



PERU

SELECTED ISSUES

June 2025

This paper on Peru was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on May 20, 2025.

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International Monetary Fund
Washington, D.C.



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May 20, 2025

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**Western Hemisphere
Department**

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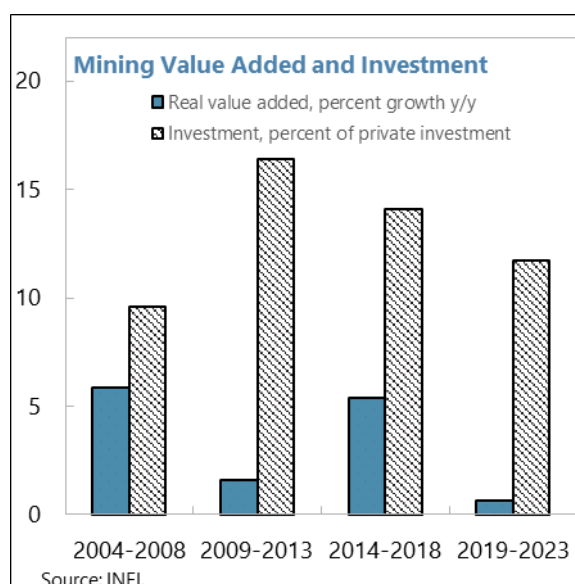
REVAMPING FISCAL DECENTRALIZATION TO SECURE PERU'S POSITION AS A LEADING CRITICAL MINERAL EXPORTER

Peru's mining wealth holds the promise to substantially accelerate potential growth. However, many mining projects have been stalled for several years due to conflicts with local communities that feel excluded from the benefits. Although local governments receive nearly 2 percent of GDP in natural resource revenues per year and comprise over 40 percent of public investment, poor execution and institutional challenges limit their impact. To secure the country's future as a critical mineral exporter, Peru needs to amend its fiscal decentralization framework to ensure that mining dividends translate into greater development for all citizens. Efforts should focus on improving the distribution of resource-based revenues, replacing discretionary transfers with rule-based transfers, strengthening central government oversight, and increasing capacity and coordination at the subnational level to support public investment efficiency.

A. Introduction

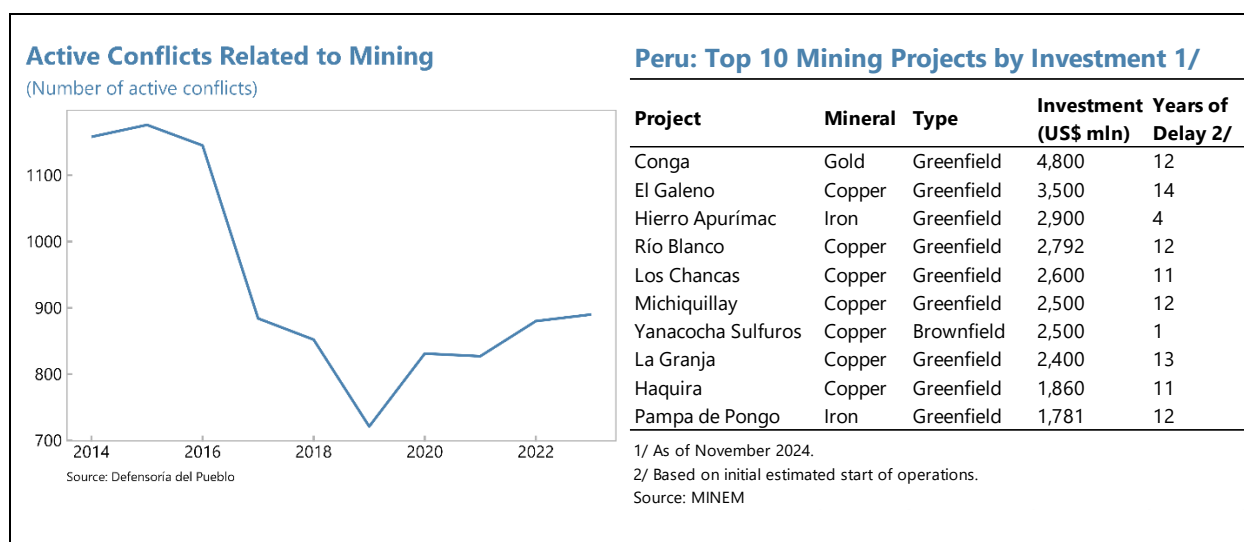
1. Peru's mining wealth holds the potential to unlock a new era of high growth, but baseline projections for the sector are modest.

Between 2004 and 2014, the mining sector was a significant growth engine, which allowed the country to achieve its upper middle-income status. With copper considered a critical mineral for the green transition and Peru holding the second-largest global reserves, the mining sector has the potential to catalyze a new phase of development. Despite this potential, mining production is envisaged to rise only modestly in the short and medium term, even in the face of elevated prices.¹



2. A US \$64 billion pipeline of mining projects has been mostly stalled for many years due to social conflicts. Disputes often arise from a perception among local communities that mining activities do not yield tangible benefits to them, and instead result in environmental, social, and economic disruption. For example, social conflicts have delayed the Tía María project since 2009 (a US\$1.4 billion copper project in the Arequipa region) due to concerns over water availability, environmental risks, and threats to the agricultural sector. Since 2019, while remaining below 2016 levels, social conflicts related to mining have steadily increased.

¹ The BCRP projects that the mining and hydrocarbons sector will grow 3.2 and 1.3 percent in 2025 and 2026, respectively ([December 2024 inflation report](#)) while the MEF projects that the sector will grow on average 2.3 percent per year between 2025-28 ([2025-28 Multi-year Macroeconomic Framework](#)). Historically, the sector grew 3.5 percent per year on average between 2004-2014.



3. Fiscal decentralization serves as a key channel translating the country's economic growth and mining wealth into public services. Since the start of fiscal decentralization in 2002, more than 50 percent of 2023 real GDP has been cumulatively transferred to subnational governments to provide public services and address gaps in basic needs. Although the fraction of households with unmet basic needs declined from 35 percent in 2004 to 20 percent in 2014, the pace of decline has slowed over the past decade and gaps in basic needs persist. This annex assesses Peru's fiscal decentralization framework by reviewing the distribution of resources to subnational governments, analyzing the execution of public investment by local governments, and examining whether these investments have improved public goods provision and economic development.

