the fiscal capacity of urban MLGs is lower than that of LLGs, the urban MLGs fiscal effort is superior to the others.

---

[57] Alvarado Betty (1994) p.20.

Andres Lopez Hoyos   53

A deeper analysis of local taxes reveals that the property tax is the most important tax for both urban and rural LGs (Table 18). When compared to the total tax revenue, the property tax is 83.11% of total revenue in the case of urban LGs and nearly 78% in the case of rural LGs. Given that urban SLGs levy neither the gambling tax nor the games tax, the property tax becomes their most important tax revenue at nearly 96%. The statistics of the tax on transfer of assets show that it is of importance for rural LGs, constituting 19.6% of their total tax revenue. In contrast, urban LGs obtain 6.1% of their tax revenue from this tax. In the sample, 35 LGs do not levy any property tax and 94 LGs do not levy any tax on transfer of assets. The number of LGs that do not levy the tax on transfer of assets represent more than 46% of the total sample.

	Urban				Rural		
Source of Revenue	SLGs	MLGs	LLGs	Average	SLGs	MLGs	Average
Property tax	95.90%	82.21%	71.23%	83.11%	82.27%	73.69%	77.98%
Tax on transfer of assets	2.56%	8.03%	7.80%	6.13%	15.62%	23.69%	19.65%
Vehicles tax	0.10%	0.31%	12.21%	4.21%	0.02%	0.34%	0.18%
Tax on non-sport public shows	1.44%	2.76%	3.66%	2.62%	2.10%	2.15%	2.12%
Gambling / Lotteries tax	0.00%	0.00%	1.52%	0.51%	0.00%	0.00%	0.00%
Games tax	0.00%	6.69%	3.59%	3.42%	0.00%	0.14%	0.07%
	100%	100%	100%	100%	100%	100%	100%
Tax Revenue	2,810,160	94,356,881	257,693,485		1,365,492	2,934,990	

Table 18 - Local Tax Revenue (In Percentage)

The tax on non-sport public shows and the games tax have not been relevant for either group. They respectively represent 2.6% and 0.5% of urban LGs; and 2.1% and less than 0.1% of rural LGs tax revenue. 110 LGs do not levy the tax on non-sport public shows (representing 53.66% of the total sample) and 173 LGs do not levy the games tax (84.4% of the sample).

Among the taxes that are levied by PLGs (vehicles tax and gambling tax), the vehicles tax represents the second major tax for urban areas (6.1%) because of the higher number of automobiles in metropolitan areas of the country. On the other hand, in the case of rural areas this tax does not represent much of their tax revenue (0.18%) due to the fact that there are fewer PLGs in the rural SLGs or MLGs. The gambling tax is the least productive of the taxes; it represents less than 0.01% of the tax revenue for rural LGs. 201 LGs do not levy this tax, for two main reasons: (i) high tax avoidance and (ii) narrow tax base (not enough gambling firms to be taxed).

8.3 FISCAL CAPACITY

The fiscal capacity, defined as the tax potential of a jurisdiction[58], cannot be determined in the Peruvian case for three main reasons:

- There are no statistics on the percentage of non-payment for each tax in the local government revenue side.
- There are no statistics about the number of possible tax payers in each jurisdiction. This is the case for all the taxes LGs have, like the uncertainty of tax-payers of properties in rural areas, or the number of automobiles that can be taxed in urban jurisdictions.
- The tax rate is unknown and complicated to determine, as in the case of the property tax where every property is valued differently according to a formula set by the MTC.

Therefore, in order to make estimates on potential revenue using the maximum fiscal capacity, the mini-thesis has made the assumption that the highest tax revenue for a LG is the tax capacity of all the other LGs with the same degree of urbanization and more or less the same number of inhabitants. For example, if the highest property tax revenue for rural SLGs is S/ 5000, it will be the same for all the rural SLGs. In this case, it is assumed that all the others rural SLGs whose property tax revenue is below 5000 have low fiscal efforts and low tax compliance. In addition, averages have been made for LGs whose tax revenue is nil. Annex 2 presents the formulas that can be used if data is available whereas Annex 3 gives the steps taken to obtain the fiscal capacity. Given this assumption, the estimates of fiscal capacity for Peruvian LGs are presented in the following table:

Table 19 - LGs Tax Revenue after Fiscal Capacity (In Soles)						
	Urban			Rural		Total
Local Tax	SLGs	MLGs	LLGs	SLGs	MLGs	
Property tax	5,742,900	166,666,000	495,410,700	40,170,800	51,934,700	759,925,100
Tax on transfer of assets	690,600	31,030,900	96,499,600	6,814,500	12,556,700	147,592,300
Vehicles tax	2,700	619,600	32,184,300	15,400	759,400	33,581,400
Tax on non-sport public shows	117,800	13,640,000	75,323,800	854,900	2,452,700	92,389,200
Gambling / Lotteries tax	1,000	29,000	4,502,700	2,800	41,000	4,576,500
Games tax	24,500	17,891,500	99,483,200	195,500	4,401,400	121,996,100
Total	6,579,500	229,877,000	803,404,300	48,053,900	72,145,900	1,160,060,600

---

[58] Tax capacity should not be confused with the ability of local residents to pay taxes. (Zimmermann 1998: p. 61).

The results of fiscal capacity show that a substantial increase in type of tax revenue of LGs, regardless of their degree of urbanization or size, would be possible. When the fiscal capacity (potential revenue) is compared to the actual revenue (see Table 20), the fiscal capacity is double the existant tax revenue, and sometimes more than triple. For instance, the fiscal capacity of the urban LGs for the property tax is triple that of the actual revenue, and it is eight times the actual collection in the case of the tax on non-sport public shows. In the case of rural LGs, the fiscal capacity estimates reveal that the gambling tax has a tax base and could therefore produce revenue, even though there is not actually any income generated from this tax.

Table 20 - Current Revenue vs. Fiscal Capacity						
	Urban		Rural		Total Current Revenue	Total Fiscal Capacity
Local Tax	Current Revenue	Fiscal Capacity	Current Revenue	Fiscal Capacity		
Property tax	263,811,700	667,819,600	3,286,062	92,105,500	267,097,762	759,925,100
Tax on transfer of assets	27,743,000	128,221,100	908,560	19,371,200	28,651,560	147,592,300
Vehicles tax	31,765,260	32,806,600	10,130	774,800	31,775,390	33,581,400
Tax on non-sport public shows	12,067,181	89,081,600	91,730	3,307,600	12,158,911	92,389,200
Gambling / Lotteries tax	3,918,700	4,532,700	0	43,800	3,918,700	4,576,500
Games tax	15,554,685	117,399,200	4,000	4,596,900	15,558,685	121,996,100
Total	354,860,526	1,039,860,800	4,300,482	120,199,800	359,161,008	1,160,060,600

The new total revenue of LGs including the tax revenue after fiscal capacity is shown in Tables 21 and 22. The importance of own revenue sources has increased by the tax revenue levied at its maximum (tax revenue after fiscal capacity). Own sources of revenue currently represent the main source of income for both urban and rural LGs, with 83.1% and 54.9% respectively. The statistics also show that even rural LGs are able to get more revenue from own sources than from intergovernmental transfers. That is, the rural LGs' dependency on intergovernmental transfers has decreased from 82.1% (shown in Table 17) to 45.1%. This table reveals that none of the LGs are levying taxes at their maximum capacity, and thus depend far more than they should on intergovernmental transfers.

Table 21 - LGs Income after Fiscal Capacity (In Soles)						
Source of Revenue	Urban			Rural		Total LGs
	SLGs	MLGs	LLGs	SLGs	MLGs	
Own Revenue Sources	17,718,920	453,942,408	1,446,930,700	52,712,400	88,315,147	2,059,619,575
Taxes	6,579,500	229,877,000	803,404,300	48,053,900	72,145,900	1,160,060,600
User Fees	11,139,420	224,065,408	643,526,400	4,658,500	16,169,247	899,558,975
Transfers	5,970,441	65,112,082	318,862,160	40,242,961	75,655,895	505,843,539
Total	23,689,361	519,054,490	1,765,792,860	92,955,361	163,971,042	2,565,463,114

Andres Lopez Hoyos

Source of Revenue	Urban				Rural			Total LGs
	SLGs	MLGs	LLGs	Average Urban	SLGs	MLGs	Average Rural	
Own Revenue Sources	74.80%	87.46%	81.94%	83.11%	56.71%	53.86%	54.89%	80.28%
Taxes	27.77%	44.29%	45.50%	45.04%	51.70%	44.00%	46.78%	45.22%
User Fees	47.02%	43.17%	36.44%	38.06%	5.01%	9.86%	8.11%	35.06%
Transfers	25.20%	12.54%	18.06%	16.89%	43.29%	46.14%	45.11%	19.72%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Table 22 - LGs Income after Fiscal Capacity (In Percentage)

8.4 VERTICAL IMBALANCE

In order to determine the vertical imbalance, the revenue and the expenditure sides must be compared. If the expenditure side is bigger than own revenue sources, there is a vertical imbalance (deficit). In the opposite position, it is called vertical balance (surplus)[59]. From the fiscal decentralization point of view, it is preferable that LGs use own revenue sources instead of intergovernmental transfers to finance their social expenditures since the former entails local accountability and fiscal responsibility. Therefore, the vertical imbalance helps to determine what the necessary amount of tax revenue should be in order to finance social services.

The Peruvian situation is atypical compared to any other developing country. Peruvian LGs do not have figures on budget expenditure because they spend the money they get from transfers and taxes, viz. LGs do not plan their expenditure according to their needs but rather according to their expected income from transfers and grants. In addition, the link between expenditure and revenue sources is indeed difficult to establish for the following reasons:

- As mentioned in 7.5.1, the expenditure side for Peruvian LGs is not clearly defined. The law allows LGs to invest in and finance any social service within their jurisdiction. For instance, DLGs can repair a road in one month and can build a health center the following month. The only services clearly defined e.g. parks maintenance, civil security, street cleaning and lighting are basically financed through user fees. In practice, LGs spend all the income they obtain on different services.

---

[59] Bev Dahlby (2001), p.93.

- Linked to the above stated problem, the sample only divides the expenditure side in three main categories: (i) capital expenditure, (ii) current expenditure, and (iii) debt service. It does not show any vertical imbalance since LGs spend all their income on different social services. If there were a clear expenditure assignment to LGs, the mini-thesis could determine the vertical imbalance.

Therefore, in order to make an estimate of Peruvian LGs' average expenditure, the mini-thesis has made the assumption that the most expensive social service should be the expenditure for all the other LGs. For instance, if the most expensive social service for rural SLG is S/ 8000, it is assumed that all the other rural SLGs with more or less the same number of inhabitants should spend the same amount on social services. Distinctions are made according to their size (small, medium and large) and their degree of urbanization (urban and rural). Annex 4 presents the steps taken to determine the LGs' expenditure side. The expenditure side for Peruvian LGs is presented in Table 23:

Table 23 - LGs Expenditure (In Soles)						
	Urban			Rural		Total
Expenditure	SLGs	MLGs	LLGs	SLGs	MLGs	
Current Expenditure	35,275,500	890,998,400	2,706,495,000	248,759,700	326,418,600	4,207,947,200
Capital Expenditure	5,766,900	141,869,200	677,423,600	38,702,500	71,080,100	934,842,300
Debt Service	194,700	5,739,900	84,131,500	3,804,200	7,052,400	100,922,700
Total	41,237,100	1,038,607,500	3,468,050,100	291,266,400	404,551,100	5,243,712,200

The results point out that the expenditure amount increases according to the size of the LG. For instance, while the expenditure for rural SLGs is S/ 291 million, for urban LLGs it is more than S/ 3 billion. The current expenditure represents the most expensive disbursement for all the LGs, followed by the capital expenditure.

The analysis of the vertical imbalance consists of the comparison of the own revenue sources (including the current tax revenue and the potential tax revenue) and the expenditure data. The results are shown in the following table:

Andres Lopez Hoyos

58

Table 24 - LGs Vertical Imbalance						
	Urban			Rural		Total LGs
	SLGs	MLGs	LLGs	SLGs	MLGs	
Current Own Revenues	13,949,580	318,422,289	901,219,885	6,023,992	19,104,237	**1,258,719,983**
Potential Own Revenues*	17,718,920	453,942,408	1,446,930,700	52,712,400	88,315,147	**2,059,619,575**
Expenditure ·	41,237,100	1,038,607,500	3,468,050,100	291,266,400	404,551,100	**5,243,712,200**
Balance without FC.	**-27,287,520**	**-720,185,211**	**-2,566,830,215**	**-285,242,408**	**-385,446,863**	**-3,984,992,217**
Balance with FC.	**-23,518,180**	**-584,665,092**	**-2,021,119,400**	**-238,554,000**	**-316,235,953**	**-3,184,092,625**
Δ %	(13.81%)	(18.82%)	(21.26%)	(16.37%)	(17.96%)	(20.10%)

* Own Revenues after the tax revenue levied at its maximum (Fiscal Capacity)

As shown in Table 24, there is a vertical imbalance for every urban and rural LG, which verifies the hypothesis presented in 6.1. Both the current tax revenue and potential the tax revenue after realizing fiscal capacity are lower than the expenditure needed to finance their broad social services. In this situation, the CG is obliged to bridge the imbalances using intergovernmental transfers, mainly the Foncomun. If the potential tax revenue after fiscal capacity is analyzed against the expenditure side, the former is able to finance the capital expenditure and the debt service of all LGs (potential tax revenue = 1,160,060,600, capital expenditure = 934,842,300 and debt service = 100,922,700). In other words, the taxes levied at their maximum capacity are able to finance 22.1% of the total expenditure of LGs[60].

It is important to highlight the fact that the results are bound to be inexact because the fiscal capacity and the expenditure side are estimates from averages instead of veritable data.

---

[60] This value was obtained from the sum of all tax revenues after fiscal capacity divided by the total expenditure side.

Andres Lopez Hoyos

CHAPTER NINE – LESSONS LEARNT

This chapter highlights the information acquired about the reasons for the failure of the current local taxation system and the reasons for the culture of non-payment of taxes, created by LGs officers. It also introduces the possible taxes that could be levied by LGs, presenting the constraints and advantages that each brings about. It concludes with a proposal for the enhancement of the Peruvian LGs.

