

## *Chapter 3.*

### **Urban and rural development policies**

*This chapter discusses urban and rural policies in Peru. It suggests how to design better urban and rural policies to improve regional development outcomes. The chapter is divided into three main parts. The first section focuses on urban development, and in particular steps that will need to be taken in terms of policy development and implementation, to develop a comprehensive urban policy framework for Peru. The second section discusses rural policies, and identifies principles and lessons for a rural development policy that can better link economic and social objectives. Finally, the third section draws some conclusions and sums up key recommendations.*

## Key findings and recommendations

### Key findings

- The urban system in Peru is characterised by the dominance of Lima, which is performing comparatively strongly, and a number of intermediate and smaller cities with mixed performance outcomes. Regardless of these mixed outcomes, people living in cities generally have higher standards of living, which indicates that access to services are an important factor shaping urban-rural migration. Urban growth and development is shaped by the issue of informality, which makes the funding and co-ordination of infrastructure and service provision more difficult. Informal settlements constitute approximately 70% of the land area of Lima.
- Rural areas are a key source of wealth and income for the country, and exports from rural areas have diversified over the past decade. Although many of these rural areas are rich in resources, the people living there are generally poorer. Poverty is becoming more concentrated in fewer and predominantly rural places. In half of Peru's provinces, over 20% of children below five suffer from chronic malnutrition. Growth policies which can better link the endogenous assets of these places to employment and business development opportunities are needed.
- The institutional framework for urban and rural policies is fragmented and there is a lack of effective mechanisms to co-ordinate and align planning and resource allocation. Policy and planning frameworks which have been developed are not connected to resource allocation decisions in a co-ordinated way, and their implementation is not consistently monitored and evaluated. There is significant variation in how policies are implemented at a subnational level, and a lack of alignment between different levels of government. Regions are largely bypassed, which reduces incentives for collaboration between provincial and district municipalities.

### Key recommendations

6. The Peruvian government should develop a comprehensive approach to urban policy which builds upon the lessons of the National Urban Development Plan (NUDP) 2006-2015, and encompasses the following elements:
  - clear policy objectives and indicators, which are outcomes-based, and monitored and evaluated
  - leadership of the Presidency of the Council of Ministers and the Ministry of Economy and Finances to ensure co-ordination in urban policies across national ministries (in particular Housing, Construction and Sanitation, Transport and Communications, Environment, and Production)
  - incentives and technical assistance for provincial and district municipalities to implement planning instruments and systems for land management (land-use zoning, development approvals and cadastre)
  - enforcement of laws to protect public land and property rights, which is currently lacking
  - the incorporation of strategic spatial planning into the fiscal framework (for example funding proposals for infrastructure should be required to demonstrate alignment with strategic spatial plans)
  - incentives to encourage the matching and co-ordination of policies at the scale of functional urban areas

### Key findings and recommendations (continued)

- an articulation of how cities can contribute to national strategies to lift productivity and promote economic diversification, and an identification of the economic roles and functions of cities within Peru’s urban system.
7. In parallel with this work, the government should also work with key stakeholders to identify options for improving the governance of land use and infrastructure for functional urban areas. This includes ensuring each city has an endorsed strategic spatial plan and urban plans, and there is a co-ordinated process for linking this with investment decisions about infrastructure at a subnational and national level. The government should prioritise reforms for the metropolitan region of Lima, which will then provide lessons for improving planning and governance arrangements in intermediate cities.
  8. The development of a pro-growth rural agenda can be achieved in the following ways:
    - ensuring that the vision, objectives and priorities for rural development have a strong focus on productivity and diversification and are included in relevant policies across government (the centre of government – Presidency of the Council of Ministers and the Ministry of Economy and Finances – should work in partnership to ensure buy-in and commitment from different national ministries to this policy agenda)
    - prioritise the development of initiatives which are designed to enhance productivity and diversification opportunities for rural communities (e.g. mining, agriculture, fisheries and tourism)
    - adapt existing social programmes such as *Juntos* and better link clients with opportunities for skills development, employment and entrepreneurship (this will provide a platform to make further inroads into poverty reduction, and reduce reliance on transfers over time)
    - strengthen the role of regions in the planning and co-ordination of rural development initiatives by ensuring concerted regional development plans include a strong focus on rural economic development.