B. Overview of the Fiscal Decentralization Framework

4. The decentralization process began in 2002. Peru has a unitary government featuring four levels of administration: the central government, regional governments, and two categories of local governments (provinces and districts, henceforth districts for simplicity).² The current decentralization framework was officially set up with the 2002 Constitutional Reform, which transferred political power to subnational governments. The process continued in 2004 with the Fiscal Decentralization Law, which assigned resources and transferred spending responsibilities to subnational governments (Ahmad and García-Escribano, 2006).

5. An electoral setback halted the process in 2005, resulting in an incomplete fiscal decentralization framework that endures. The original vision was to consolidate the 26 regional governments into 12 macro-regions to serve as an intermediate level of government that could balance economies of scale with local autonomy. During the transition to transfer spending responsibilities, line ministries would move their operations to regional governments and discretionary transfers would be replaced with rules-based transfers. In 2005, however, a referendum to create macro-regions was rejected, de facto paralyzing the decentralization reform.

² Provincial governments concurrently act as district governments for the provincial capital's district.

6. Regional governments rely on discretionary transfers and lack autonomy. Because the transfer of authority to regional governments was not completed, the resulting system prioritizes decongestion rather than decentralization. Regional budgets rely almost entirely on central government transfers, which are split between ordinary resources (*recursos ordinarios*), FONCOR (*Fondo de Compensación Regional*),³ and resource-based revenues (henceforth the canon).⁴ Ordinary transfers, which make up approximately 70 percent of regional revenues, are discretionary and earmarked for line ministries' regional offices, whose staffing and plans are decided by the central government. The resulting lack of autonomy undermines regional governments' ability to determine how resources are spent, to tailor public services to local needs, and to coordinate public goods provision across districts.

7. District governments mostly rely on rules-based transfers. About 80 percent of district spending is funded through central government transfers, primarily comprising two rules-based transfers: the canon and the FONCOMUN (*Fondo de Compensación Municipal*).⁵ The canon is a resource-based transfer financed by 50 percent of corporate income taxes and royalties levied on natural resource production, primarily mining. Distribution is based on the principle of origin, with producing districts receiving a disproportionate share to compensate them for the externalities of natural resource extraction. The rest is distributed to non-producing districts in the same province and region depending on development needs.⁶ The FONCOMUN is an equalization transfer financed by a 2 percent surcharge on VAT, and is distributed according to population, with a higher weight for rural populations and development needs.⁷

³ FONCOR is an equalizing transfer that is earmarked for capital spending and distributed according to investment needs and fiscal capacity.

⁴ In this annex, the term canon covers a broad set of rules-based transfers funded through the revenues generated in the recipient district or region by natural or administrative resource exploitation. Covered economic activities include metal and non-metal mining, gas and oil extraction, hydroelectric power generation, forestry, fishing, and customs collection at border posts. The bulk of revenues is funded by 50 percent of corporate income taxes on extracting firms, as well as from royalties paid by mining companies. Oil companies pay both a canon and a *sobre canon* according to department-specific regulations. The central government keeps the share of revenues that does not fund the canon.

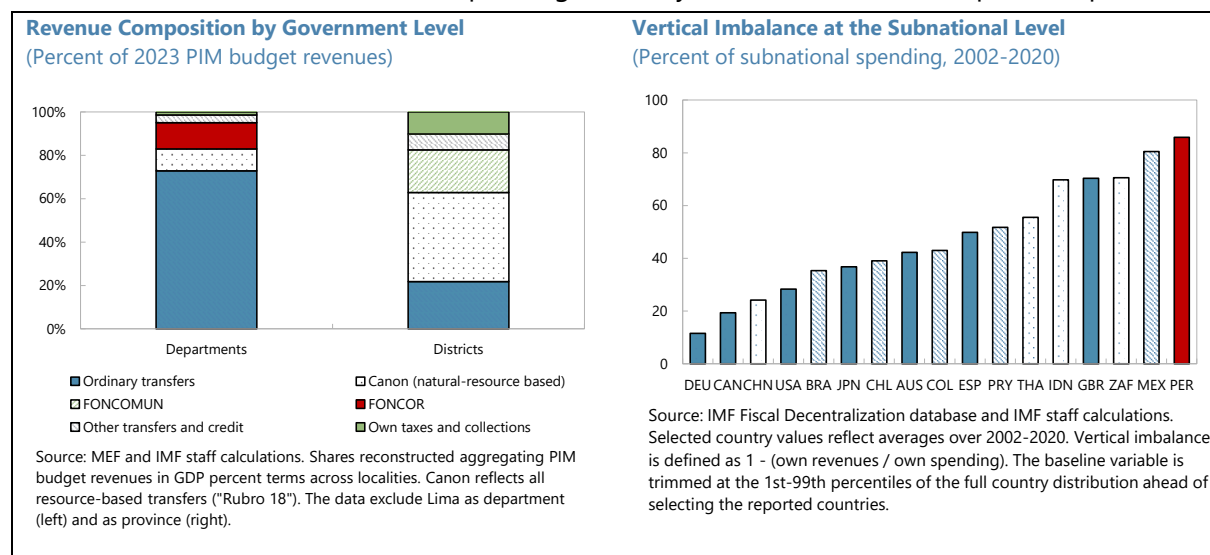
⁵ Districts also receive ordinary transfers, which are earmarked for predetermined spending activities. Given the ad-hoc nature of these transfers and data limitations, our district analysis focuses on other budgeted revenue sources.

⁶ The distribution criteria for the largest component of the canon, which is funded by corporate income taxes from mining, gas, hydro-energy, fishing, and forestry activities, are as follows: i) 10 percent for the producing district; ii) 25 percent for districts in the producing province; iii) 40 percent for districts in the producing region, (with weights for items i) and ii) based on resident population and unmet basic needs, including the producing district); iv) 20 percent for the producing region's government; and v) 5 percent for its universities. The oil canon and *sobre canon* are also distributed based on geography but according to region-specific criteria, while mining royalties are assigned according to slightly different proportions (20, 20, 40, 15 and 5 percent for items i)-v), respectively).