9.1 PRIMARY REASONS FOR FAILURE OF THE CURRENT TAXATION SYSTEM

The current local taxation structure has characteristics that do not allow LGs to deliver local services properly. Table 25 below analyses each current local tax and its fulfillment of the principles of good local taxes:

Table 25 - Constraints of Municipal Taxes

Tax	Benefit / Tax Principle	Revenue Stability & Elasticity	Easy to Administer	Tax Competition	Problems
Property tax	Partially. Some of the benefits (like street cleaning and civil security) are financed by this tax revenue.	Only in urban with high number of urban properties. High stability. High elasticity since expenditure increases with revenue.	High cost of collection. Tax rate is very difficult for tax-payers to understand. High transparency and visibility.	High tax competition. Tax rate different in every LG, set by the CG.	Out-of-date urban cadastral map. Most rural areas do not count with cadastral maps. There is no precise method of how to tax rural properties. Complicated tax rate formula for urban areas.
Tax on transfer of assets	None.	Elasticity and stability only in Lima and other large cities where assets are highly valued.	Low transparency and visibility. Simple tax rate.	No tax competition. Tax rate same in all LGs, set by the CG.	Most selling / buying of assets in the Peruvian scenario is done informally. This tax leads to speculation towards lower house prices.
Vehicles tax	None.	Relative elasticity only in urban areas since the majority of vehicles is in large cities.	High transparency and visibility. Costly collection. Confusing tax rate.	No tax competition. Same tax rate in all LGs, set by the CG.	Complicated tax formula set up by the MTC. Not necessarily imposed on local residents. This tax tends to be levied in urban areas since most rural areas do not count with enough cars to be taxed.
Games tax	None.	No stability since it depends on the income-level of citizens and therefore is affected by	High transparency and visibility. Easily collected. Confusing tax rules (when and how it should be paid).	No tax competition. Tax rate set by the CG.	Most raffles are held without the authorization of the correspondent LG. This tax tends to be levied in urban areas.

		economic cycles.			
Tax on non-sport public shows	None.	Low stability due to sporadic tax base. Low elasticity.	High transparency and visibility. Expensive collection.	No tax competition. Tax rate set by the CG.	Most shows are held without the authorization of the corresponding LG.
Gambling / Lotteries tax	None.	Low stability since it is affected by economic cycles. No elasticity.	High transparency and visibility. Easily collected.	No tax competition. Tax rate set by the CG.	No certainty that the PLG will transfer the income to the DLGs or CG. This tax tends to be levied in urban areas.

The current taxation system has several characteristics that do not allow LGs to perform efficiently. The reasons for failure are grouped as follows:

- **Infringement of the benefit-tax principle**: The majority of taxes do not have a specific benefit or rather they do not fulfill the benefit-tax principle. This is partly because the Peruvian taxation policy fails to indicate any specific benefit for the taxes, and because LGs fail to promote benefits of their taxes. The only tax that to some extent fulfills this principle is the property tax since part of the revenue is used to finance civil security and street cleaning. Therefore, under this no benefit-tax scheme, the income generated by taxes does not serve to finance specific public local services but instead forms part of the LGs' general revenue that encumbers the accountability and efficiency of the local electorate. As expressed before, this principle is very important for the success of local accountability and fiscal decentralization.

- **Prohibition to set up the local tax rates**: Peruvian LGs are neither allowed to set up the tax rates nor to change the tax rules, hampering their fiscal capacity and autonomy. This prohibition brings about three main constraints: (i) it discourages LGs efficiency by attempting to reduce the tax rates through good local management, (ii) the fiscal autonomy is lost since LGs have no choice on the tax rates, and (iii) there is low local accountability to constituencies.

- **Confusing current tax rates**: Most of the taxes have a different and complicated tax rate, which decreases the administrative capacity of LGs to levy them. For instance, the appraisal for the property tax rate is done according to the land and edification price, age and state of the building, and a depreciation factor set by the MTC that is usually prohibited to be analyzed.

- **Tax base exemptions**: Although there are few exemptions from local taxes, these hinder the complete tax revenue.

- **Difficult to administer**: The current taxation system does not allow LGs to easily administer taxes. The visibility and transparency of taxes is low due to the lack of benefit derived from them. Tax-payers do not know when a tax is imposed upon them. The costs of collection are high and often higher than the actual revenue.

- **Tax-payers geographically dispersed**: Due to the difficult geographical conditions of Peru (mountains, altitude, cold, etc), LGs are not able to collect income from taxes such as property tax or the tax on non-sport public shows. For instance, some LGs in Cajamarca spend more on property tax collection in rural areas, than the actual revenue generated from this tax.

- **Weak institutional capacity**: Inadequate comprehension of the local taxation scheme and lack of experience and training are characteristics of LG officials. Every time a new administration is established, new officers with no experience are placed in the LG. Moreover, local officers do not realize the benefits and potential that the local taxes bring about. Interviews show that some local officers are unaware of the taxes assigned to his LG. It seems to be politically and economically preferable for local officers to finance social services from transfers rather than from own revenue sources since the latter implies fiscal efforts.

- **Unsustainable revenue**: Local taxes are very unreliable because of their sporadic base, e.g. the tax on non-sport public shows is very irregular because public shows are held only in specific months of the year, especially in rural areas where the cultural traditions are stronger[61]. Therefore, with the present taxation system LGs lack of sustainable and increasing tax revenue hampers the planning and delivery of public services.

- **Informality of the tax base**: The Peruvian scenario lacks a tax base formality which hinders the collection of taxes. Even though LGs may have a strong tax base, they

---

[61] Alvarado (1994) p. 105.

Andres Lopez Hoyos   62

cannot levy a tax because the events are done in an informal way i.e. most of the buy-sell contracts, games, and public shows are held informally, especially in rural areas.

- **Urban taxes**: Among the problems of the current taxation system, the most significant is the fact that most taxes are mainly levied in areas with high economic and commercial dynamism. The gambling tax, vehicles tax, tax on non-sport public shows, and games tax tend to be levied in cities. In contrast, the majority of LGs are rural. This fact is demonstrated by the statistics showing that urban LGs obtain more than 21% of their income from taxes, while rural LGs get only 3%.

Despite the above-mentioned drawbacks, the most positive feature of the local taxation system is the convenient methods of payment of taxes that Peruvian LGs have implemented. These include direct account debit, three-month installment plans, or the reward program which basically recompenses punctual tax-payers by reducing the tax burden if the tax is paid all at once. Although these methods are mostly implemented by urban LGs, it is an encouraging aspect that needs to be adopted by rural LGs.

9.2   REASONS FOR THE NON-PAYMENT OF TAXES

According to the interviews conducted with LG officials, tax-payers and a CND officer, there are four main reasons why citizens do not pay taxes:

- **Tax amnesty**: Tax amnesty has been the preferred way of campaign advertisement for local elections, and in fact, tax amnesty has been provided for many years in all the LGs within Peru. This scenario dictates that tax payers are discouraged from paying taxes when they are due, instead preferring to wait until the next tax amnesty when their taxes are waived. A common answer among the interviewees who admitted to not paying taxes was "I prefer to wait for the next tax amnesty".

- **Lack of confidence in local officers**: The Peruvian record of local and central officers is not very reputable. The corruption and mismanagement of public funds over the years have led tax-payers to mistrust local officials and fail to pay taxes. Tax-payers

believe that the tax revenue goes into the "pockets of the local officers" instead of going to the municipality.

- **Economic crisis**: The high costs of living, the economic recession, and the low income-level that the country faces at present encourage citizens to save as much as possible, including by not showing tax compliance; viz. they prefer to invest their money in satisfying their basic needs rather than paying local taxes that are expensive and have no obvious benefit to them.

- **Unclear benefit**: An important reason for the non-payment of taxes is the un-defined service that taxes bring about. Since tax-payers do not see any specific benefit created by their payment, they are not willing to pay any tax.

Generally, the low payment of taxes is due on the one hand, the economic recession and the low tax-benefits, and on the other hand, the preference of tax payers to wait until the next amnesty takes place. All of these reasons –especially the tax amnesty– have created a *culture of non-payment* among Peruvians, which is very difficult to eradicate. LGs cannot take legal coercive actions against all the households who fail to pay taxes because a considerable portion of the population would then face legal charges. Furthermore, LGs cannot confiscate non-tax payers' assets because it would simply make the poor poorer.

9.3   FAILURE OF THE EXPENDITURE ASSIGNMENT

The principal drawback of the Peruvian fiscal decentralization process is the imprecise expenditure assignment to LGs. If there were a clear assignment of tasks to sub-national levels, the assignment of revenue sources would be easier and more accurate. For instance, if LGs had to finance public local schools, the assignment of taxes should give substantial revenues for this purpose.

Another implication of the expenditure side is that it is financed from different sources of income. It is comparable to a water dam with different sources of incoming water and different channels of outgoing water. Inside the dam, the different sources of water mix and become a bigger water volume. It is very difficult to know from which incoming sources the

outgoing water comes. The incoming water in this case is revenue from taxes, user fees and transfers, whereas the outgoing water is the social services. All the revenues serve to finance different services and goods. Thus, the construction of a road could be financed 30% from tax revenue, 10% from user fees, and 70% from transfers. This ambiguous method of financing social services decreases the accountability of local officials to their constituencies.

9.4   FAILURE OF THE INTERGOVERNMENTAL TRANSFER SYSTEM

Peruvian LGs are so much favored by the Foncomun transfer that they neglect their own tax efforts. Municipality officers are discouraged from improving the collection of own sources of revenue because it is relatively easy to cover the expenditure side with the transfers of Foncomun and Canon.

Although the intergovernmental transfer system represents the most important source of income for rural LGs, it has several implications in its distributional formula. The considerations used to set the Foncomun transfers are the size of the population living in the province and the infant mortality rate. These criteria are arbitrarily calculated and there is poor scientific support for them, especially the formula which calculates infant mortality rate. This formula is self-defeating because if a RG, through a good regional management, reduces the infant mortality rate it will be punished with fewer transfers since RGs with higher infant morality rates receive greater funds from the transfer[62]. For this reason, a competent intergovernmental transfer system should motivate LGs to increase their own income-collection efforts[63]. Otherwise, it creates an unnecessary local fiscal dependency on transfers.

9.5   ENHANCING THE PERUVIAN LOCAL TAXATION SYSTEM

Before proposing an optimal Peruvian local taxation structure, current central taxes and other potential taxes are first evaluated as possible local taxes. The implications and advantages of each are identified.

---

[62] Markus Rühling (2002) p. 15.
[63] World Bank Institute (n.d.) p. 25.

Andres Lopez Hoyos   65

9.5.1   <u>National Taxes seen as Regional and Local Taxes</u>

A possibility for the enhancement of local taxation is to allow sub-national governments to levy central taxes, permitting to impose the tax rates in order to enjoy full administrative and fiscal control of the revenues. As discussed in the theoretical chapter, the possible central taxes that could be levied by the newly implemented RGs and then distributed to LGs are the PIT and the VAT[64]. This system will not yield substantial results in the Peruvian case due to the economical advantages that some parts of the regions have over others. Only the Lima RG is able to collect enough revenue from central taxes. Therefore, if the income tax is to be levied by RGs, inequalities among jurisdictions will persist since Lima is the only one that will draw the necessary per capita revenue from their wider tax base and better tax infrastructure. As shown in Table 26, Lima collects nearly 88% of central tax revenue while the rest of the country (24 departments) collects only 12%. If Cajamarca were to attempt to levy any central tax it would not have major revenues since its share is only S/ 87.5 million (0.4% of central taxes revenue), and that has to be distributed among all its LGs. Furthermore, if this system were applied, LGs might receive less than what they receive presently from Foncomun. The same rationale can be applied with all the other central taxes such as business tax, corporate tax, or VAT.

Table 26 - Central Tax Revenue by Departments*		
	Soles**	%
Amazonas	4.5	0.02%
Ancash	114.4	0.52%
Apurimac	8.4	0.04%
Arequipa	730.0	3.33%
Ayacucho	15.2	0.07%
Cajamarca	87.5	0.40%
Callao	137.3	0.63%
Cuzco	123.3	0.56%
Huancavelica	4.6	0.02%
Huanuco	18.8	0.09%
Ica	144.4	0.66%
Junin	122.5	0.56%
La Libertad	285.8	1.30%
Lambayeque	136.2	0.62%

---

[64] As it is in the case of Brazil where the federal states levy the VAT and then share it to their LGs. Bird: 2000, p.17.

Andres Lopez Hoyos

66

Lima	19,290.6	87.90%
Loreto	84.6	0.39%
Madre de Dios	8.3	0.04%
Moquegua	30.1	0.14%
Pasco	12.7	0.06%
Piura	286.5	1.31%
Puno	58.2	0.27%
San Martin	35.1	0.16%
Tacna	78.4	0.36%
Tumbes	13.0	0.06%
Ucayali	116.2	0.53%

* Includes the revenue of the Income Tax, VAT, Excises, RUS, RER, RGR, and Solidarity Tax. Data from April 2002 to April 2003
** In million soles.
Source: Revista Nota Tributaria 2003, p.37.

This system will not be a realistic option until regional disparities are lessened.

Other ways to increase the LGs' income are i) to establish a tax sharing agreement with the CG and/or RG, and ii) to let LGs piggy-back on central taxes. A tax sharing agreement whereby the revenue of a central tax would be shared among the different tiers of government would give substantial revenues to LGs and to RGs. This is the case in Germany where the PIT revenue is shared among RGs and LGs, representing nearly 9/10 of the local income (the formula for its distribution is CG: 42.5%, RGs: 42.5%, LGs: 15%)[65]. The main drawback of this system is that it will only be successful in a highly decentralized country, where sub-national governments finance a great part of the public social services. In the Peruvian system, because the decentralization process is in its initial stage, LGs would behave fiscally irresponsibly if they were to receive a percentage of the VAT or PIT, and the revenue would likely be misused since the expenditure assignment is not clearly defined. Therefore, it would create a macroeconomic threat within the country. Furthermore, the Peruvian CG would be very reluctant to share the revenues of its main taxes.

A more feasible option is the establishment of a piggy-backing system on national taxes, where a surtax on a national tax is levied. The revenue of this surtax would then be distributed among LGs. The Peruvian case has experience with this system. The Foncomun is basically financed with a surtax of 2% on the VAT, representing the main source of income for rural SLGs. Other central taxes can also be piggy-backed by LGs if increased revenue is

---

[65] GTZ (2002) p.151.

Andres Lopez Hoyos

67

needed to finance social services. Because the surtax is a small percentage of the central tax, it will provide LGs with enough revenues and at the same time it will not threaten the macroeconomic stability of the nation. As detailed in chapter two, the main constraint of this system is that local accountability is lost since the revenue comes from a transfer of the CG.