## Introduction

Peru is a territorially diverse country and cities and regions play differing roles in the country’s future development. To lift the productivity of the services sector, Lima and secondary cities will need to work better. With Lima playing such a dominant role in the economy, the productivity and well-being of the city is a national policy issue. More can be done to foster a system of cities by increasing connectivity and improving integration with rural areas. Rural areas are a key driver for the national economy with the vast majority of Peru’s exports coming from mining and agriculture. However, people living in rural areas are poorer, and low levels of human capital constrain the potential of these places to fully utilise their assets. Urban and rural policies will play a key role in harnessing the growth potential of Peru’s cities and regions.

Increasingly across OECD countries it is recognised that national governments should play a more proactive role in urban policy. Three-quarters of the population in OECD countries live in cities, and if their development is managed effectively, they can be an important source of technological development and productivity growth. Effective urban

policy requires clear differentiation and alignment between the roles of different levels of government, and mechanisms to co-ordinate “city shaping” land-use, infrastructure and environmental policies. As urban policy tends to involve trade-offs between different policy options, citizen engagement is also important to the design and implementation of policies at a metropolitan and local scale.

The national government is beginning to take a greater role in urban policy through the National Urban Development Plan (NUDP) (2006), which was developed by the Ministry of Housing, Construction and Sanitation. It has also sought to provide support for more effective planning and governance for metropolitan Lima. However, there is still very little co-ordination between the different levels of government.<sup>1</sup> Urban policy in Peru is designed and executed within a complex institutional landscape involving all levels of government to differing degrees. There is a need to better co-ordinate policies, and ensure they are linked to regulatory and budget instruments. These are common issues across OECD countries, and OECD principles and practices present some lessons and insights for policy makers in Peru as they move toward a more comprehensive urban policy for the country.

Over the past 20 years OECD countries have shifted toward a place-based approach to rural policy to better mobilise the varied assets and potential of different rural areas. This approach has a number of key features. The first is the recognition of the varied potential of different rural places linked to agriculture, tourism, extractive industries and environmental services. The second is that mobilising this potential depends on a development strategy that can influence the different factors that shape the performance of local firms (e.g. infrastructure, skills and innovation). The third is that government needs to play an enabling role by empowering local actors to design and deliver place-based rural development strategies.

These lessons can provide insights for rural policy makers in Peru in crafting a rural development agenda for the country. There currently is no clear whole-of-government policy framework or co-ordinating mechanism for rural development policies in Peru. There are many different programmes with significant resources that are designed to address poverty in rural areas, and a smaller number focused on improving agricultural productivity and natural resource use. These programmes have been able to build various constituencies of interested stakeholders and a vast network of clients receiving direct transfers. However, these resources are not effectively linked at national, regional and local level. The contemporary approach to rural development outlined in this chapter provides ideas and lessons for addressing these issues.

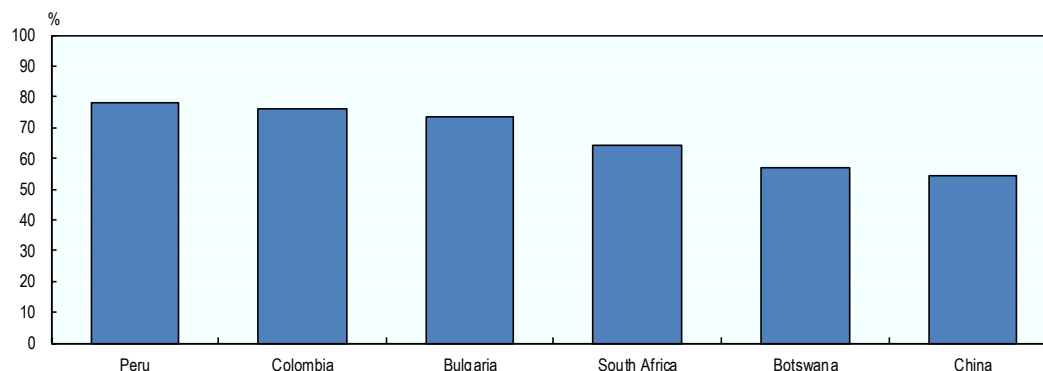
## Urban development and policies

### *Levels of urbanisation have converged to the OECD average*

Peru is a highly urbanised country when compared to other countries with similar gross domestic product (GDP) per capita. According to official definitions, 78.3% of the population lives in urban areas. The level of urbanisation has increased significantly over the past 50 years, from 46.8% in 1960 to 76.9% in 2010.