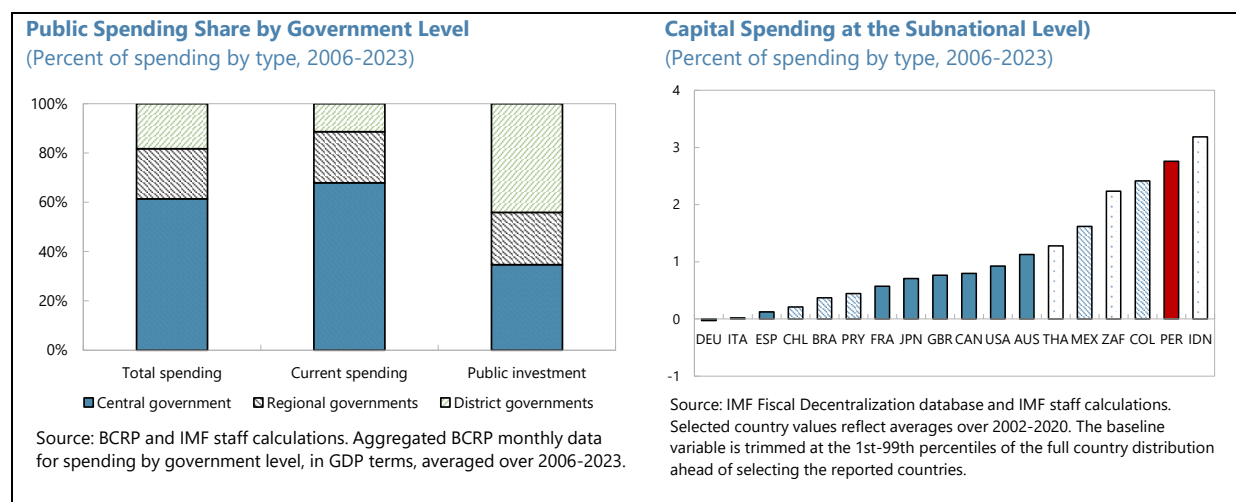
⁷ Since 2011, the total VAT rate is 18 percent, of which two percentage points correspond to the municipal promotion tax (*Impuesto de Promoción Municipal*, IPM) which funds the FONCOMUN. Transfers are determined in three steps. First, available resources are assigned across provinces based on a province-level index that weighs each underlying district's population by the share of inhabitants without water, electricity, and sewage access. Next, within each province, 20 percent of resources stay with the provincial government and 80 percent is assigned across districts based on a district-level index. This index weighs the district's population by 85 percent (weighing rural populations twice as much as urban), its size in squared kilometers by 5 percent, and its managerial performance by

(continued)

8. The high dependency on transfers results in a very high vertical imbalance. Regional and district governments have little taxation authority and raise only 5 percent of total public revenues.⁸ The high dependency on central government transfers implies a very high level of vertical imbalance – the ratio between local spending to locally-raised revenues – compared to peers.



9. Public investment is largely executed by small districts with relatively low capacity. Regional and district governments comprise about 40 percent of total public spending, but around 60 percent of public investment or about 2.5 percent of GDP per year (which is higher than in most peer countries). Moreover, about 40 percent of public investment (1.7 percent of GDP) is executed by district governments alone, which have limited capacity—even with the project planning and



10 percent (measured by a district's own revenue collection capacity and the share of FONCOMUN transfers that is spent on capital expenditure). Lastly, an adjustment is made to ensure that each district receives monthly transfers of at least 8 UITs.

⁸ The fiscal decentralization reform did not alter the pre-existing allocation of taxation powers, which in the case of local governments have been unchanged since the early 1990s (World Bank, 2017). Regional governments collect user fees and other small revenue sources, but do not impose taxes. Provincial governments collect taxes on motor vehicles, public entertainment, lotteries and gambling. District governments collect urban property taxes (*impuesto predial*) and real estate transaction taxes (*impuesto de alcabala*).

appraisal phase—and tend to be quite small (with a median population of fewer than 5,000 residents), posing important challenges for spending efficiency. In addition, the reported high incidence of corruption in regional and district governments (15.4 and 13.1 percent, respectively, in 2023; Contraloría General de la República, 2024) exacerbates the low spending efficiency and the low public perception of local governance.⁹

C. Assessing District Public Finances

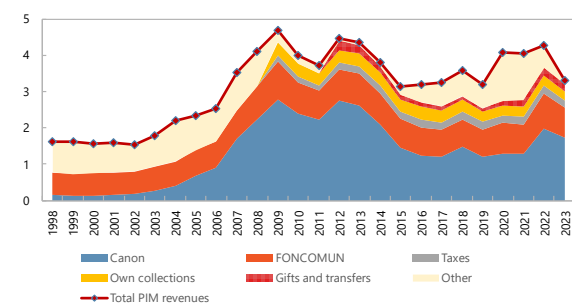
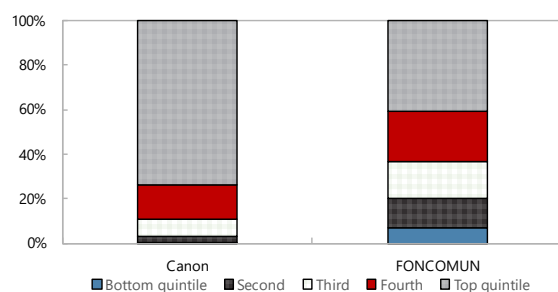
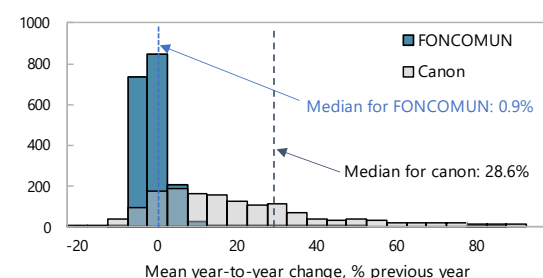
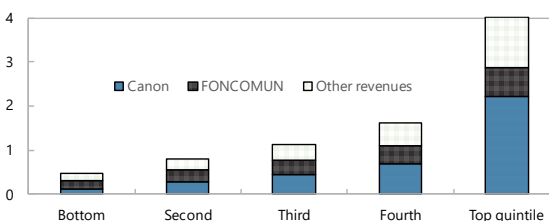
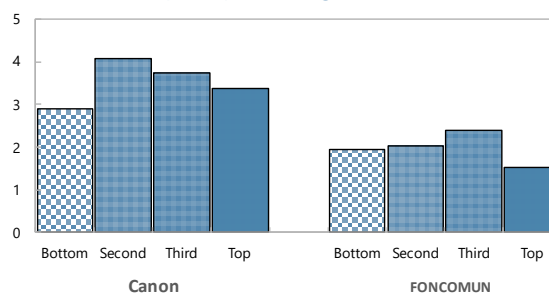
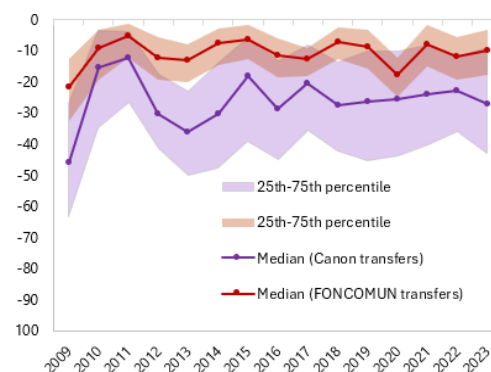
10. District public finances are dominated by natural resource revenues, with equalizing transfers playing only a minor role. FONCOMUN was intended to be the primary component of district revenues. However, the mid-2000s commodity boom resulted in a windfall for district revenues and increased the dependency of district budgets towards the canon. In 2004, FONCOMUN transfers made up 38 percent of the revenues (excluding ordinary transfers) in the average district, and the canon contributed less than 14 percent. By 2023, while the FONCOMUN's average budget share had remained roughly stable, the budget share of the canon had more than doubled to 36 percent, after peaking at over 50 percent a decade earlier. Districts with the least resources are more reliant on the FONCOMUN, but its limited size undermines its equalizing role. Consequently, for most districts, the canon constitutes the primary source of revenue. The increased reliance on the canon has generated several challenges for the effective management and implementation of district finances.