9.5.2   Possible Candidates for Local Taxes

If other taxes are to be levied by LGs, they must be assessed according to whether they meet all the principles of good local taxes or whether they are more appropriate for other tiers of government. The following table presents the advantages and limitations that possible new local taxes would bring about:

Table 27 - Possible Local Taxes

Tax	Advantages	Constraints
Fuel tax	It will draw substantial income to LGs. It is clearly linked to specific benefits e.g. roads maintenance and construction. High elasticity. Low compliance costs if gas stations are used as tax collectors.	High tax exportability. It will mainly benefit urban areas with large numbers of cars.
Excises on alcohol and tobacco	It is clearly linked to specific benefits (e.g. health, development). High elasticity. Low compliance costs.	It will mainly benefit LLGs and MLGs due to higher income-level of citizens. High possibilities for smuggling and cross-border shopping.
Tax on natural resources	It is clearly linked to specific benefits (e.g. resource preservation). Immobile tax base.	Not all the LGs have exploiter firms within their jurisdictions. Low elasticity. Unstable tax base.
Tax on environmental damage	It is clearly linked to specific benefits (e.g. health, environment of preservation). Visible tax base. Low compliance costs.	It will not provide substantial tax revenue. Low elasticity. Difficult considerations for a proper tax base.
Tax on advertisement.	Relative benefit. Visible tax base. Low compliance costs.	It will mainly benefit LLGs and MLGs due to larger number of firms.

A revision of other possible local taxes shows that the majority will not perform efficiently in the Peruvian situation because on the one hand, these taxes offset the principles of good local taxes such as tax competition and unfairness among jurisdictions; and on the other hand, they will not draw major revenues due to the limitations in the taxable base of the majority of LGs.

Andres Lopez Hoyos

68

Special attention should be given to the tax on natural resources that has proved to be a very elastic tax for the CG because of the dependency of the country on its natural resources. It has three main advantages: (i) it could definitively guarantee enough revenues to cover the expenses generated from exploitation as well as rural development, (ii) it will bring low administrative costs because the exploiter firms are located in the same LGs where the exploitation is done, and (iii) it will mainly benefit rural LGs due to the fact that the taxable base tends to be outside the capital. The main problem with the tax is the unfairness it causes since not all LGs are endowed with the same proportion of natural resources within their jurisdictions. Therefore, it would be more efficient to let upper levels of government (such as the RG) levy this tax because of its overall view and economy of scale. This would be followed by distribution to the LGs.

The fuel tax is an interesting candidate for local tax because it can be earmarked to a specific benefit, it will draw enough revenues to LGs, and it is very elastic. Given that the majority of Peruvian LGs are rural this tax can be more efficient if allocated to RGs instead of LGs. RGs by their ample coverage will draw substantial revenues from this tax.

The only possible local taxes for the Peruvian case are the tax on environmental damage and the tax on advertisement since they fulfill to a higher degree the principles of good local taxes. These two taxes can be earmarked to specific benefits and are easy to administer. Their main constraints are their low elasticity and their tendency to be levied in large areas where more citizens live and more firms operate. Therefore, LGs should rely on these taxes only if there is an expenditure need that should be financed by these tax revenues.

9.5.3 Improvement of the Current Local Tax System

After having corroborated that central taxes cannot be levied by LGs and that only two other taxes fulfill the stringent principles of good local taxes, the mini-thesis suggests the enhancement of the current local taxation system. The effective collection of existing taxes is generally easier and more financially productive than introducing new taxes[66]. The basic aims are (i) to improve the administrative and technical capacity of LGs, (ii) to maximize the under-exploited local tax revenue including the informal economy, (iii) to strengthen the

---

[66] Vidarre Aguayo (n.d.) p.25.

Andres Lopez Hoyos

69

mechanisms of collection, and (iv) to link the tax revenues to specific benefits. The following table presents the possible benefits of the new and current local taxes as well as the aspects that should be changed in the future.

Table 28 -Improved Municipal Taxes

Tax	Could finance	Remarks
Property tax	Street cleaning, refuse removal, civil security, schools, etc.	Creation of cadastral maps for rural areas. Update of urban cadastral maps. Establishment of a lower and simpler tax rate for urban and rural areas through market valuations. Develop a collection method for rural LGs. Eliminate tax exemptions.
Tax on Transfer of Assets	Street cleaning, waste removal, civil security, schools, etc.	Tax rate should be in accordance to market price instead of contract price.
Vehicles tax	Roads construction and repairs.	Tax rate should be in accordance with market price of cars. Tax should be applied to cars less than five years old. Since only a few LGs would generate enough revenue from this tax, it seems more appropriate to let the RG levy this tax. It can make use of the economy of scale and therefore be used more efficiently. Clearly, tax construction and repairs should be one of the RGs' tasks.
Games tax	Local economic infrastructure.	Develop a better method for its collection.
Tax on non-sport public shows	Civil security.	Develop a better method for its collection.
Gambling / Lotteries tax	Local economic infrastructure.	Develop a better method for its collection.
Tax on Environmental Damage	Health, Environment preservation.	Develop a method for its collection.
Tax on Advertisement.	Street cleaning	Develop a method for its collection.

As described in Table 28, local taxes should be used for specific purposes, which would be of benefit primarily to the same tax-payers. In the case of the property tax, the tax should be used for street cleaning because the property tax-payer will benefit from having his/her streets cleaned; whereas in the case of the vehicles tax, it should finance roads construction and repairs. In cases where the tax does not benefit primarily the same tax-payers, the tax should be linked to the economic activity of the tax. For instance, the games tax and the tax on gambling should finance the local economic infrastructure in order to boost economic growth, whereas the tax on non-sport public shows should finance civil security in order to protect citizens from theft.

All the benefits mentioned in the previous table can be subject to changes and upgrades. In any case, if taxes are earmarked for special expenditures, both tax payers and LGs will benefit since this demonstrates enhanced accountability and local efficiency.

The elimination of the exemptions in the current tax system will mostly benefit rural LGs who will be getting a substantial increase in their tax revenue. For instance, the property tax exemption of exploiter firms in Cajamarca prevents DLGs from getting revenues for more than 10000 hectares that the exploiter firms have[67].

Regarding collection methods, LGs should ensure cost-effective tax collection where all tax-payers should pay. A database of taxpayers should be created as well as a simple tax rate imposed in order to boost tax compliance. The tax laws should give room for LGs to create their own tax collection methods. If this is allowed, LGs can propose new methods and therefore increase their revenue. Peruvian LGs can be very creative in improving the collection of local taxes. A good example is the small LG of San Jose in Lambayeque, where the new local officers implemented a tax collection system that has improved the tax revenue and broadened the tax base. It basically consists of hiring one local resident, equipped with a bicycle, whose main task is to collect a low portion of the property tax door-to-door everyday[68]. Because the tax rate is very low it is psychologically easier to pay it everyday or every week than to pay the whole installment at once at the end of the month or every three months. This is an efficient method because it not only provides employment to local residents, but broadens the tax base since all the households are reached. Although this example is more applicable to coastal LGs where the terrain is less difficult, it can still be imitated by other small LGs where there is a lack of personnel to enforce tax compliance.

Another important aspect is the allowance given to LGs to set their own tax rates in order to enjoy fiscal autonomy. Efficient LGs will be able to decrease the tax rate because they will know what the most appropriate tax rate is for their citizens. By decreasing the tax rate they will enjoy more tax compliance and therefore will be able to provide better social services. Furthermore, an appropriate tax rate is linked to an increase in accountability. Tax-payers will certainly enjoy knowing what is being done with the high or low tax rate.

---

[67] Information given by Grl. Jorge Hoyos from Cajamarca PLG.
[68] Example given by Engineer Gil Ludeña from Lambayeque PLG.

Andres Lopez Hoyos

Finally, it is important for Peruvian LGs to "invent" new taxes. LGs may become very creative in imposing new small taxes if increased revenue is necessary[69]. However, the CG should regulate the introduction of new local taxes in order to avoid a situation where there is an enormous amount of small and unproductive local taxes.

9.5.4   The Optimal Peruvian Local Taxation Structure

What follows is a recommendation of an optimal local taxation structure for Peruvian LGs. This structure would ensure that LGs current expenditures are adequately financed:

- Property tax
- Tax on transfer of assets
- Vehicles tax
- Games tax
- Tax on non-sport public shows
- Gambling / Lotteries tax
- Tax on environmental damage
- Tax on advertisement

Emphasis should be given to the imprecise expenditure assignment to LGs that does not allow the mini-thesis to assign accurate taxes to LGs. Under this imprecise expenditure assignment to LGs, the new local taxation structure levied at its maximum tax capacity will decrease the vertical fiscal imbalances of poor LGs and at the same time it will give sufficient tax revenues to rich jurisdictions to finance locally provide services.

Similarly, if LGs are in need of more revenues to finance increasing expenditures responsibilities, LGs should rely on piggy-backing systems (either VAT or PIT) with the CG, as is the case of Foncomun. The use of piggy-backing will reduce the economic disparities since tax-payers from Lima will be financing the development of the rest of the country. Likewise, the tax on natural resources and the fuel tax should be levied by the RG and, if LGs require extra funding for a specific expenditure, the tax revenue should be distributed to LGs. The formula on how more revenues are distributed among LGs must contain a reward-

---

[69] Zimmermann (2002) p. 69.

Andres Lopez Hoyos   72

approach, where tax-efficient LGs should be compensated for the increment in the own revenue sources.

Correspondingly, Peruvian LGs should rely on user charges as much as possible since not only foster local accountability but fulfill the benefit principle at maximum.

Finally, LGs must learn to take care of their local economic base. Better tax administration and more efficient delivery of social services will lead to lower tax rates and/or higher tax revenues, resulting in higher income of households and enterprises that help them to pay higher taxes.

9.5.5   Further Steps for an Enhanced Local Taxation System

A comprehensive enhancement of the Peruvian local taxation system should be part of an overall program which involves the following steps that support the local taxation scheme:

- **Clear assignment of expenditure responsibilities**: The assignment of taxes should be to the extent possible linked to the assignment of expenditure responsibilities. The greater the expenditure responsibilities assigned to Peruvian LGs the more tax revenue needed. The clear expenditure assignment will allow the proper allocation of revenue sources to sub-national governments. The expenditure assignment should also give room for joint-venture programs among LGs since economy of scale can be used and therefore lower costs can be achieved[70].

- **Reduction of the number of LGs**: Peru is one of the Latin American countries with the most LGs[71]. Although the large number of municipalities assures regional variety as well as competition between ideas and organization forms[72], there is no need for many LGs whose performance has shown to be of low importance. Peruvian LGs, by their limited nature, tend to face potentially more administrative costs in levying taxes than bigger jurisdictions that make use of economy of scale levying methods. The smaller

---

[70] This is the case of the LGs in Cuzco (along the Santo Tomas River - AMSCAT), where six LGs engaged in a development project within their jurisdictions. Although the accountability was diminished, costs where reduced and project was accomplished earlier. (Example given by Luis Contreras from Participacion Ciudadana).

[71] Inter-American Development Bank (1994) p. 12.

[72] GTZ (2002) p. 206.

Andres Lopez Hoyos

LGs are, the narrower their taxable base which leads to lower revenues. If integrated with other LGs, taxes can be much more useful since the collection is larger and therefore economy of scale can be used.

- **Transfer of responsibilities to RGs**: In Peru, PLGs have always been seen as the intermediate level between DLGs and the CG, and there is no reason for their existence once the RGs are totally implemented. Furthermore, given that PLGs are also DLGs, the assignment of responsibilities and revenues becomes confusing and inadequate. The local level will benefit if the transfer of responsibilities to the RGs is accompanied by the transfer of the most unproductive local taxes. RGs by their expanded nature can more efficiently levy the unproductive local taxes, and then distribute the revenues to LGs if an increased expenditure is assigned. In principal, if some local expenditure is transferred to RGs, the current local taxes will be able to finance the narrowed local social services.

- **Creation of a culture of payment**: Given the present local tax system, the amount of local revenues can be increased if the culture of non-payment is changed. One possible solution to the Peruvian culture of non-payment is the gradual creation of a tax environment where the tax-payers become conscious about the tax payment. The following steps should be taken: (i) tax amnesties should be avoided as much as possible, (ii) taxes should be linked with specific benefits, and (iii) alternative methods of payment created by urban LGs to rural areas should be expanded. It is very likely that if taxpayers see the benefits of their tax payment, the payment of taxes will increase.

CHAPTER TEN - CONCLUSIONS AND RECOMMENDATIONS

The decentralization process of Peru –under the right circumstances– can be one of the pillars for economic growth and democratic participation of citizens. In this view, fiscal decentralization plays an important role for the successful implementation of the decentralization process of the country. It assigns expenditure responsibilities and revenue sources to lower tiers of government. Fiscal decentralization should not be seen as an isolated procedure, but as an integral component of the overall decentralization process of the country.

From the allocative point of view, LGs are the closest government to the citizens and therefore they make up the tier best able to fulfill the community's requirements since they know their citizens' needs more than any other tier of government or any other group of experts. Likewise, if responsibilities are given to LGs, citizens will learn that from that point on it is their LG which they should hold responsible for a lack of adequate services or mismanagement of resources.

In order to have successful fiscal decentralization, the assignment of expenditures responsibilities to sub-national governments should go together with the assignment of revenues. LGs must be allocated enough revenue sources to efficiently finance the locally-provided services. LGs can be allocated revenues through intergovernmental transfers, local loans, and own sources such as user fees or local taxes. From the fiscal decentralization point of view, own revenue sources are much more efficient than other revenue sources since they impose fiscal responsibility to LGs and local accountability to constituencies. Similarly, LGs act more responsibly when they have enough revenues to finance local services, have control over their fiscal destiny, and when they are fiscally and politically sovereign for the efficient delivery of public services. Therefore, the assignment of local taxes should be prioritized on the agenda of any country.

Peru, a highly centralized country, started the decentralization process in 2002 in an attempt to reduce poverty and increase democratization. Although the legal decentralization framework has established the political and administrative delegation to sub-national governments, fiscal decentralization is still under discussion. It should receive special attention as part of a successful process of decentralization in the country. This mini-thesis is

intended, in light of the principles of good local taxes, to propose a new local taxation system for Peruvian LGs.