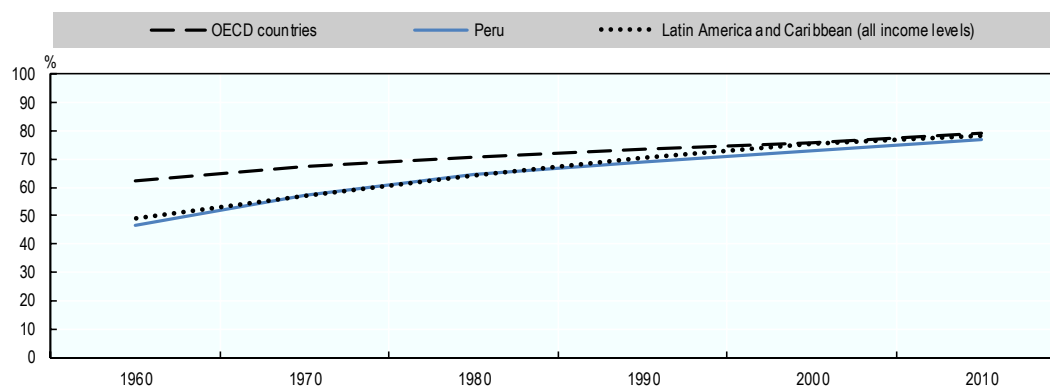
It is important to note that increasing urbanisation is not necessarily related to development. Indeed, the increasing rate of urbanisation over the past 50 years in Peru is not associated with significant advances in per capita income. While virtually all high-income countries have fairly high levels of urbanisation, not all urbanised countries have achieved high levels of income (Henderson, 2010). Unfortunately, Latin American countries are prominent among those that urbanised faster than they developed (OECD, 2014c).

Figure 3.1. Urban population as a percentage of the national population:  
Peru compared to countries with similar per capita incomes, 2014



Source: World Bank (2015), “International tourism, number of arrivals”, <http://data.worldbank.org/indicator/ST.INT.ARVL?page=4>.

Figure 3.2. Urban population as a percentage of the national population:  
Peru compared with OECD and Latin American and Caribbean countries



Note: Urban population refers to people living in urban areas as defined by national statistical offices.

Source: World Bank (2015), “International tourism, number of arrivals”, <http://data.worldbank.org/indicator/ST.INT.ARVL?page=4>.

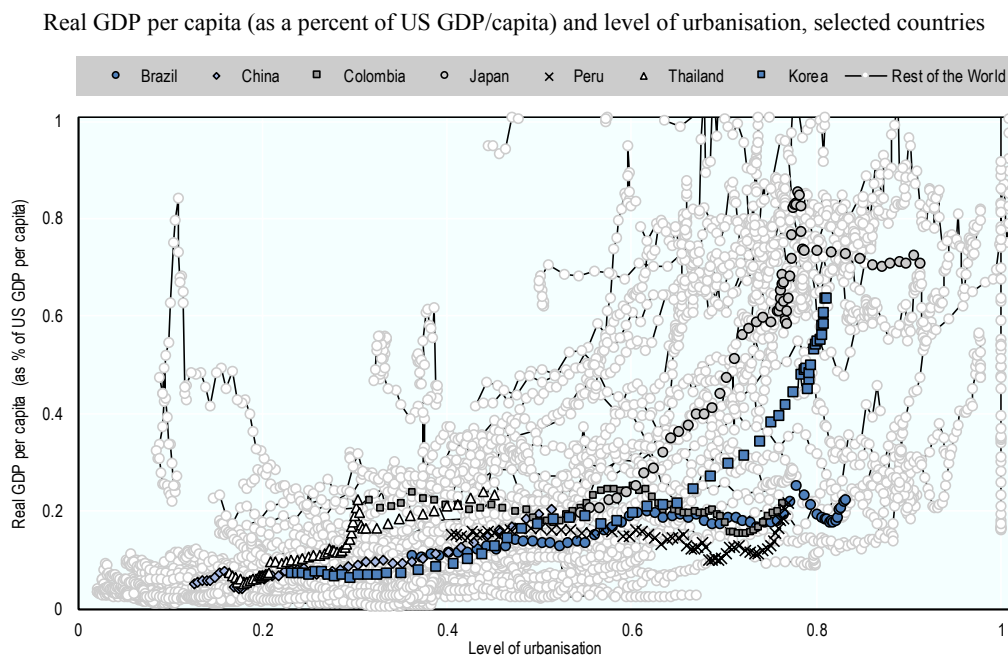
In the case of Peru, the concentration of growth in Lima is also due to a mix of historical, political and institutional factors. This includes the historical dominance of Lima in the economic and political system of Peru, and the likelihood that migration toward Lima was shaped by non-economic factors (particularly access to services). It is probably also a reflection of the lack of strategic planning and management in the growth of urban areas across the country.