11. High revenue inequality between districts is significantly exacerbated by the canon. The disparity in spending capabilities between districts is very high. For example, the Moquegua region receives over 18 times more resources per capita, at the region and district level, than the Lima region. Inequality is even more pronounced when looking at districts, as the canon distribution formula heavily favors producing districts – 70 percent of canon is allocated to only 20 percent of districts.

12. Resource disparities are further compounded by poor targeting. While both the canon and FONCOMUN include development needs within their distribution formulas, the weights do not sufficiently mitigate differences in economic development across districts. As a result, districts with the highest development needs do not receive proportionately greater shares of FONCOMUN or canon revenues.

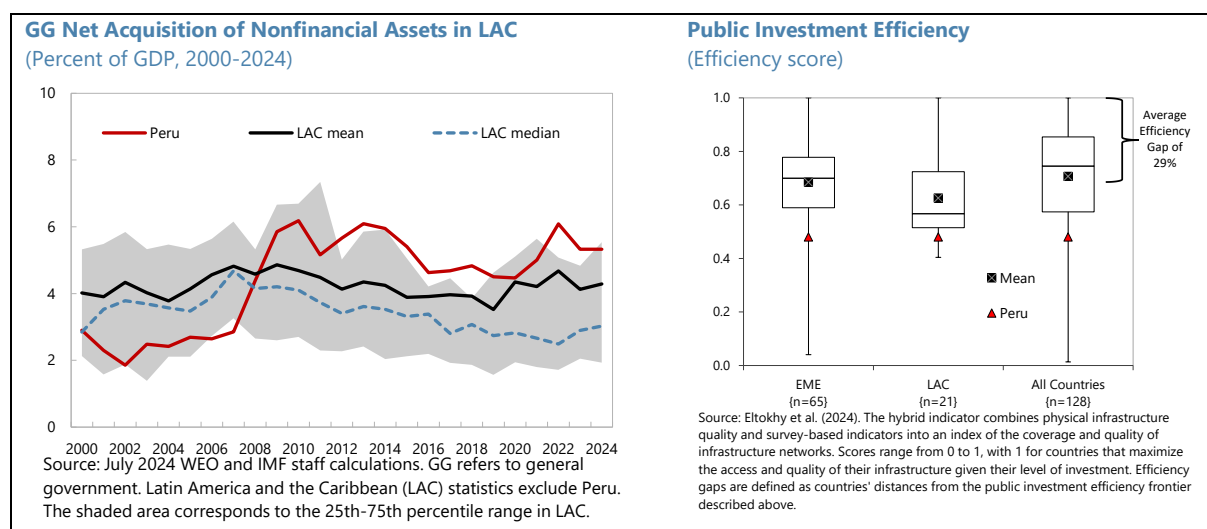
13. Elevated canon reliance introduces high volatility into district budgets. As natural resource production and commodity prices are highly volatile, the resulting canon transfers are quite variable. On average, in the median district, canon revenues fluctuate by nearly 30 percent year to year. Moreover, realized canon and FONCOMUN transfers authorized by the central government are, respectively, 21 and 8 percent lower than budgeted in the median district-year. High revenue volatility and unpredictability impedes medium-term planning and undermines the effectiveness and efficiency of public spending.

⁹ In the 2022–2024 period alone, the public prosecutor's office (Fiscalía de la Nación) investigated over 1,300 cases of potential corruption of public officers related to public investment.

Figure 1. District Public Finances**Evolution and Decomposition of District Revenues**
(Percent of GDP, 1998-2023)**Per Capita District Revenues by District Quintile**
(Percent of distributed revenue by type, 2023)**Volatility of District Revenues by Source Type**
(Number of districts, 2005-2023)**Mean District Revenues Per Capita**
(Thousand Soles, by quintile of per capita revenues)**Mean Per Capita Revenues by Development Level**
(Percent of GDP per capita, average over 1998-2023)**Difference Between Authorized and Budgeted Transfers**
(Percent of PIM budgeted transfer, 2004-2023)

D. Assessing the Execution of Local Public Investment

14. Peru's public investment is high but has low efficiency. Since the height of the 2000s commodity boom cycle, Peru has one of the highest levels of public investment as a share of GDP in Latin America and the Caribbean (LAC), averaging around 5 percent over the past two decades. However, in terms of both the physical and perceived coverage and quality of public infrastructure (including health, education, and access to roads, electricity, and drinking water), there is a large public investment efficiency gap (higher than for the average emerging market or LAC economy) compared to the efficiency frontier for countries with similar levels of public capital stock per capita (Eltokhy et al., 2024). Given that over 40 percent of public investment is executed at the district level, this section examines district public investment projects to identify potential bottlenecks.¹⁰