As the Peruvian decentralization process is just beginning, LGs still have low participation in the finances of the country. The expenditure and the revenue assignments to LGs and RGs lack precision and certainty. For instance, the current expenditure assignment is very broad and imprecise and thus it leaves room for confusion between the two levels of local governments (PLGs and DLGs). Furthermore, the present expenditure assignment only accounts for urban LGs since there is no specific function accounting for rural LGs. The same principle applies in the revenue assignment, which does not allow LGs to enjoy substantial revenues. In this regard, Peruvian LGs are either confined to levy unproductive taxes or to depend heavily on intergovernmental transfers. As for other sources of income, LGs also levy user fees, receive transfers, and obtain local loans.

The local taxation system is composed of the property tax, tax on transfer of assets, vehicles tax, gambling tax, games tax, and tax on non-sport public shows. According to the empirical findings, property tax has shown to be the most productive source of revenue generation for all LGs. The remaining taxes are more efficient if levied by urban LGs and unproductive if levied by rural LGs.

The empirical results provided answers to all the research questions posed in the empirical work. The services that Peruvian LGs are assigned to provide are broad and unclear, and thus cannot be easily classified. This is actually the main problem with the Peruvian fiscal decentralization process. It also leads to an inaccurate revenue assignment to LGs. Through valuation and average methods, the mini-thesis was able to give a value to the expenditure side for LGs. The fiscal capacity was also elaborated by the mini-thesis through averages from available data in the sample. The fiscal capacity showed that taxes levied at maximum capacity can substantially increase the current tax revenue and thus reduce the dependency on intergovernmental transfers by just 16.8% for urban LGs and 45.1% for rural LGs. The empirical findings also highlighted the constraints placed on Peruvian LGs in levying taxes. The main constraints are the lack of tax benefits (benefit-tax principle) as well as the culture of non-payment created by the local tax collection officers.

Having answered all the research questions, the hypothesis stated in section 6.1 was tested and verified viz. LGs do not have sufficient tax revenues to finance the social services under the new decentralization process of the country. Therefore, a new local taxation system should be proposed.

In this mini-thesis, it is argued that the appropriate tax assignment to Peruvian LGs should be in accordance with the expenditure assignment and should fulfill the characteristics of good local taxes. Local taxes should neither exceed the jurisdiction's boundaries nor distort economic efficiency. They should be easy to administer for both tax-payers and LGs. Given that LGs lack power to access loans, local taxes should secure a stable and increasing source of revenue to LGs. Among the principles of good local taxes, the most important factor is that local taxes should be imposed on the same citizens who benefit from local services (benefit-tax principle). If the tax fulfills the benefit-tax principle to a maximum capacity, then local accountability and efficiency is increased.

Although all the principles of good local taxes serve as a guideline, they certainly cannot act as a blue print for every country since each country has different and unique features. The Peruvian case is no exception.

The general approach taken is that the most appropriate local tax is the property tax since it fulfills to a higher degree the principles of a good local tax. Similarly, taxes that are born at the local level and that can pass the benefit tax principle are the most appropriate for LGs. Instead, the PIT and VAT, because of their trans-bordering characteristic, are more likely to be central revenue since they do not pass the principles of good local taxes. However, they can be of local use if a specific expenditure needs to be financed with surtax from both taxes. Otherwise, the revenues coming from these two taxes would lose accountability since there is no clear definition of the public service. In the Peruvian scenario, apart from the property tax, these taxes cannot be levied by LGs, mainly because of the severe disparities among jurisdictions, and the fact that only a few Peruvian LGs have the taxable base to enjoy substantial revenues from these taxes.

Possible Peruvian local taxes are the tax on environmental damage and the tax on advertisement. Despite their low elasticity, these taxes could increase local accountability

Andres Lopez Hoyos

since they are easily earmarked to local services, and could diminish administrative costs since they can be easily collected.

Given that only few taxes can be Peruvian local taxes and the present limitation regarding the imprecise expenditure assignment, the mini-thesis suggests that Peruvian LGs should rely on their current taxes. As the estimates made above show, if levied at their maximum tax capacity, current taxes are able to finance a great part of the expenditure assignment. Therefore, improvements should be made if LGs want to take advantage of their economic base. Improvements such as linking the tax with specific benefits, elimination of tax base exemptions, and better collection methods will help to increase the local tax revenue.

Attention should be given to the tax on natural resources. It has been shown to be a very important tax in the Peruvian scenario, especially for rural areas where natural resources are located. Given that this tax does not fulfill all the principles of good local taxes, it is more efficient to let RGs levy this tax, and then share the tax revenue with LGs if there is a need to finance an increased local expenditure.

A tax sharing agreement is not possible in the Peruvian case because of the severe economic disparities in the country. RGs and LGs will behave fiscally irresponsibly if they receive a tax sharing revenue from either VAT or PIT. Furthermore, if implemented, a macroeconomic threat will be created in the country. This system may be very possible when the decentralization process is further implemented and when the regional disparities are lessened.

What seems to be most feasible is the implementation of a local piggy-backing system on central or regional taxes. Although local accountability and fiscal efforts are lost, its revenues will definitively finance expensive social services. Furthermore, the revenues can be linked to specific social benefits, and hence local accountability to the central government would be increased.

Whatever local taxation system may be used for Peruvian LGs, there will still be an important role for grants to cover the vertical fiscal imbalances, especially given the wide regional economic disparities in the country. There seems no reason in principle why

wealthier jurisdictions should not be able to raise and spend most of their budgets themselves to finance locally-provided services primarily benefiting local residents.

In order to have a comprehensive local taxation system reform, the following steps must accompany the new tax assignment:

1) More efforts should be made at trying to link taxes and expenditure: The CG must make it clear that the assignment of taxes and expenditures is a joint decision. It will not only benefit LGs is fiscal balance is achieved, but it will also benefit local tax-payers since it increases accountability of their LG.

2) The culture of non-payment must be eliminated in order to gain substantial tax revenue and local fiscal accountability.

3) RGs and LGs should be allowed to change tax rates and tax rules: When the allocation of taxes is properly done, it is important to allow LGs to set their tax rates. This will lead to healthy competition among Peruvian LGs, which is an incentive for innovation and constant improvement of the quality of services.

4) Administrative costs should be reduced: The efficient management of resources leads to lower administrative costs and thus lower tax rates. If lower tax rates are achieved, citizens will be willing to pay higher taxes.

5) The intergovernmental transfer system must be revised: In Peru, SLGs are favored by the Foncomun transfer so much that they simply neglect their own tax efforts. Furthermore, the transfer formula benefits fiscally irresponsible LGs since one of the considerations of the formula is the poverty level. Thus, an efficient intergovernmental transfer system must contain a reward approach which should in principle recompense tax efficient LGs. If the tax collection of the LG is far below its tax capacity, the CG should question the extension of grants to those LGs.

It is also important for LGs to rely as much as possible on user fees. They fulfill the benefit-tax principle at maximum and have been shown to be very important for Peruvian LGs. Their revenues do not result in allocative inefficiencies if they send the right price signals for the determination of the level of public services to be provided.

Due to the magnitude and importance of the subject, further research is required in:

1) Clear expenditure assignment: It is crucial for the successful Peruvian decentralization process that the expenditure assignment be clear and narrowed, in order to avoid political conflicts and waste of financial resources. International comparison may help narrowing down the assignment of expenditure responsibilities for Peruvian LGs.

2) Shared regional taxes: The assignment of revenues and responsibilities to RGs should also be an integral part of the decentralization process of the country. Unproductive local taxes can be shifted to RGs since the latter's bigger scale will lead to efficiency and low administrative costs in levying inefficient local taxes.

3) Complete budget statistics: Budget statistics of LGs do not exist and the ones available are inexact and imprecise. Detailed precise statistics are of utter importance if a more accurate tax assignment to LGs is to be proposed.

LGs must take care of their economic taxable base. Their efficiency leads to the development of the country because national growth is the result of the sum of all local growth processes.

Above all, fiscal decentralization should be a priority in the agenda of the country. There is a strong link between fiscal decentralization and the future development of Peru. Fiscal decentralization makes the public sector respond better to people's preferences and delivers public goods at lower costs. The success of fiscal decentralization promotes the better allocation of resources within the country. Fiscal decentralization enables citizens to participate in the management of the country, and it therefore also strengthens democracy.

Andres Lopez Hoyos

REFERENCES

AICPA – American Institute of Certified Public Accountants (2001): "Guiding Principles of Good Tax Policy: A Framework for Evaluating Tax Proposals", New York. Online working paper, [Apr 10th 2003] www.acipa.org

Allan, Charles (1974): "La Teoría de la Tributación". Alianza Editorial. Spain.

Alvarado, Betty (1994): "Relaciones Fiscales entre el Gobierno Central y los Gobiernos Locales". Fundacion Friedrich Ebert. Perú.

Alvarado, Betty (2003): "Análisis de los Efectos y Usos de las Transferencias Intergubernamentales". Universidad del Pacifico, Centro de Investigación. Consorcio de Investigación Económica y Comercial. Perú.

Barlé, Daniel George (2000): "Local Government Decentralized Reforms in South Africa: A Comparative Perspective", study for the degree of doctor of philosophy. Faculty of economics and management sciences at the University of Stellenbosch, South Africa.

Benecke, Dieter; Loschky, Alexander (2001): "Reformas Tributarias en América Latina". CIEDLA – Centro Interdisciplinario de Estudios sobre el Desarrollo Latinoamericano. Fundacion Konrad Adenauer. Argentina.

Benecke, Dieter; Loschky, Alexander (2001): "Descentralización y Cooparticipacion". CIEDLA – Centro Interdisciplinario de Estudios sobre el Desarrollo Latinoamericano. Fundacion Konrad Adenauer. Argentina.

Bird, Richard M. (1999a): "Rethinking Tax assignment: The Need for Better Sub-National Taxes", PREM Seminar Series, World Bank. Online working paper. [May 8th 2003] http://www1.worldbank.org/wbiep/decentralization/Course%20Readings/taxass.html\

Bird, Richard M. (1999b): "Rethinking Sub-national Taxes - A New Look at Tax Assignment", IMF Working Paper # 99/165. Online working paper. [May 21st 2003] http://www.imf.org/external/pubs/ft/wp/1999/wp99165.pdf

Bird, Richard M. (2000): "Intergovernmental Fiscal Relations: Universal Principles, Local Applications", International Studies Program Working Paper 00-2, Andrew Young School of Policy Studies, Georgia State University, Atlanta. Online paper, [May 1st 2003] http://isp-aysps.gsu.edu/ispwp0002.pdf

Bird, Richard M. (2003a): "Sub-National Revenues: Realities and Prospects", Andrew Young School of Policy Studies, Georgia State University, Atlanta. Available online, [May 9th 2003] http://www.worldbank.org/wbi/publicfinance/documents/sntax.PDF

Boex, Jameson (2001): "An Introductory Overview of Intergovernmental Fiscal Relations". World Bank Institute. Fiscal Policy Training Program 2001, Fiscal Decentralization Course.

Cebrecos, Rufino (1995): "Descentralización Fiscal: Gobernabilidad y Redistribución de Recursos a los Gobiernos Locales". USAID, Perú.

Center for Democracy and Governance (2000): "Decentralization and Democratic Local Governance Programming Handbook", Bureau for Global Programs, Field Support, and Research, U.S. Agency for International Development, Washington DC, USA.

Centro de Estudios Gubernamentales (2003): "Ley del Presupuesto de la Republica 2003 – Ley No. 27879". Distribuidora Real, Perú.

Dahlby, Bev (2001): "Taxing Choices: Issues in the Assignment of Taxes in Federations". UNESCO, ISSJ 167/2001. Blackwell Publishers, USA.

Davoodi, Hamid R. (2001): "Fiscal Decentralization", IMF Research Bulletin, Vol. 2 No. 2. Online research bulletin, [Mar 22nd 2003] www.imf.org/external/Pubs/FT/irb/2001/eng/02/index.htm#sum2

Ebel, Robert & Yilmaz, Serdar (1999): "Intergovernmental Relations: Issues in Public Policy". Intergovernmental Fiscal Relations and Local Financial Management. A partnership of the Asian Development Bank and the World Bank Institute. Asian Development Bank, Manila.

El Comercio (2002): "Propuestas para una Agenda de Gobierno Municipal". Diario El Comercio, domingo 10 de Noviembre. Perú.

ESCAP – Economic and Social Commission for Asia and the Pacific (1991): "Fiscal Decentralization and the Mobilization and Use of National Resources for Development: Issues, Experience and Policies in the Escap Region". ESCAP, Development Papers No.11. Bangkok.

Gonzales de Olearte, Efrain (1989): "Problemas Económicos de la Regionalización en el Perú". IEP – Instituto de Estudios Peruanos, Documento de Trabajo No. 32. Perú.

Gonzales de Olearte, Efrain (1994): "Descentralización Fiscal y Regionalización en el Perú". IEP – Instituto de Estudios Peruanos, Documento de Trabajo No. 69. Perú.

Government Finance Officers Association (1991): "Local Government Finance. Concepts and Practices", Government Finance Officers Association of the United States and Canada, Chicago.

Government Finance Officers Association (1993): "Practical Exercises in Local Government Finance. Concepts and Practices", Government Finance Officers Association of the United States and Canada, Chicago.

GTZ - Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (2000): "Cooperación Intermunicipal para la Prestación de Servicios Urbanos"", Division 42, Eschborne, Germany.

GTZ - Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (2002): "Fiscal Decentralization in Latin America", Division 42, Eschborne, Germany.

IEP – Instituto de Estudios Peruanos (2002): "Que pensamos los peruanos y las peruanas sobre la Descentralización?" Resultados de una Encuesta de Opinión. Perú.

IFS - Institute for Fiscal Studies (1978): "The Structure and Reform of Direct Taxation", report of a committee chaired by Professor J.E. Meade. London.

INEI – Instituto Nacional de Estadistica (2002): "Perú – Compendio Estadistico". INEI, Jesús Maria – Perú.

Inter-American Development Bank (n.d.): "Local Government Development: a Strategy Profile", Sustainable Development Department. Online working paper, [Apr 18th 2003] www.iadb.org/sds/doc/soc-gn2026E.pdf

Inter-American Development Bank (1994): "Descentralización Fiscal: La Búsqueda de Equidad y Eficiencia". Proceso Económico y Social en América Latina. USA.

Inter-American Development Bank (2001): "Fiscal Decentralization in Latin America". Integration and Regional Program. USA.

Instituto Apoyo (2002a): "Task Forces: Gobiernos Locales". Edited by Gabriel Ortiz de Zevallos and Pierina Pollarollo. Peru.