### *The metropolitan area of Lima-Callao dominates the urban system*

The key feature of the urban system of Peru is the dominance of the metropolitan area of Lima-Callao with approximately 30% of the national population. Prior to European settlement, the area of Lima was an important religious and agricultural-based settlement for indigenous people. Lima was settled by the Spanish in 1535 and as the capital of the Viceroy became one of the most important cities in the Spanish empire. The key political and administrative functions for governing Latin America were located in Lima, and it

was an important economic and trading centre as mineral resources from the interior were transported through the city. The critical role and functions that Lima plays in the national economy evolved from these initial conditions.

Figure 3.3. **Urbanisation and convergence in the world**



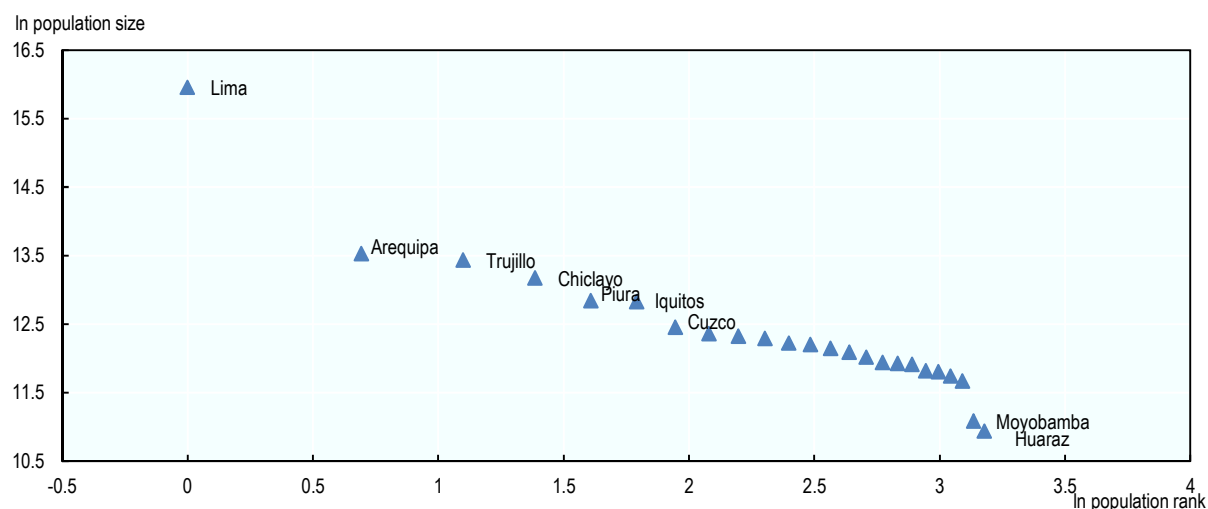
Source: Feenstra, R.C., R. Inklaar and M.P. Timmer (2015), “The next generation of the Penn World table”, [www.gdc.net/pwt](http://www.gdc.net/pwt); United Nations, Department of Economic and Social Affairs, Population Division (2014), *World Urbanization Prospects: The 2014 Revision*, <https://esa.un.org/unpd/wup/CD-ROM>.