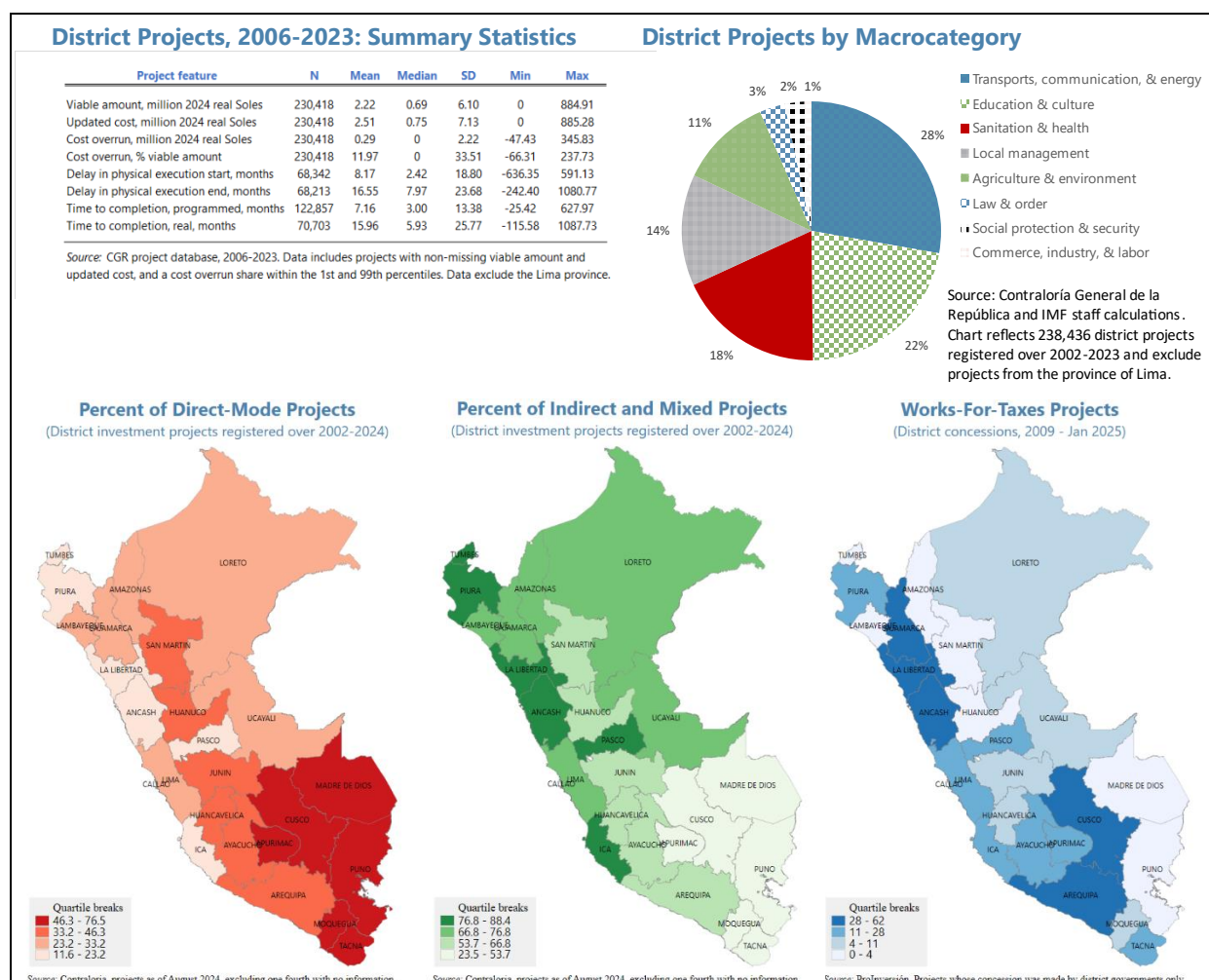


15. District governments have become more active in public investment. Staff analysis of more than 230,000 local investment projects registered in the *Banco de Inversiones* between 2006-2023¹¹ reveals that, over time, district authorities have been increasingly involved in the design, funding, and execution of local investment. Districts moved from registering on average 1.6 projects in 2006 to 15.8 in 2023, with nearly all districts registering a project in 2023. Projects cover a broad range of sectors, concentrated in transportation, communication, education, sanitation, and health, and in most cases rely on at least some form of private sector participation, including through the mechanism of works-for-taxes.¹²

¹⁰ While regional governments are also involved in public investment, including through earmarked resources (such as FONCOR), they benefit from the canon to a smaller extent, reducing the scale of their capital spending budgets.

¹¹ Public investment projects in the *Banco de Inversiones* include active, complete, and inactive projects registered between 2001 and August 2024 across all government levels. In our analysis, we exclude deactivated projects that incur less than 10 percent of the original cost. Due to the substantial improvement in data coverage in later years, we also focus on projects registered after 2006. The fact that the total value of projects as a share of GDP per capita is relatively stable throughout the period suggests that projects registered at the outset of the sample period are relatively comparable to more recent ones. Lastly, we exclude projects registered in districts belonging to the province of Lima due to its disproportionate size and very different characteristics.

¹² Works-for-taxes, or *obras por impuestos*, is a public investment modality involving the private execution of public investment, funded via tax credits.



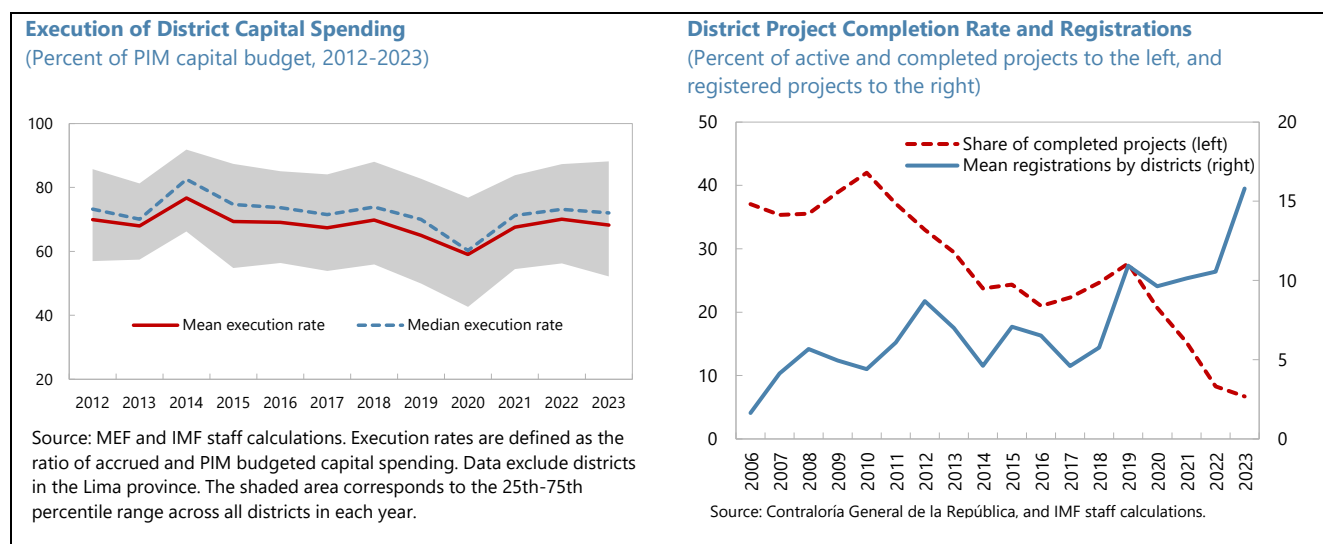
16. Districts struggle to complete their investments. After more than 20 years, districts still struggle to complete projects, including in spending their capital budgets (under-execution of about 30 percent on average).¹³ Excluding deactivated projects, fewer than 40 percent of projects registered before 2010 – allowing sufficient time for completion – were completed as of August 2024.