Instituto Apoyo (2002b): "Task Forces: Reforma del Estado. Descentralización". Edited by Gabriel Ortiz de Zevallos and Pierina Pollarollo. Peru.

Janus, Hartmut (1998): "Intergovernmental Fiscal Relations: The German Case". Ruhr-University Bochum. Faculty of Economics. Bochum, Germany.

Kälin, Walter (n.d.): "Decentralization: Why and How?" Unpublished.

King, David (1992): "Local Government Economics in Theory and Practice". London.

Leuthold, Jane H. Professor: "Tax Principles", Master Course Econ 214, Department of Economics, University of Illinois. Online course material, [Apr 10th 2003] www.cba.uiuc.edu/econ214fall2000/lectures/Lecture%2017%20Tax%20Principles.ppt

Litvack, Jennie & Seddon, Jessica (1999): "Decentralization Briefing Notes". World Bank working papers in collaboration with PREM network. Available online, [Mar 20th 2003] http://www.worldbank.org/wbi/publications/wbi37142.pdf

Martinez-Vazquez, Jorge (n.d.): "Tax Assignments", Georgia State University, Inter-governmental Fiscal Relations. Online working paper, [Feb 21st 2003] http://www.worldbank.org/wbi/publicfinance/documents/taxassignment_vazquez.ppt

Martinez-Vazquez, Jorge (2002): "Principles for Transfer Design", Georgia State University. Intergovernmental fiscal relations. Online working paper, [May 17th 2003] http://www1.worldbank.org/wbiep/decentralization/library2/vazquez.pdf

McLure, Charles (1999): "The Tax Assignment Problem: Conceptual and Administrative Considerations in Achieving Sub-national Fiscal Autonomy", World Bank Institute – Hoover Institution, Stanford University, California. Online working paper, [Feb 7th 2003] http://www1.worldbank.org/wbiep/decentralization/Topic06_Printer.htm

McGrath, Troy (2004): "Intergovernmental Relations and Fiscal Decentralization in the US". Assignment presented at the World Bank Institute. Web-based Course on Intergovernmental Fiscal Relations. Unpublished.

MEF – Ministerio de Economia y Finanzas Web Page [21st July]
www.mef.gob.pe

Morales, Miguel Angel (2002): "Impuestos Locales: Responsabilidad del Ciudadano y del Gobierno Local". Centro para la Participación y el Desarrollo Humano Sostenible. CEPAD. Bolivia.

Morrison, Andrew (1988): "Incentivos Tributarios y Política de Descentralización Productiva: Perú, 1968 - 1986". IEP – Instituto de Estudios Peruanos, Documento de Trabajo No. 69. Perú.

Muñoz Soto, Rafael (1988): "Manual de Tributación Municipal". INICAM – Instituto de Investigación y Capacitación Municipal. Perú.

Office of Oversight and Evaluation (2000): "UNFPA and Government Decentralization: A Study of Country Experiences". Evaluation Findings, Issue 30. United Nations Population Fund, New York.

Participa Peru (2003a): "Desafíos de la Descentralización". Grupo Propuesta Ciudadana, No. 1. Perú.

Participa Peru (2003b): "Presupuesto Participativo". Grupo Propuesta Ciudadana, No. 2. Perú.

Participa Peru (2003c): "La Descentralización y los Gobiernos Locales". Grupo Propuesta Ciudadana, No. 3. Perú.

Participa Peru (2003d): "Balance de la Descentralización". Grupo Propuesta Ciudadana, No. 5 y 6. Perú.

Portocarrero Maisch, Javier (1991): "Reforma Tributaria en el Perú". Foro Económico No.2. Fundacion Friedrich Ebert. Peru.

Republic of South Africa (2003): "Intergovernmental Fiscal Review" ISBN 0-621-33611-4. Pretoria, South Africa.

Rühling, Markus (2002): "Proceso de Descentralización en el Perú: Análisis, Retos y Perspectivas 2002". Friedrich Ebert Stiftung. Aportes al Debate No. 2. Perú.

Shabbir Cheema (1983): "Decentralization and Development: Policy Implementation in Developing Countries", Published in cooperation with the United Nations Centre for Regional Development, California, USA.

Andres Lopez Hoyos

84

Silicon Valley Network (2003): "Tax Principles Workbook. A Tool for Critiquing Tax Proposals and Systems", prepared by the Tax Policy Group, Joint Venture Silicon Valley Network. California, USA. Available online, [Apr 27th 2003]
http://www.jointventure.org/taxpolicyworkbook/JVSVTaxWorkbook.pdf

Stifel, David (2003): "The Glass of Milk Subsidy Program and Malnutrition in Peru". The World Bank, Policy Research Working Paper No. 3089.

Sullivan, Timothy S. Ph.D.: "The Tax System", Department of Economics & Finance. Southern Illinois University Edwardsville. Online course material, [Apr 10th 2003]
www.siue.edu/BUSINESS/ depart/econfin/courses/econ112/Sullivan/LectureNotes/Taxes.ppt

SUNAT – Superintendencia Nacional de Administración Tributaria (1994): "El Fortalecimiento Institucional de la Administración Tributaria Peruana". SUNAT, Documento de Trabajo No. 02/94. Perú.

SUNAT – Superintendencia Nacional de Administracion Tributaria (2003): "Revista: Nota Tributaria". SUNAT, Anno 12, No. 04. Perú.

SUNAT Web Page – Superintendecia Nacional de Administración Tributaria[Apr 10th 2003]
www.sunat.gob.pe

Tax Reform Network [May 11th 2003]
http://www.taxreform.com/new_system.html

Taxopedia Web Page [May 29th 2003]
http://www.taxopedia.com/terms/p/progressivetax.asp

Vasquez, Aldo; Gallastegui, Manuel (2002): "Propuestas para un Plan Maestro Municipal". Instituto Peruano de Economia Social de Mercado. Documento de Trabajo. Peru.

Vera Novoa, Mario (1996): "Manual de Tributación Municipal – Decreto Legislativo No. 776". Perú.

Vidarre Aguayo, Ricardo Alberto (n.d.): "Reflexiones e Interrogantes acerca de la Reforma Tributaria a partir del Proceso de Descentralización". Fundación Konrad Adenauer en ei Peru. Lima - Peru.

Vithal, Renuka; Cansen, Jonathan (1997): "Designing your First Research Proposal". A Manual for Researchers in Education and the Social Sciences. USA.

Webb, Richard; Fernandez Baca, Graciela (2002): "Peru en Numeros". Instituto Cuanto, Lima – Perú

World Bank (2001): "Strengthening Peru's Tax Agency". PREM Notes. Public Sector. No. 60. Washington.

World Bank Institute: "Decentralization Briefing Notes". World Bank working papers in collaboration with PREM network Available online, [Mar 20th 2003]
http://www.worldbank.org/wbi/publications/wbi37142.pdf

World Bank Group – Cannons of Taxation [May 3rd 2003]
http://www1.worldbank.org/publicsector/tax/canonsoftaxation.html

World Bank Group – Designing Tax Structure [May 3rd 2003]
http://www1.worldbank.org/publicsector/tax/theme2.html

World Bank Group – Designing Elements for Administrative Simple Taxes [May 3rd 2003]
http://www1.worldbank.org/publicsector/tax/designelements.html

Zimmermann, Horst (1998): "Strengthening Local Government Finance: Principles of Fiscal Decentralization and Nepal Case Study". GTZ. Division 42. State and Economic Reform, Civil Society, Urban and Municipal Development Section. Germany.

ANNEX I – TOTAL SAMPLE OF LOCAL GOVERNMENTS

Regional Government	Urban			Rural	
	SLGs	MLGs	LLGs	SLGs	MLGs
CAJAMARCA	YONAN CHILETE	CELENDIN	CAJAMARCA	CATACHE HUAMBOS SITACOCHA LLAMA NAMORA CORTEGANA SANTA CRUZ GREGORIO PITA PACCHA MIGUEL IGLESIAS CHOROPAMPA OXAMARCA CONCHAN SUCRE SAN BERNARDINO JOSE MANUEL QUIROZ CHANCAY TUMBADEN JOSE GALVEZ SAN JUAN CHETILLA LA LIBERTAD DE PALLAN MIRACOSTA LA ESPERANZA CHUMUCH SAN BENITO ICHOCAN GUZMANGO EDUARDO VILLANUEVA SAN LUIS TANTARICA SANTA CRUZ DE TOLEDO UTCO	BAMBAMARCA CHOTA SAN IGNACIO CAJABAMBA ENCAÑADA LA COIPA PEDRO GALVEZ SAN PABLO LAJAS CHIRINOS HUASMIN CONDEBAMBA NAMBALLE JOSE SABOGAL CONTUMAZA MAGDALENA ASUNCION CHALAMARCA
HUANUCO	-	AMARILIS HUANUCO RUPA-RUPA	-	JORGE CHAVEZ LUYANDO CONCHAMARCA JESUS SAN MIGUEL DE CAURI RONDOS TOURNAVISTA CAYNA PINRA HUACAYBAMBA BAÑOS YUYAPICHIS SAN PEDRO DE CHAULAN CODO DEL POZUZO HONORIA QUISQUI TOMAY KICHWA SAN FRANCISCO DE CAYRAN DANIEL ALOMIAS ROBLES HERMILIO VALDIZAN SAN FRANCISCO DE ASIS COLPAS JIVIA CANCHABAMBA YARUMAYO SAN FRANCISCO SAN BUENAVENTURA COCHABAMBA QUEROPALCA SEXI	CHINCHAO JOSE CRESPO Y CASTILLO SANTA MARIA DEL VALLE CHURUBAMBA MARGOS HUACRACHUCO SAN RAFAEL PUERTO INCA MARIANO DAMASO BERAUN AMBO HUACAR
LA LIBERTAD	ASCOPE	VICTOR LARCO HERRERA CHEPEN MOCHE CASA GRANDE PAIJAN PACANGA	TRUJILLO LA ESPERANZA	SINSICAP COCHORCO SARIN RAZURI SALPO POROTO ANGASMARCA HUARANCHAL SITABAMBA CACHICADAN MACHE	HUAMACHUCO USQUIL OTUZCO SANTIAGO DE CHUCO CHUGAY MARCABAL QUIRUVILCA SARTIMBAMBA AGALLPAMPA

			MOLLEPATA MAGDALENA DE CAO SANTA CRUZ DE CHUCA MOLLEBAMBA PARANDAY	
LAMBAYEQUE	LAGUNAS MANUEL A MESONES M NUEVA ARICA	LA VICTORIA LAMBAYEQUE FERREÑAFE MONSEFU PIMENTEL PATAPO CHONGOYAPE PUEBLO NUEVO ETEN	CHICLAYO JOSE LEONARDO ORTIZ	ILLIMO PACORA CHOCHOPE	SALAS JAYANCA PITIPO OLMOS MORROPE VIRU MOTUPE MOCHUMI
CUZCO	SAN SEBASTIAN	CUZCO	-	MACHUPICCHU	URUBAMBA CHINCHERO
LIMA	SANTA ROSA PUNTA HERMOSA PUNTA NEGRA PUCUSANA SAN BARTOLO SANTA MARIA	BREÑA MIRAFLORES SURQUILLO PUEBLO LIBRE JESUS MARIA SAN ISIDRO LINCE LURIN MAGDALENA SAN LUIS CHACLACAYO BARRANCO PACHACAMAC ANCON CIENEGUILLA	SAN JUAN DE LURIGANCHO COMAS SAN MARTIN DE PORRES ATE-VITARTE SAN JUAN DE MIRAFLORES VILLA EL SALVADOR LOS OLIVOS VILLA MARIA TRIUNFO LIMA CHORRILLOS SANTIAGO DE SURCO INDEPENDENCIA RIMAC PUENTE PIEDRA EL AGUSTINO CARABAYLLO SANTA ANITA SAN MIGUEL LA MOLINA LURIGANCHO SAN BORJA		

Andres Lopez Hoyos

88
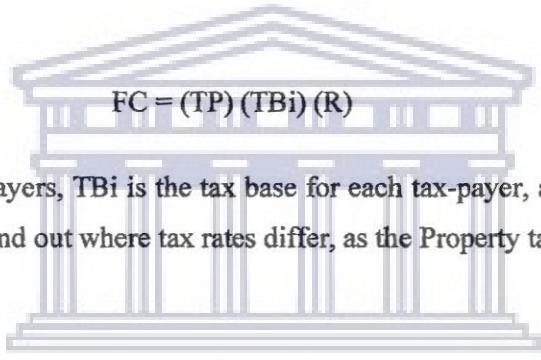
ANNEX II – HOW TO OBTAIN THE FISCAL CAPACITY

If the percentage of the non-payment is available, a formula that combines the amount received and the percentage of non-payment can be used in order to determine the fiscal capacity.

$$FC = \frac{(TR)\,(100)}{(P)}$$

FC is Fiscal Capacity, TR is the tax revenue, and P is the percentage of payment.

If the number of possible tax payers and tax base are available, the following formula could be used:

$$FC = (TP)\,(TBi)\,(R)$$

TP is the number of tax-payers, TBi is the tax base for each tax-payer, and R is the tax rate. Average values can be found out where tax rates differ, as the Property tax in Peru.