The dominance of Lima in the urban system was also shaped by the topography of the country. Among cities with a population over 100 000, 10 are located on the coast (*costa*), 6 in the highlands (*sierra*) and only 2 in the rainforest (*selva*) (Ministry of Housing, Construction and Sanitation, 2006). These coastal cities developed because of their proximity to natural resources, and the capacity to access Lima and international markets. The fewer cities which did develop in the highlands and the rainforest were due to proximity to natural resources and key trading routes (such as Arequipa).

Detailed analysis of the urban structure of Peru is limited by the availability of descriptive statistics at the city level. The main unit of analysis is the district/municipality level drawing from the 2007 census. This data limitation reinforces the importance of improving the country’s system of territorial statistics as outlined in Chapter 1. The 2007 census accounts for 93 districts with a population greater than 50 000, with 40 located in Lima-Callao, which have a total population of 8.4 million.

The dominance of the metropolitan area of Lima-Callao is revealed when assessing the distribution of districts with a population over 50 000. The total population of these districts in Peru is 13.8 million, and 60.9% of the population living within them is located in 40 districts within Lima-Callao. The next three most-urbanised regions are Piura and La Libertad in the north of the country on the coast, and Arequipa in the south which includes both coastal and highland areas. There are 18 districts within these regions with a population over 50 000, and the total population of these districts is 1.9 million.

Figure 3.4.: Log population sizes and ranks of Peruvian cities above 50 000 inhabitants



Source: OECD elaboration.

Peru's urban structure with a single dominant city is similar to other countries in Latin America including Argentina, Chile and Uruguay. However, a key feature of Peru's urban system is the lack of secondary cities, with no other cities above 1 million people. There are two key implications of this in terms of national development:

1. The complexity and costs of improving infrastructure and services within Lima, particularly addressing investments to address overcrowding and better connecting informal settlements to the metropolitan transport network. This is likely to become more of an issue as the country's per capita income increases and the policy focus shifts to more inclusive growth.
2. Because other cities of sufficient size have not emerged, there is a lack of alternative locations for rural migration, or the capacity for a number of cities to develop different specialisations in services and manufacturing. This is a characteristic of many other countries, and as further economic activity concentrates in Lima it is likely to be further affected by overcrowding and diseconomies of scale.

Table 3.1. **Regional distribution of districts with a population over 50 000, 2007\***

| Department      | Number of districts > 50 000 | Total population |
|-----------------|------------------------------|------------------|
| Lima and Callao | 40                           | 8 431 147        |
| Piura           | 5                            | 647 517          |
| La Libertad     | 4                            | 642 820          |
| Arequipa        | 9                            | 624 848          |
| Lambayeque      | 3                            | 496 683          |
| Loreto          | 4                            | 360 314          |
| Puno            | 2                            | 333 993          |
| Junín           | 3                            | 323 054          |
| Cusco           | 4                            | 319 257          |
| Áncash          | 2                            | 305 408          |
| Ica             | 4                            | 286 983          |
| Cajamarca       | 2                            | 213 405          |
| Ucayali         | 2                            | 202 936          |
| Tacna           | 2                            | 154 953          |
| Huánuco         | 2                            | 129 303          |
| Ayacucho        | 1                            | 97 390           |
| Tumbes          | 1                            | 91 365           |
| San Martín      | 1                            | 67 362           |
| Moquegua        | 1                            | 58 649           |
| Madre de Dios   | 1                            | 56 382           |
| Total           | 93                           | 13 843 769       |

Note: \* Last census, population projections can be found at: <http://proyectos.inei.gob.pe/web/biblioineipub/bancopub/Est/Lib1010/index.htm>.

Source: CEPLAN (2015), “Background report for National Territorial Review of Peru”, unpublished.

As a result, policy makers need to primarily consider Lima as a separate case in designing national policies. This also emphasises the importance of improving the growth planning and management of other cities in Peru, and examining ways to better link these cities with the metropolitan area of Lima-Callao. Through better connections these cities can benefit more from the agglomeration effects generated by the capital.