17. Limited local capacity results in overruns and delays. Typical project management challenges affect the design and execution of local investments, although these only translate into relatively modest cost overruns and delays. For example, the average project displays cost overruns (of about 12 percent) and physical execution delays (of 8 additional months to start, and 17 to complete).¹⁴ Besides limited technical expertise in project design and management (Loayza et al., 2014; Hoyos, 2019; and Aragón and Winkler, 2023), district governments are constrained to spend their allocated funds, as the canon is earmarked for public investment. Faced with these dueling

¹³ Under-execution is calculated by comparing, for a given fiscal year, capital spending in the last approved version of the budget (*presupuesto institucional modificado* or PIM) to accrued spending (*monto devengado*).

¹⁴ Cost overruns are defined as a positive difference between the originally registered value of the project and the updated costs recorded in August 2024. Execution delays are defined as the difference between the programmed physical execution start or end date and the actual date.

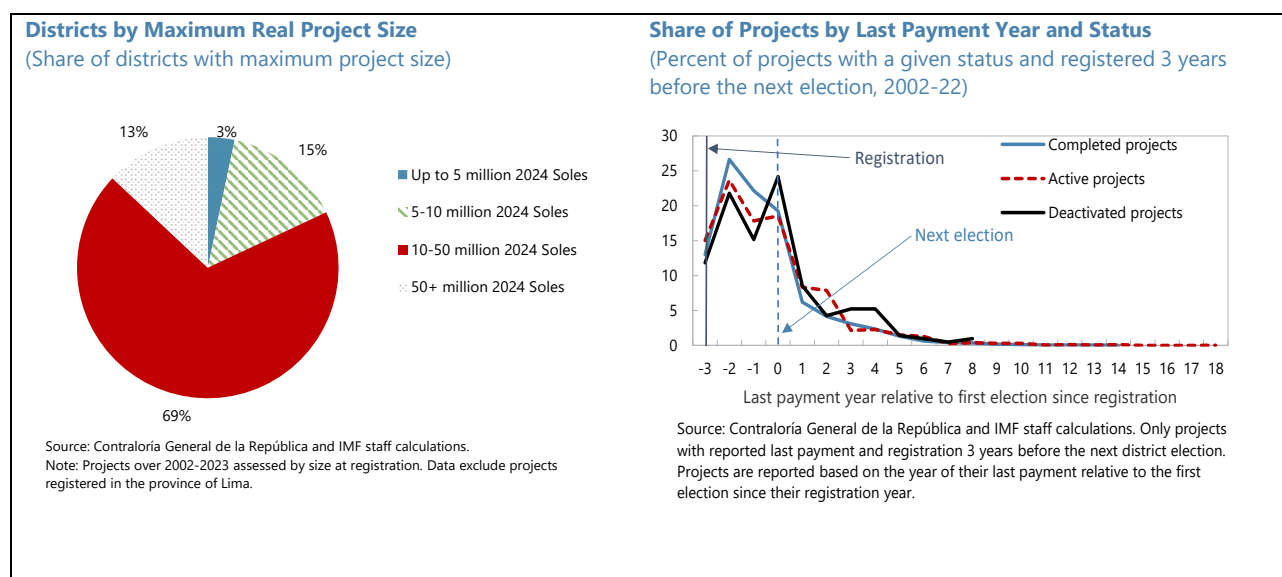
constraints, local governments could be limiting their project selection to less ambitious but feasible ones to spend the allocated funds, which suggests that these investment efforts could be ineffective at addressing local development needs.



18. Limited local capacity results in overruns and delays. Typical project management challenges affect the design and execution of local investments, although these only translate into relatively modest cost overruns and delays. For example, the average project displays cost overruns (of about 12 percent) and physical execution delays (of 8 additional months to start, and 17 to complete).¹⁵ Besides limited technical expertise in project design and management (Loayza et al., 2014; Hoyos, 2019; and Aragón and Winkler, 2023), district governments are constrained to spend their allocated funds, as the canon is earmarked for public investment. Faced with these dueling constraints, local governments could be limiting their project selection to less ambitious but feasible ones to spend the allocated funds, which suggests that these investment efforts could be ineffective at addressing local development needs.

19. The small scale of local projects weighs on public investment's transformative potential. Districts' limited size and capacity restrict their ability to undertake larger, high-impact initiatives, often favoring small-scale projects that lack transformative potential. The average size of district projects between 2006-2023 was 2.2 million 2024 real Soles at the time of registration (approximately US\$ 600,000), which is 3.6 times smaller than the average regional project. Between 2002 and 2023, only 13 percent of all districts registered projects larger than 50 million 2024 real Soles (US\$ 13.4 million) while only 3 percent of districts ever completed such projects.

¹⁵ Cost overruns are defined as a positive difference between the originally registered value of the project and the updated costs recorded in August 2024. Execution delays are defined as the difference between the programmed physical execution start or end date and the actual date.