ANNEX III – STEPS TAKEN TO OBTAIN THE LGs' FISCAL CAPACITY

RG	LG	Property tax	Tax on transfer of assets	Vehicles tax	Tax on non-sport shows	Gambling tax	Games tax	No. of Inhab.	% of Rural Inhab.
LIMA	SAN JUAN DE LURIGANCHO	20,635,100	4,935,400		3,275,400		7,019,200	751,155	0
LIMA	COMAS	20,635,100	4,935,400		3,275,400		7,019,200	469,747	0
LIMA	SAN MARTIN DE PORRES	20,635,100	4,935,400		3,275,400		7,019,200	448,345	1
LIMA	ATE-VITARTE	20,635,100	4,935,400		3,275,400		7,019,200	410,734	0
LIMA	SAN JUAN DE MIRAFLORES	20,635,100	4,935,400		3,275,400		7,019,200	387,641	0
LIMA	VILLA EL SALVADOR	20,635,100	4,935,400		3,275,400		7,019,200	364,476	1
LIMA	LOS OLIVOS	20,635,100	4,935,400		3,275,400		7,019,200	344,164	0
LIMA	VILLA MARIA TRIUNFO	20,635,100	4,935,400		3,275,400		7,019,200	341,971	0
LAMBAYEQUE	CHICLAYO*	20,635,100	4,935,400	833,200	3,275,400	437,000	7,019,200	300,575	2.4
LA LIBERTAD	TRUJILLO*	20,635,100	4,935,400	833,200	3,275,400	437,000	7,019,200	292,420	0.4
LIMA	LIMA*	20,635,100	4,935,400	29,817,900	3,275,400	3,608,700	7,019,200	286,202	0
LIMA	CHORRILLOS	20,635,100	4,935,400		3,275,400		1,392,000	264,645	0
LIMA	SANTIAGO DE SURCO	20,635,100	4,935,400		3,275,400		1,392,000	251,567	0
LIMA	INDEPENDENCIA	20,635,100	4,935,400		3,275,400		1,392,000	200,365	0
LIMA	RIMAC	15,886,100	2,108,000		3,275,400		1,392,000	192,449	0
LIMA	PUENTE PIEDRA	15,886,100	2,108,000		3,275,400		1,392,000	183,861	1
LIMA	EL AGUSTINO	15,886,100	2,108,000		3,275,400		1,392,000	166,902	0
LAMBAYEQUE	JOSE LEONARDO ORTIZ	15,886,100	2,108,000		3,275,400		1,392,000	156,425	0.8
LIMA	CARABAYLLO	15,886,100	2,108,000		3,275,400		1,392,000	153,112	8
CAJAMARCA	CAJAMARCA*	15,886,100	2,108,000	400,000	1,636,400	10,000	1,392,000	149,229	25.6
LIMA	SANTA ANITA	15,886,100	2,108,000		1,636,400		1,392,000	148,752	0
LIMA	SAN MIGUEL	15,886,100	2,108,000		1,636,400		1,392,000	134,908	0
LA LIBERTAD	LA ESPERANZA	15,886,100	2,108,000		1,636,400		1,392,000	131,565	0
LIMA	LA MOLINA	15,886,100	2,108,000		1,636,400		1,392,000	125,034	0
LIMA	LURIGANCHO	15,886,100	2,108,000		1,636,400		1,392,000	123,142	1
LIMA	SAN BORJA	15,886,100	2,108,000		1,636,400		1,392,000	122,270	0
CUZCO	CUZCO*	15,886,100	2,108,000	300,000	1,636,400	10,000	1,392,000	102,901	3
HUANUCO	AMARILIS	15,886,100	2,108,000		1,323,800		1,392,000	92,624	16.1
LIMA	BREÑA	15,886,100	2,108,000		1,323,800		1,392,000	89,795	0
LIMA	MIRAFLORES	15,886,100	2,108,000		1,323,800		1,392,000	87,547	0
LIMA	SURQUILLO	15,886,100	2,108,000		1,323,800		1,392,000	84,134	0
LAMBAYEQUE	LA VICTORIA	5,661,300	2,108,000		1,323,800		1,392,000	66,786	2
LIMA	PUEBLO LIBRE	5,661,300	2,108,000		1,323,800		1,392,000	65,989	0
HUANUCO	HUANUCO*	5,661,300	2,108,000	200,000	1,323,800	5,000	1,460,200	61,509	9.1
LIMA	JESUS MARIA	5,661,300	2,108,000		1,323,800		1,460,200	60,249	0
LIMA	SAN ISIDRO	5,661,300	2,108,000		1,323,800		1,460,200	60,139	0
CAJAMARCA	BAMBAMARCA*	5,661,300	2,108,000	89,800	1,323,800	5,000	1,460,200	60,045	78.3
LA LIBERTAD	VICTOR LARCO HERRERA	5,661,300	2,108,000		126,800		1,460,200	59,190	1.7
LIMA	LINCE	5,661,300	2,108,000		126,800		223,800	57,286	0
LAMBAYEQUE	LAMBAYEQUE*	5,661,300	2,108,000	89,800	126,800	5,000	223,800	50,768	22.3
CAJAMARCA	CHOTA*	5,661,300	280,000	89,800	126,800	5,000	223,800	48,705	71.3
LIMA	LURIN	5,661,300	280,000		126,800		223,800	48,025	13
CUZCO	SAN SEBASTIAN	5,661,300	280,000		126,800		223,800	47,999	9
HUANUCO	RUPA-RUPA*	5,661,300	280,000	89,800	126,800	5,000	223,800	47,748	9.6
LIMA	MAGDALENA	5,661,300	280,000		126,800		223,800	46,197	0
LA LIBERTAD	HUAMACHUCO*	5,661,300	280,000	89,800	126,800	5,000	223,800	45,507	53.1
LIMA	SAN LUIS	5,661,300	280,000		126,800		223,800	44,446	0
LA LIBERTAD	CHEPEN*	5,661,300	280,000	70,000	126,800	5,000	223,800	43,833	14.2
LIMA	CHACLACAYO	5,661,300	280,000		126,800		223,800	42,933	0
LIMA	BARRANCO	5,661,300	280,000		126,800		208,900	41,311	0
LAMBAYEQUE	OLMOS	1,073,000	280,000		126,800		208,900	36,564	74.7
LAMBAYEQUE	MORROPE	1,073,000	280,000		126,800		208,900	35,995	82.1
LIMA	PACHACAMAC	1,073,000	280,000		126,800		208,900	34,378	19
LAMBAYEQUE	VIRU*	1,073,000	280,000	70,000	15,500	3,000	208,900	31,877	51.3
LAMBAYEQUE	FERREÑAFE*	1,073,000	280,000	70,000	15,500	3,000	208,900	31,446	4.6
CAJAMARCA	SAN IGNACIO*	1,073,000	280,000	70,000	15,500	3,000	208,900	31,413	73.3
LA LIBERTAD	MOCHE	1,073,000	280,000		15,500		208,900	31,151	16.6
LAMBAYEQUE	MONSEFU	1,073,000	280,000		15,500		208,900	30,072	26.4
LA LIBERTAD	CASA GRANDE *	754,800	215,900	50,000	15,500	3,000	100,000	28,362	18.6
CAJAMARCA	CAJABAMBA*	754,800	215,900	50,000	15,500	3,000	100,000	27,645	53.5
LA LIBERTAD	USQUIL	754,800	215,900		15,500		100,000	27,433	91.7
HUANUCO	CHINCHAO	754,800	215,900		15,500		100,000	27,083	94
CAJAMARCA	ENCAÑADA	754,800	215,900		15,500		100,000	26,131	96.4
HUANUCO	JOSE CRESPO Y	754,800	215,900		15,500		100,000	25,961	41.4

Andres Lopez Hoyos   90

	CASTILLO								
LIMA	ANCON	754,800	215,900		15,500		100,000	24,477	0
LAMBAYEQUE	MOTUPE	754,800	215,900		15,500		100,000	24,231	47.1
LA LIBERTAD	OTUZCO*	754,800	215,900	50,000	15,500	3,000	100,000	23,329	62.2
CAJAMARCA	CELENDIN*	754,800	215,900	50,000	15,500	3,000	100,000	22,328	36.8
HUANUCO	SANTA MARIA DEL VALLE	754,800	215,900		15,500		100,000	22,056	93.3
LA LIBERTAD	PAIJAN	754,800	215,900		15,500		100,000	21,688	10.2
LAMBAYEQUE	PIMENTEL	754,800	215,900		15,500		100,000	20,525	32.7
HUANUCO	CHURUBAMBA	754,800	215,900		15,500		100,000	20,353	98.2
LA LIBERTAD	SANTIAGO DE CHUCO*	745,800	215,900	40,000	15,500	2,000	100,000	19,996	70.5
LAMBAYEQUE	PATAPO	745,800	215,900		15,500		50,000	18,944	8.5
CAJAMARCA	LA COIPA	745,800	215,900		15,500		50,000	18,808	95.4
LAMBAYEQUE	CHONGOYAPE	745,800	215,900		15,500		50,000	18,723	25.7
LAMBAYEQUE	MOCHUMI	745,800	215,900		15,500		50,000	18,450	64
CAJAMARCA	PEDRO GALVEZ*	745,800	215,900	40,000	15,500	2,000	50,000	17,413	70.7
CUZCO	URUBAMBA*	745,800	215,900	40,000	15,500	2,000	50,000	17,143	51
LAMBAYEQUE	PITIPO	745,800	215,900		15,500		50,000	16,793	83.9
LA LIBERTAD	CHUGAY	745,800	215,900		15,500		50,000	16,485	92.7
HUANUCO	MARGOS	745,800	215,900		15,500		50,000	16,449	84.7
CAJAMARCA	SAN PABLO*	745,800	215,900	30,000	15,500	2,000	50,000	15,835	79.3
CAJAMARCA	LAJAS	745,800	215,900		15,500		50,000	15,754	82.7
CAJAMARCA	CHIRINOS	745,800	215,900		15,500		10,000	15,490	90.3
HUANUCO	HUACRACHUCO*	745,800	215,900	30,000	15,500	2,000	10,000	15,351	90.4
HUANUCO	SAN RAFAEL	745,800	215,900		15,500		10,000	15,276	77.7
LA LIBERTAD	MARCABAL	745,800	215,900		15,500		10,000	15,271	98.6
LAMBAYEQUE	SALAS	745,800	215,900		15,500		10,000	15,028	87.3
CAJAMARCA	HUASMIN	745,800	215,900		15,500		10,000	14,898	98.6
CAJAMARCA	CONDEBAMBA	745,800	215,900		15,500		10,000	14,819	96.4
HUANUCO	PUERTO INCA*	745,800	215,900	30,000	15,500	2,000	10,000	14,390	88
HUANUCO	MARIANO DAMASO BERAUN	745,800	215,900		12,300		10,000	14,046	82.8
LAMBAYEQUE	PUEBLO NUEVO	745,800	215,900		12,300		10,000	13,470	9.1
LA LIBERTAD	PACANGA	745,800	215,900		12,300		10,000	13,367	32.8
CAJAMARCA	NAMBALLE	745,800	215,900		12,300		10,000	12,904	86.5
HUANUCO	HUACAR	745,800	215,900		12,300		10,000	12,781	89.6
LIMA	CIENEGUILLA	745,800	215,900		12,300		10,000	12,758	10
LAMBAYEQUE	JAYANCA	745,800	215,900		12,300		10,000	12,692	42
CAJAMARCA	JOSE SABOGAL	745,800	215,900		12,300		10,000	12,553	98.8
LA LIBERTAD	QUIRUVILCA	745,800	215,900		12,300		10,000	12,316	44.2
LAMBAYEQUE	ETEN	745,800	215,900		12,300		10,000	12,030	1.9
LA LIBERTAD	SARTIMBAMBA	745,800	215,900		12,300		10,000	11,848	95.2
CAJAMARCA	CONTUMAZA*	745,800	215,900	20,000	12,300	1,000	10,000	11,343	65.3
CAJAMARCA	MAGDALENA	745,800	215,900		12,300		10,000	11,194	76.5
LA LIBERTAD	AGALLPAMPA	745,800	215,900		12,300		10,000	11,145	92.7
CAJAMARCA	ASUNCION	745,800	215,900		12,300		10,000	10,616	93.1
CAJAMARCA	CHALAMARCA	745,800	215,900		12,300		10,000	10,526	94.3
HUANUCO	AMBO*	745,800	174,300	20,000	12,300	1,000	4,000	10,233	59.7
CUZCO	CHINCHERO	745,800	174,300		12,300		4,000	10,120	78
LAMBAYEQUE	ILLIMO	650,000	174,300		12,300		4,000	9,910	50.8
CAJAMARCA	CATACHE	650,000	174,300		12,300		4,000	9,876	87.6
CAJAMARCA	HUAMBOS	650,000	174,300		12,300		4,000	9,858	88
CAJAMARCA	SITACOCHA	650,000	174,300		12,300		4,000	9,827	74.6
LAMBAYEQUE	LAGUNAS	650,000	174,300		12,300		4,000	9,292	33.3
CAJAMARCA	LLAMA	650,000	174,300		12,300		4,000	9,290	87.8
HUANUCO	LUYANDO	650,000	174,300		12,300		4,000	8,979	86.9
CAJAMARCA	NAMORA	650,000	174,300		12,300		4,000	8,945	83
CAJAMARCA	CORTEGANA	650,000	174,300		12,300		4,000	8,856	96.8
CAJAMARCA	SANTA CRUZ*	650,000	174,300	10,000	11,000	1,000	4,000	8,808	50.3
CAJAMARCA	GREGORIO PITA	650,000	174,300		11,000		4,000	8,700	90.9
LA LIBERTAD	SINSICAP	650,000	174,300		11,000		4,000	8,696	67.2
HUANUCO	CONCHAMARCA	650,000	174,300		11,000		4,000	8,692	92.6
LA LIBERTAD	COCHORCO	650,000	174,300		11,000		4,000	8,537	94.6
LA LIBERTAD	SARIN	650,000	174,300		11,000		4,000	8,271	94.9
HUANUCO	JESUS*	650,000	174,300	2,700	11,000	1,000	4,000	8,104	81
LA LIBERTAD	ASCOPE*	650,000	174,300	2,700	11,000	1,000	4,000	8,103	27.1
HUANUCO	SAN MIGUEL DE CAURI	650,000	174,300		11,000		4,000	7,656	49.5
CAJAMARCA	PACCHA	650,000	174,300		11,000		4,000	7,522	91.7
HUANUCO	RONDOS	650,000	174,300		11,000		4,000	7,490	93
CAJAMARCA	YONAN	650,000	174,300		11,000		4,000	7,440	36.5
HUANUCO	TOURNAVISTA	650,000	174,300		11,000		4,000	7,438	91.2
HUANUCO	CAYNA	650,000	174,300		11,000		4,000	7,207	55.9
LA LIBERTAD	RAZURI	650,000	174,300		11,000		4,000	7,060	52.9
HUANUCO	PINRA	650,000	174,300		11,000		4,000	6,875	95.9
LAMBAYEQUE	PACORA	650,000	174,300		11,000		4,000	6,836	49.6
LA LIBERTAD	SALPO	650,000	174,300		11,000		4,000	6,822	89.3