20. Political incentives also weigh on the selection, funding, and completion of investment projects. District projects display short horizons (with average programmed and actual project durations of only 7 and 16 months, respectively), which is likely linked to the fact that local elected officials serve four-year terms without the possibility of re-election.¹⁶ Within two years of a new administration, project registrations and payments surge, only to sharply decline as the next administration prioritizes a new set of projects. Such political cycles raise the risk of project abandonment, cost over-runs, and delays, decreasing the quality and impact of public investment.¹⁷ At the same time, lack of coordination between districts and regional governments further prevents large-scale investment plans.

E. Assessing the Impact on Public Goods Provision, Social Conflicts, and Economic Development

21. The current empirical evidence on whether local transfers improve local development is mixed. At the cross-country level, there has been ample debate on the validity of the resource curse hypothesis, which posits that countries with abundant natural resources tend to be linked to lower levels of economic growth and development (van der Ploeg, 2011). Evidence is similarly mixed at the subnational level (Cust and Poelhekke, 2015). For Peru, studies have generally found that canon transfers positively impact local public investment and public goods provision (Aragon and Winkler, 2023; Corral et al., 2019; Maldonado, 2020; Maldonado and Ardanaz, 2021). However, evidence on the impact on local economic development has been more mixed, with some studies identifying positive effects (Bahlburg, 2023; Bancalari and Rud, 2024; Garmaise and Natividad, 2023; Zambrano, Robles and Laos, 2014), others U-shaped effects (Maldonado, 2020), and others negligible impacts (Aragon and Winkler, 2023; Loayza and Rigolini, 2016).

¹⁶ At end-2024, Congress rejected a constitutional reform proposal that included the possibility of a second term for district and regional governors.

¹⁷ The Comptroller General has identified thousands of dormant public projects (*obras paralizadas*) for which no official updates have been recorded for several months.

22. District-level data was used to measure local public goods provision, social conflicts, and economic development. For public goods provision, the analysis uses data from the 2004-2023 *Registro Nacional de Municipalidades*, an annual survey of district governments. Data was collected at the district level on the number of municipal employees, police, police post stations, health care centers, and machinery and equipment. For social conflicts, the analysis uses the *Reporte de Conflictos Sociales* from 2014 to 2023. The reports are compiled by the Defensoría del Pueblo and record for each conflict the onset month, its status (latent or active), location, the parties involved, and a description of the underlying issue. For economic development outcomes, the analysis uses data from the censuses of 1993, 2005, 2007, and 2017. Data was collected at the district level on household access to electricity, to a water connection, to indoor sewage, the literacy rate, and the fraction of adults with at least secondary education.

23. The impact on local public goods provision and social conflicts was estimated by comparing the relative outcomes of top recipient districts. High canon and high FONCOMUN districts were identified as districts in the top quartile of total real canon and FONCOMUN transfers per capita between 2002-2014.¹⁸ Because data on public goods provision and social conflicts is only available after the decentralization reform, a difference-in-differences specification to compare pre- and post-reform outcomes is not feasible. Instead, district characteristics as measured in the 1993 census are included to control for differences in pre-reform outcomes. To estimate the impact on public goods provision and social conflicts between 2004-2023, the following specification was estimated for each district i and year t :

$$y_{it} = \beta_1 \mathbf{1}(Q_{\text{canon},i} = 4) + \beta_2 \mathbf{1}(Q_{\text{FONCOMUN},i} = 4) + X_i + \gamma_p + \delta_t + \varepsilon_{it}$$

where X_i are pre-reform district characteristics (population density, household access to electricity, to a water connection, to indoor sewage, the literacy rate, and the fraction of adults with at least secondary education), γ_p are province fixed effects, δ_t are year fixed effects, and standard errors are clustered at the district level. β_1 measures the difference in outcomes for top canon districts and β_2 measures the difference in outcomes for top FONCOMUN districts, relative to other districts in the country.¹⁹

24. The impact on local economic development was also estimated by comparing the relative outcomes of top recipient districts. High canon and high FONCOMUN districts are identified as before. Because data on economic development outcomes is available both before and after the decentralization reform, a difference-in-differences specification was used to compare pre- and post-reform outcomes in high canon and high FONCOMUN districts relative to other districts in the country. To estimate the impact on economic development outcomes in 2005-2017 relative to 1993, the following specification was estimated:

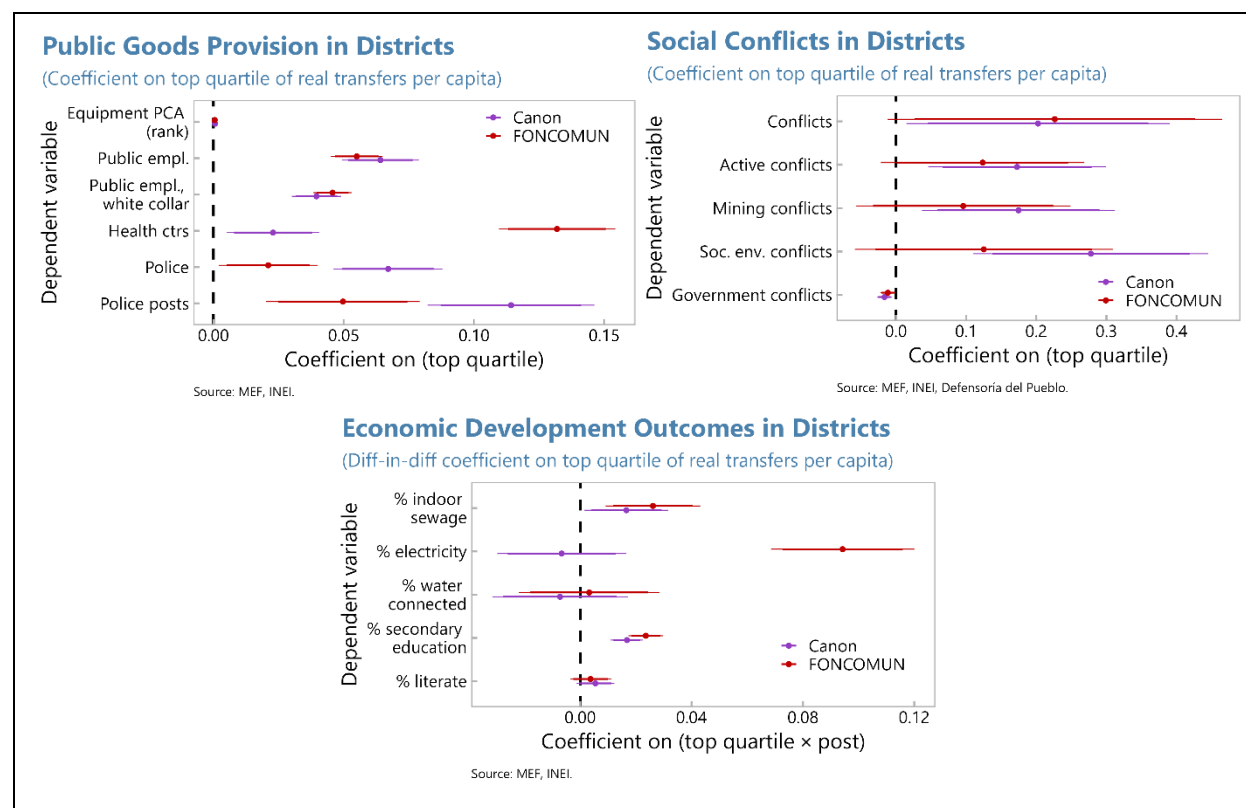
¹⁸ Real transfers were calculated by deflating nominal transfer amounts by public sector deflators. Public sector deflators were calculated using the GDP deflators for public consumption and public investment. Per capita transfers were calculated with district population estimates from the most recent census.

¹⁹ In all specifications, districts in the province of Lima are excluded to avoid bias in the estimates given its disproportionate size and very different characteristics.

$$y_{it} = \beta_1 \mathbf{1}(Q_{\text{canon},i} = 4) \cdot \mathbf{1}(t \geq 2004) + \beta_2 \mathbf{1}(Q_{\text{FONCOMUN},i} = 4) \cdot \mathbf{1}(t \geq 2004) + \gamma_p + \delta_t + \varepsilon_{it}$$

where γ_p are province fixed effects, δ_t are year fixed effects, and standard errors are clustered at the district level. β_1 is the difference-in-differences coefficient for a high canon district and β_2 is the difference-in-differences coefficient for a high FONCOMUN district.

25. Top recipient districts have more public goods. Compared to other districts, high canon and high FONCOMUN districts have higher levels of public goods provision: they have more municipal employees, police officers, police post stations, and health care centers. The relative magnitudes of the coefficients suggest that higher FONCOMUN transfers are associated with more health care centers while higher canon transfers are associated with more police and police post stations.



26. However, top canon districts experience more conflicts, which could be related to the fact that development outcomes have not consistently improved. Overall, there are more active conflicts in high canon districts, particularly conflicts involving social-environmental issues and mining activities.²⁰ This could be related to the fact that, despite having additional public goods, development outcomes do not consistently improve and gaps in basic needs mostly persist. High canon districts do experience some improvements, such as a higher fraction of households with indoor sewage and a higher fraction of adults with at least secondary education, but the results are

²⁰ Social-environmental conflicts are conflicts over the control, use, and/or access to the environment and natural resources. Within social-environmental conflicts, the related economic activity is identified (mining and hydrocarbon activities comprise the overwhelming share; other activities include waste and sanitation, energy, forestry, and agro-industrial).

²¹ Suárez (2024) also finds that canon regions experience higher levels of social conflict.

uneven. Further, across all metrics, high canon districts do not experience better outcomes than high FONCOMUN districts. Given that high canon districts have 40 percent higher revenues per capita than high FONCOMUN districts, this suggests that spending efficiency in high canon districts is quite low.

F. Conclusion and Recommendations

27. After 20 years, fiscal decentralization has failed to fulfill its goals. Three objectives underpinned Peru's decentralization efforts: improve the efficiency of public spending, reduce regional disparities, and strengthen local democratic processes. Large fiscal resources have been spent, but the benefits are not evident. Nearly all districts are conducting public investment projects, but execution and institutional challenges greatly limit their transformative impact. Fiscal resources are not sufficiently directed towards districts with the greatest development needs. District governments undertake small investment projects and operate under short-term horizons, complicating medium-term planning and hindering the possibility of high-impact projects.

28. Reducing horizontal inequality could allow for a better targeting of resources. Adjusting the canon formula to reduce its concentration in a small number of districts would allow for a more equitable distribution of fiscal resources across districts and better reflect Article 66 of the Peruvian Constitution, which states that natural resources belong to all Peruvians (not just to producing regions). The size of the FONCOMUN should also be increased and its formula adjusted to assign greater weight to development needs and local fiscal capacity, to further enhance its equalization role.

29. Enhancing the capacity for medium-term planning in regional and district governments would improve spending efficiency. Regional and district governments are heavily reliant on transfers from the central government which are highly unpredictable. Discretionary transfers should be replaced with rules-based transfers. In turn, to reduce the volatility in canon transfers, its formula could use a 5-year average of mining tax revenues.

30. Closing development gaps will require enhancing the scale and impact of investment projects. Coordination needs to be improved across all government levels. Regional governments and central government institutions (such as the National Infrastructure Authority, or *Autoridad Nacional de Infraestructura*) should help develop regional development plans and coordinate public spending across districts. Establishing mechanisms for co-financing with the central government would encourage subnational governments to undertake high-impact regional projects (such as irrigation districts, water and electricity generation, or transportation infrastructure).²² Increasing subnational capacity with project formulation and implementation will be crucial. Strong technical offices at the regional and central levels should be appropriately staffed with civil servants to assist district governments in standardizing, reducing the costs of, and improving the quality of project proposals and their implementation.

²² For example, the full implementation of the legal provisions determining the National Infrastructure Authority's budget could facilitate project co-financing across government levels.

31. Amendments to the decentralization framework should be accompanied by strengthening accountability and oversight from the central government. Traceability of the final use of central government transfers at the subnational government level is critical for effective oversight. Establishing internal controls and revamping audit processes to shift the focus away from intrusive, legalistic monitoring and towards facilitating project implementation would both promote more efficient investment while preventing corruption.

32. Improving the fiscal decentralization framework is essential for Peru to better benefit from the green transition. While fiscal decentralization has the potential to enhance local governance and improve public service delivery, significant challenges persist. Addressing these issues will require a revamp of the decentralization framework, with a focus on improving resource allocation, empowering subnational governments, and enhancing spending efficiency. As Peru increases its mining operations, the country should strive to adopt and enforce the highest international environmental quality standards and practices. Only through such efforts can Peru aspire to realize the full benefits of its rich natural resource wealth and reduce the risk of social unrest by ensuring that mining dividends translate into sustainable and inclusive development for all citizens.

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