Andres Lopez Hoyos

91

CAJAMARCA	MIGUEL IGLESIAS	650,000	174,300		11,000		4,000	6,769	90.7
HUANUCO	HUACAYBAMBA*	650,000	174,300	2,700	11,000	800	4,000	6,738	85.8
CAJAMARCA	CHOROPAMPA	650,000	174,300		11,000		4,000	6,661	83.1
HUANUCO	BAÑOS	650,000	174,300		11,000		4,000	6,657	81
HUANUCO	YUYAPICHIS	650,000	174,300		11,000		4,000	6,471	90.7
CAJAMARCA	OXAMARCA	650,000	174,300		11,000		4,000	6,346	93.5
HUANUCO	SAN PEDRO DE CHAULAN	650,000	174,300		11,000		4,000	6,326	88.2
HUANUCO	CODO DEL POZUZO	650,000	174,300		11,000		4,000	6,323	96
CAJAMARCA	CONCHAN	650,000	174,300		11,000		4,000	6,305	95
CAJAMARCA	SUCRE	650,000	174,300		11,000		4,000	6,191	74.8
LA LIBERTAD	POROTO	650,000	174,300		11,000		2,000	5,981	85.9
LIMA	SANTA ROSA	650,000	20,000		11,000		2,000	5,957	19
LA LIBERTAD	ANGASMARCA	650,000	20,000		11,000		2,000	5,949	85.3
LIMA	PUNTA HERMOSA	650,000	20,000		11,000		2,000	5,846	6
HUANUCO	HONORIA	650,000	20,000		11,000		2,000	5,840	89.3
HUANUCO	QUISQUI	650,000	20,000		11,000		2,000	5,739	93.9
LAMBAYEQUE	MANUEL A MESONES M	650,000	20,000		11,000		2,000	5,673	30.2
LA LIBERTAD	HUARANCHAL	650,000	20,000		11,000		2,000	5,606	71.3
CAJAMARCA	SAN BERNARDINO	650,000	20,000		11,000		2,000	5,348	96.4
CAJAMARCA	JOSE MANUEL QUIROZ	650,000	20,000		11,000		2,000	5,265	81.4
HUANUCO	TOMAY KICHWA	650,000	20,000		11,000		2,000	5,180	69
CAJAMARCA	CHANCAY	650,000	20,000		11,000		2,000	5,147	86.9
CAJAMARCA	TUMBADEN	315,300	20,000		10,000		2,000	4,943	97.8
LIMA	PUNTA NEGRA	315,300	20,000		10,000		2,000	4,783	4
HUANUCO	SAN FRANCISCO DE CAYRAN	315,300	20,000		10,000		2,000	4,739	89.1
CAJAMARCA	JOSE GALVEZ	315,300	20,000		10,000		2,000	4,704	86.2
CAJAMARCA	SAN JUAN	315,300	20,000		10,000		2,000	4,602	82.8
LA LIBERTAD	SITABAMBA	315,300	20,000		10,000		2,000	4,583	80.6
HUANUCO	DANIEL ALOMIAS ROBLES	315,300	20,000		10,000		2,000	4,545	94
CAJAMARCA	CHILETE	315,300	20,000		10,000		1,000	4,481	24.3
LIMA	PUCUSANA	315,300	20,000		10,000		1,000	4,356	6
LA LIBERTAD	CACHICADAN	315,300	20,000		10,000		1,000	4,341	57.3
CAJAMARCA	CHETILLA	315,300	20,000		10,000		1,000	4,299	92.3
HUANUCO	HERMILIO VALDIZAN	315,300	20,000		10,000		1,000	4,126	93.4
HUANUCO	SAN FRANCISCO DE ASIS	315,300	20,000		10,000		1,000	4,031	80.5
CAJAMARCA	LA LIBERTAD DE PALLAN	315,300	20,000		10,000		1,000	3,895	92.3
CAJAMARCA	MIRACOSTA	315,300	20,000		10,000		1,000	3,846	94.1
LAMBAYEQUE	NUEVA ARICA	315,300	20,000		10,000		1,000	3,698	32
CAJAMARCA	LA ESPERANZA	315,300	20,000		10,000		1,000	3,692	94.1
LIMA	SAN BARTOLO	315,300	20,000		10,000		1,000	3,672	3
CAJAMARCA	CHUMUCH	315,300	20,000		10,000		1,000	3,653	94.6
CAJAMARCA	SAN BENITO	315,300	20,000		10,000		1,000	3,626	84.7
HUANUCO	COLPAS	315,300	20,000		10,000		1,000	3,524	89.6
HUANUCO	JIVIA	315,300	20,000		10,000		1,000	3,463	81
CAJAMARCA	ICHOCAN	315,300	20,000		10,000		1,000	3,446	81.2
LA LIBERTAD	MACHE	315,300	20,000		10,000		1,000	3,292	65.2
HUANUCO	CANCHABAMBA	315,300	20,000		10,000		1,000	3,274	81.3
HUANUCO	YARUMAYO	315,300	7,700		10,000		1,000	2,977	79.4
CAJAMARCA	GUZMANGO	315,300	7,700		10,000		1,000	2,960	94
CUZCO	MACHUPICCHU	315,300	7,700		10,000		1,000	2,960	50
CAJAMARCA	EDUARDO VILLANUEVA	315,300	7,700		10,000		1,000	2,886	73
HUANUCO	SAN FRANCISCO	315,300	7,700		10,000		1,000	2,618	79.9
LA LIBERTAD	MOLLEPATA	315,300	7,700		10,000		1,000	2,560	95.5
HUANUCO	SAN BUENAVENTURA	315,300	7,700		10,000		1,000	2,427	80.6
CAJAMARCA	SAN LUIS	315,300	7,700		10,000		1,000	2,409	96
LAMBAYEQUE	CHOCHOPE	315,300	7,700		10,000		1,000	2,400	83.2
LA LIBERTAD	MAGDALENA DE CAO	315,300	7,700		10,000		1,000	2,366	49
LA LIBERTAD	SANTA CRUZ DE CHUCA	315,300	7,700		10,000		1,000	2,299	94.7
HUANUCO	COCHABAMBA	315,300	7,700		10,000		500	2,096	81.1
CAJAMARCA	TANTARICA	266,400	7,700		10,000		500	1,939	88.1
CAJAMARCA	SANTA CRUZ DE TOLEDO	266,400	7,700		10,000		500	1,485	93.4
LA LIBERTAD	MOLLEBAMBA	266,400	7,700		10,000		500	1,315	73.9
CAJAMARCA	UTCO	266,400	7,700		10,000		500	1,289	91.6
HUANUCO	QUEROPALCA	266,400	7,700		10,000		500	1,122	72.8
CAJAMARCA	JORGE CHAVEZ	266,400	7,700		500		500	765	61.4
LA LIBERTAD	PARANDAY	266,400	7,700		500		500	648	73.5
HUANUCO	SEXI	266,400	7,700		500		500	435	51.6
LIMA	SANTA MARIA	266,400	7,700		500		500	248	31

* PLGs

Andres Lopez Hoyos

ANNEX IV – STEPS TAKEN TO OBTAIN THE LGs' EXPENDITURE SIDE

RG	Province	LG	Current Expenditure	Capital Expenditure	Debt Service	No. of Inhab.	% of Rural Inhab.
LIMA	LIMA	SAN JUAN DE LURIGANCHO	273,661,500	53,469,500	671,500	751,155	0
LIMA	LIMA	COMAS	273,661,500	53,469,500	183,300	469,747	0
LIMA	LIMA	SAN MARTIN DE PORRES	83,436,800	24,269,300		448,345	1
LIMA	LIMA	ATE-VITARTE	83,436,800	24,269,300		410,734	0
LIMA	LIMA	SAN JUAN DE MIRAFLORES	83,436,800	24,269,300	146,200	387,641	0
LIMA	LIMA	VILLA EL SALVADOR	83,436,800	24,269,300		364,476	1
LIMA	LIMA	LOS OLIVOS	83,436,800	24,269,300	88,400	344,164	0
LIMA	LIMA	VILLA MARIA TRIUNFO	83,436,800	24,269,300	700,500	341,971	0
LAMBAYEQUE	CHICLAYO*	CHICLAYO	83,436,800	24,269,300	1,200,000	300,575	2
LA LIBERTAD	TRUJILLO*	TRUJILLO	83,436,800	24,269,300	102,000	292,420	0
LIMA	LIMA*	LIMA	273,661,500	53,469,500	73,968,100	286,202	0
LIMA	LIMA	CHORRILLOS	83,436,800	24,269,300		264,645	0
LIMA	LIMA	SANTIAGO DE SURCO	83,436,800	24,269,300		251,567	0
LIMA	LIMA	INDEPENDENCIA	83,436,800	24,269,300		200,365	0
LIMA	LIMA	RIMAC	74,438,900	20,004,800		192,449	0
LIMA	LIMA	PUENTE PIEDRA	74,438,900	20,004,800	790,400	183,861	1
LIMA	LIMA	EL AGUSTINO	74,438,900	20,004,800	1,526,900	166,902	0
LAMBAYEQUE	CHICLAYO	JOSE LEONARDO ORTIZ	74,438,900	20,004,800	238,000	156,425	1
LIMA	LIMA	CARABAYLLO	74,438,900	20,004,800		153,112	8
CAJAMARCA	CAJAMARCA*	CAJAMARCA	74,438,900	20,004,800	235,800	149,229	26
LIMA	LIMA	SANTA ANITA	74,438,900	20,004,800		148,752	0
LIMA	LIMA	SAN MIGUEL	74,438,900	20,004,800		134,908	0
LA LIBERTAD	TRUJILLO	LA ESPERANZA	74,438,900	20,004,800	175,800	131,565	0
LIMA	LIMA	LA MOLINA	74,438,900	20,004,800		125,034	0
LIMA	LIMA	LURIGANCHO	74,438,900	20,004,800		123,142	1
LIMA	LIMA	SAN BORJA	74,438,900	15,000,000	3,597,900	122,270	0
CUZCO	CUZCO*	CUZCO	74,438,900	15,000,000	506,700	102,901	3
HUANUCO	HUANUCO	AMARILIS	74,438,900	10,000,000		92,624	16
LIMA	LIMA	BREÑA	74,438,900	10,000,000		89,795	0
LIMA	LIMA	MIRAFLORES	74,438,900	10,000,000	1,729,500	87,547	0
LIMA	LIMA	SURQUILLO	74,438,900	10,000,000		84,134	0
LAMBAYEQUE	CHICLAYO	LA VICTORIA	74,438,900	6,934,200	65,000	66,786	2
LIMA	LIMA	PUEBLO LIBRE	74,438,900	6,934,200	420,000	65,989	0
HUANUCO	HUANUCO*	HUANUCO	74,438,900	6,934,200	669,900	61,509	9
LIMA	LIMA	JESUS MARIA	74,438,900	6,934,200	424,900	60,249	0
LIMA	LIMA	SAN ISIDRO	74,438,900	6,934,200	50,000	60,139	0
CAJAMARCA	HUALGAYOC*	BAMBAMARCA	74,438,900	6,934,200	437,800	60,045	78
LA LIBERTAD	TRUJILLO	VICTOR LARCO HERRERA	15,294,600	6,934,200		59,190	2
LIMA	LIMA	LINCE	15,294,600	4,442,200		57,286	0
LAMBAYEQUE	LAMBAYEQUE*	LAMBAYEQUE	12,825,900	4,442,200		50,768	22
CAJAMARCA	CHOTA*	CHOTA	12,825,900	4,442,200	453,800	48,705	71
LIMA	LIMA	LURIN	12,825,900	4,442,200	328,900	48,025	13
CUZCO	CUZCO	SAN SEBASTIAN	12,825,900	4,442,200	299,000	47,999	9
HUANUCO	LEONCIO PRADO*	RUPA-RUPA	12,825,900	3,342,200		47,748	10
LIMA	LIMA	MAGDALENA	12,825,900	3,342,200		46,197	0
LA LIBERTAD	SANCHEZ CARRION*	HUAMACHUCO	9,789,200	3,342,200	361,300	45,507	53
LIMA	LIMA	SAN LUIS	9,789,200	3,342,200		44,446	0
LA LIBERTAD	CHEPEN	CHEPEN	9,789,200	3,342,200	121,700	43,833	14
LIMA	LIMA	CHACLACAYO	9,789,200	3,342,200	51,200	42,933	0

Andres Lopez Hoyos

LIMA	LIMA	BARRANCO	9,789,200	3,342,200		41,311	0
LAMBAYEQUE	LAMBAYEQUE	OLMOS	9,789,200	3,342,200	322,800	36,564	75
LAMBAYEQUE	LAMBAYEQUE	MORROPE	9,789,200	2,000,000		35,995	82
LIMA	LIMA	PACHACAMAC	9,789,200	2,000,000	117,000	34,378	19
LAMBAYEQUE	VIRU*	VIRU	9,789,200	2,000,000	240,500	31,877	51
LAMBAYEQUE	FERREÑAFE*	FERREÑAFE	9,789,200	2,000,000	188,600	31,446	5
CAJAMARCA	SAN IGNACIO	SAN IGNACIO	9,789,200	2,000,000	279,600	31,413	73
LA LIBERTAD	TRUJILLO	MOCHE	9,789,200	2,000,000	120,500	31,151	17
LAMBAYEQUE	CHICLAYO	MONSEFU	5,134,200	2,000,000		30,072	26
LA LIBERTAD	ASCOPE*	CASA GRANDE	5,134,200	2,000,000	120,700	28,362	19
CAJAMARCA	CAJABAMBA*	CAJABAMBA	5,134,200	2,000,000	223,700	27,645	54
LA LIBERTAD	OTUZCO	USQUIL	5,134,200	1,752,600	268,600	27,433	92
HUANUCO	HUANUCO	CHINCHAO	5,134,200	1,752,600		27,083	94
CAJAMARCA	CAJAMARCA	ENCAÑADA	5,134,200	1,752,600	278,200	26,131	96
HUANUCO	LEONCIO PRADO	JOSE CRESPO Y CASTILLO	5,134,200	1,752,600		25,961	41
LIMA	LIMA	ANCON	5,134,200	1,752,600	120,500	24,477	0
LAMBAYEQUE	LAMBAYEQUE	MOTUPE	5,134,200	1,752,600		24,231	47
LA LIBERTAD	OTUZCO *	OTUZCO	5,134,200	1,752,600	376,500	23,329	62
CAJAMARCA	CELENDIN*	CELENDIN	5,134,200	1,752,600	347,000	22,328	37
HUANUCO	HUANUCO	SANTA MARIA DEL VALLE	5,134,200	1,752,600	100,000	22,056	93
LA LIBERTAD	ASCOPE	PAIJAN	5,134,200	1,752,600	109,200	21,688	10
LAMBAYEQUE	CHICLAYO	PIMENTEL	5,134,200	1,752,600	49,100	20,525	33
HUANUCO	HUANUCO	CHURUBAMBA	5,134,200	1,752,600	210,700	20,353	98
LA LIBERTAD	SANTIAGO DE CHUCO*	SANTIAGO DE CHUCO	4,500,000	1,752,600	191,400	19,996	71
LAMBAYEQUE	CHICLAYO	PATAPO	4,500,000	1,224,800		18,944	9
CAJAMARCA	SAN IGNACIO	LA COIPA	4,500,000	1,224,800	103,500	18,808	95
LAMBAYEQUE	CHICLAYO	CHONGOYAPE	4,500,000	1,224,800		18,723	26
LAMBAYEQUE	LAMBAYEQUE	MOCHUMI	4,500,000	1,224,800	220,100	18,450	64
CAJAMARCA	SAN MARCOS*	PEDRO GALVEZ	4,500,000	1,224,800	285,700	17,413	71
CUZCO	URUBAMBA*	URUBAMBA	4,500,000	1,224,800	268,900	17,143	51
LAMBAYEQUE	FERREÑAFE	PITIPO	4,500,000	1,224,800	108,000	16,793	84
LA LIBERTAD	SANCHEZ CARRION	CHUGAY	4,500,000	1,224,800	151,500	16,485	93
HUANUCO	HUANUCO	MARGOS	4,500,000	1,224,800	118,800	16,449	85
CAJAMARCA	SAN PABLO*	SAN PABLO	4,500,000	1,224,800	121,400	15,835	79
CAJAMARCA	CHOTA	LAJAS	4,500,000	1,224,800	117,700	15,754	83
CAJAMARCA	SAN IGNACIO	CHIRINOS	4,500,000	1,224,800	nd	15,490	90
HUANUCO	MARAÑON*	HUACRACHUCO	4,500,000	913,300	190,700	15,351	90
HUANUCO	AMBO	SAN RAFAEL	4,500,000	913,300		15,276	78
LA LIBERTAD	SANCHEZ CARRION	MARCABAL	4,500,000	913,300	107,500	15,271	99
LAMBAYEQUE	LAMBAYEQUE	SALAS	4,500,000	913,300		15,028	87
CAJAMARCA	CELENDIN	HUASMIN	4,500,000	913,300	25,000	14,898	99
CAJAMARCA	CAJABAMBA	CONDEBAMBA	4,500,000	913,300	230,600	14,819	96
HUANUCO	PUERTO INCA*	PUERTO INCA	4,500,000	913,300	52,200	14,390	88
HUANUCO	LEONCIO PRADO	MARIANO DAMASO BERAUN	4,500,000	913,300	183,300	14,046	83
LAMBAYEQUE	FERREÑAFE	PUEBLO NUEVO	4,500,000	745,500	121,600	13,470	9
LA LIBERTAD	CHEPEN	PACANGA	4,500,000	745,500	119,100	13,367	33
CAJAMARCA	SAN IGNACIO	NAMBALLE	4,500,000	745,500	122,000	12,904	87
HUANUCO	AMBO	HUACAR	4,500,000	745,500		12,781	90
LIMA	LIMA	CIENEGUILLA	4,500,000	745,500	50,000	12,758	10
LAMBAYEQUE	LAMBAYEQUE	JAYANCA	4,500,000	745,500		12,692	42
CAJAMARCA	SAN MARCOS	JOSE SABOGAL	4,500,000	745,500	222,000	12,553	99
LA LIBERTAD	SANTIAGO DE CHUCO	QUIRUVILCA	4,500,000	745,500	80,200	12,316	44
LAMBAYEQUE	CHICLAYO	ETEN	4,500,000	745,500	116,500	12,030	2

Andres Lopez Hoyos

LA LIBERTAD	SANCHEZ CARRION	SARTIMBAMBA	4,500,000	745,500		11,848	95
CAJAMARCA	CONTUMAZA*	CONTUMAZA	4,500,000	745,500	118,400	11,343	65
CAJAMARCA	CAJAMARCA	MAGDALENA	4,500,000	745,500		11,194	77
LA LIBERTAD	OTUZCO	AGALLPAMPA	4,500,000	745,500	130,000	11,145	93
CAJAMARCA	CAJAMARCA	ASUNCION	4,500,000	745,500	189,700	10,616	93
CAJAMARCA	CHOTA	CHALAMARCA	4,500,000	745,500	nd	10,526	94
HUANUCO	AMBO*	AMBO	4,500,000	745,500		10,233	60
CUZCO	URUBAMBA	CHINCHERO	4,500,000	745,500	160,300	10,120	78
LAMBAYEQUE	LAMBAYEQUE	ILLIMO	4,000,000	716,200		9,910	51
CAJAMARCA	SANTA CRUZ	CATACHE	4,000,000	716,200		9,876	88
CAJAMARCA	CHOTA	HUAMBOS	4,000,000	716,200	174,500	9,858	88
CAJAMARCA	CAJABAMBA	SITACOCHA	4,000,000	716,200	132,800	9,827	75
LAMBAYEQUE	CHICLAYO	LAGUNAS	4,000,000	716,200	94,700	9,292	33
CAJAMARCA	CHOTA	LLAMA	4,000,000	716,200	117,900	9,290	88
HUANUCO	LEONCIO PRADO	LUYANDO	4,000,000	716,200		8,979	87
CAJAMARCA	CAJAMARCA	NAMORA	4,000,000	716,200	114,900	8,945	83
CAJAMARCA	CELENDIN	CORTEGANA	4,000,000	716,200	18,000	8,856	97
CAJAMARCA	SANTA CRUZ*	SANTA CRUZ	4,000,000	716,200	120,300	8,808	50
CAJAMARCA	SAN MARCOS	GREGORIO PITA	4,000,000	684,400	nd	8,700	91
LA LIBERTAD	OTUZCO	SINSICAP	4,000,000	684,400		8,696	67
HUANUCO	AMBO	CONCHAMARCA	4,000,000	684,400	109,500	8,692	93
LA LIBERTAD	SANCHEZ CARRION	COCHORCO	4,000,000	684,400	108,000	8,537	95
LA LIBERTAD	SANCHEZ CARRION	SARIN	4,000,000	684,400	102,600	8,271	95
HUANUCO	LAURICOCHA*	JESUS	4,000,000	684,400	47,300	8,104	81
LA LIBERTAD	ASCOPE*	ASCOPE	4,000,000	684,400		8,103	27
HUANUCO	LAURICOCHA	SAN MIGUEL DE CAURI	4,000,000	684,400		7,656	50
CAJAMARCA	CHOTA	PACCHA	4,000,000	684,400	82,800	7,522	92
HUANUCO	LAURICOCHA	RONDOS	4,000,000	684,400	99,700	7,490	93
CAJAMARCA	CONTUMAZA	YONAN	4,000,000	684,400		7,440	37
HUANUCO	PUERTO INCA	TOURNAVISTA	4,000,000	684,400	122,000	7,438	91
HUANUCO	AMBO	CAYNA	4,000,000	684,400	120,600	7,207	56
LA LIBERTAD	ASCOPE	RAZURI	4,000,000	684,400	77,000	7,060	53
HUANUCO	HUACAYBAMBA	PINRA	4,000,000	500,000	164,300	6,875	96
LAMBAYEQUE	LAMBAYEQUE	PACORA	4,000,000	500,000		6,836	50
LA LIBERTAD	OTUZCO	SALPO	4,000,000	500,000		6,822	89
CAJAMARCA	CELENDIN	MIGUEL IGLESIAS	4,000,000	500,000	110,400	6,769	91
HUANUCO	HUACAYBAMBA*	HUACAYBAMBA	4,000,000	500,000	375,600	6,738	86
CAJAMARCA	CHOTA	CHOROPAMPA	4,000,000	500,000		6,661	83
HUANUCO	LAURICOCHA	BAÑOS	4,000,000	500,000		6,657	81
HUANUCO	PUERTO INCA	YUYAPICHIS	4,000,000	500,000		6,471	91
CAJAMARCA	CELENDIN	OXAMARCA	4,000,000	500,000	151,200	6,346	94
HUANUCO	HUANUCO	SAN PEDRO DE CHAULAN	4,000,000	500,000	100,900	6,326	88
HUANUCO	PUERTO INCA	CODO DEL POZUZO	4,000,000	450,000		6,323	96
CAJAMARCA	CHOTA	CONCHAN	4,000,000	450,000		6,305	95
CAJAMARCA	CELENDIN	SUCRE	4,000,000	450,000	81,000	6,191	75
LA LIBERTAD	TRUJILLO	POROTO	3,600,200	450,000		5,981	86
LIMA	LIMA	SANTA ROSA	3,600,200	450,000		5,957	19
LA LIBERTAD	SANTIAGO DE CHUCO	ANGASMARCA	3,600,200	450,000	97,000	5,949	85
LIMA	LIMA	PUNTA HERMOSA	3,600,200	431,800		5,846	6
HUANUCO	PUERTO INCA	HONORIA	3,600,200	431,800		5,840	89
HUANUCO	HUANUCO	QUISQUI	3,600,200	431,800	102,000	5,739	94
LAMBAYEQUE	FERREÑAFE	MANUEL A MESONES M	3,600,200	431,800		5,673	30
LA LIBERTAD	OTUZCO	HUARANCHAL	3,600,200	431,800		5,606	71
CAJAMARCA	SAN PABLO	SAN BERNARDINO	3,600,200	431,800		5,348	96

Andres Lopez Hoyos

95

CAJAMARCA	SAN MARCOS	JOSE MANUEL QUIROZ	3,600,200	431,800	76,600	5,265	81
HUANUCO	AMBO	TOMAY KICHWA	3,600,200	431,800		5,180	69
CAJAMARCA	SAN MARCOS	CHANCAY	3,600,200	431,800		5,147	87
CAJAMARCA	SAN PABLO	TUMBADEN	3,600,200	431,800	76,100	4,943	98
LIMA	LIMA	PUNTA NEGRA	2,285,300	431,800		4,783	4
HUANUCO	HUANUCO	SAN FRANCISCO DE CAYRAN	2,285,300	431,800		4,739	89
CAJAMARCA	CELENDIN	JOSE GALVEZ	2,285,300	431,800		4,704	86
CAJAMARCA	CAJAMARCA	SAN JUAN	2,285,300	431,800	49,800	4,602	83
LA LIBERTAD	SANTIAGO DE CHUCO	SITABAMBA	2,285,300	431,800		4,583	81
HUANUCO	LEONCIO PRADO	DANIEL ALOMIAS ROBLES	2,285,300	431,800	123,400	4,545	94
CAJAMARCA	CONTUMAZA	CHILETE	2,285,300	431,800		4,481	24
LIMA	LIMA	PUCUSANA	2,285,300	431,800		4,356	6
LA LIBERTAD	SANTIAGO DE CHUCO	CACHICADAN	2,285,300	431,800	86,000	4,341	57
CAJAMARCA	CAJAMARCA	CHETILLA	2,285,300	431,800		4,299	92
HUANUCO	LEONCIO PRADO	HERMILIO VALDIZAN	2,285,300	431,800		4,126	93
HUANUCO	LAURICOCHA	SAN FRANCISCO DE ASIS	2,285,300	431,800		4,031	81
CAJAMARCA	CELENDIN	LA LIBERTAD DE PALLAN	1,873,000	431,800		3,895	92
CAJAMARCA	CHOTA	MIRACOSTA	1,873,000	431,800	51,100	3,846	94
LAMBAYEQUE	CHICLAYO	NUEVA ARICA	1,873,000	431,800		3,698	32
CAJAMARCA	SANTA CRUZ	LA ESPERANZA	1,873,000	431,800	14,700	3,692	94
LIMA	LIMA	SAN BARTOLO	1,873,000	431,800	100,000	3,672	3
CAJAMARCA	CELENDIN	CHUMUCH	1,873,000	389,800	108,000	3,653	95
CAJAMARCA	CONTUMAZA	SAN BENITO	1,873,000	389,800		3,626	85
HUANUCO	AMBO	COLPAS	1,873,000	389,800		3,524	90
HUANUCO	LAURICOCHA	JIVIA	1,873,000	389,800		3,463	81
CAJAMARCA	SAN MARCOS	ICHOCAN	1,873,000	389,800	79,200	3,446	81
LA LIBERTAD	OTUZCO	MACHE	1,873,000	389,800		3,292	65
HUANUCO	HUACAYBAMBA	CANCHABAMBA	1,873,000	389,800	97,800	3,274	81
HUANUCO	HUANUCO	YARUMAYO	1,873,000	389,800		2,977	79
CAJAMARCA	CONTUMAZA	GUZMANGO	1,873,000	389,800		2,960	94
CUZCO	URUBAMBA	MACHUPICCHU	1,873,000	389,800		2,960	50
CAJAMARCA	SAN MARCOS	EDUARDO VILLANUEVA	1,873,000	389,800	51,600	2,886	73
HUANUCO	AMBO	SAN FRANCISCO	1,873,000	389,800		2,618	80
LA LIBERTAD	SANTIAGO DE CHUCO	MOLLEPATA	1,873,000	245,700		2,560	96
HUANUCO	MARAÑON	SAN BUENAVENTURA	1,873,000	245,700		2,427	81
CAJAMARCA	SAN PABLO	SAN LUIS	1,873,000	245,700		2,409	96
LAMBAYEQUE	LAMBAYEQUE	CHOCHOPE	1,873,000	245,700		2,400	83
LA LIBERTAD	ASCOPE	MAGDALENA DE CAO	1,873,000	245,700		2,366	49
LA LIBERTAD	SANTIAGO DE CHUCO	SANTA CRUZ DE CHUCA	1,873,000	245,700		2,299	95
HUANUCO	HUACAYBAMBA	COCHABAMBA	1,873,000	245,700		2,096	81
CAJAMARCA	CONTUMAZA	TANTARICA	1,873,000	226,500		1,939	88
CAJAMARCA	CONTUMAZA	SANTA CRUZ DE TOLEDO	1,873,000	226,500		1,485	93
LA LIBERTAD	SANTIAGO DE CHUCO	MOLLEBAMBA	1,873,000	226,500	170,000	1,315	74
CAJAMARCA	CELENDIN	UTCO	1,873,000	226,500	89,600	1,289	92
HUANUCO	LAURICOCHA	QUEROPALCA	1,873,000	226,500		1,122	73
CAJAMARCA	CELENDIN	JORGE CHAVEZ	1,873,000	209,300		765	61
LA LIBERTAD	OTUZCO	PARANDAY	1,873,000	209,300		648	74
HUANUCO	SANTA CRUZ	SEXI	1,873,000	209,300		435	52
LIMA	LIMA	SANTA MARIA	1,873,000	209,300		248	31

* PLGS