Although the proportions are still rather small compared to Lima, some secondary cities such as Arequipa, Trujillo or Chiclayo have been capturing some of the rural migration. An important number of the latter nonetheless end up moving to Lima, and those that stay do so in cities that have not planned their growth and often in informal settlements, as it has been the case in Lima.

### ***People living in urban areas enjoy higher standards of living but cities are not performing to their potential***

In terms of labour productivity (measured by regional gross value added [GVA] per worker), urban areas are not performing strongly. Five out of the nine regions above the national average do not have significant urban agglomerations within them (Moquegua, Ica, Madre de Dios, Tacna and Pasco). In terms of regions with larger urban populations, Lambayeque, Loreto, Puno and Junín performed poorly. Although Lima is the third-best performer, it is not performing that well considering the size of its population and the industry mix. This reinforces the point that the sources of Peru’s growth are largely exogenous through the demand and price for commodities. The drivers of growth are far less urban than the level and scale of urban populations, and the structure of employment and activity would suggest.



### Box 3.1. Connectivity and fostering a system of cities

Because cities do not exist in isolation, connectivity at all scales is increasingly important to the performance of national urban systems. This, too, is an area where national policies matter. A number of national governments have considered improving transport both within and among metropolitan areas to boost development potential. National decisions about major infrastructure networks can have a tremendous impact on cities' competitiveness and growth potential, particularly in countries where decision-making authority over national infrastructure is held tightly at central government level. In many OECD countries, for example, the location of airports remains a matter for national governments. Inter-city road and rail networks are likewise generally planned by senior governments.

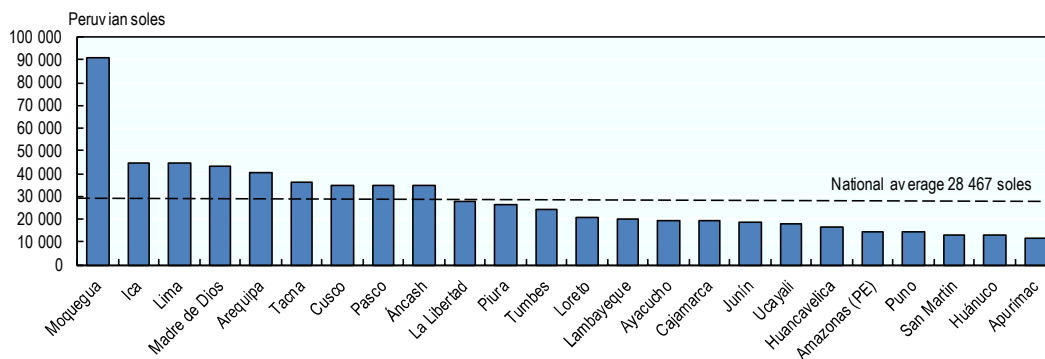
Much depends on how governments assess potential investments in new infrastructure. In the United Kingdom, for example, critics have long argued that the kinds of cost-benefit analysis typically employed focus too much on resolving immediate constraints and too little on growth potential. The result is that in the most recent period, as much as 80% of major transport infrastructure spending was earmarked for London and the South-East, compared to just 6% for the North (NEFC, 2012; HM Treasury, 2011).

National governments also play a major role in intra-urban transport. This is the case partly because their financial support is often required for major infrastructure investments and partly because higher level governments sometimes have to step in to assure co-ordination of transport networks at metropolitan or regional scales, which transcend the boundaries of individual municipalities.

Some governments foster systems of cities by establishing stronger links between cities of varying sizes, particularly through transport. Governments may set targets for cities to fulfil different roles (e.g. "Innovation Cities", "Enterprise Cities", "Eco-Towns") or increase linkages between metropolitan areas and smaller cities within a larger region (e.g. proposals for the Seine valley axis between Paris and Le Havre). National governments can also support the development of urban transport networks in metropolitan areas. In 2008, the French government's proposal to boost the economic competitiveness of the Paris metro region through the Greater Paris Plan (*Grand Paris*) centred on the development of a new high-speed underground transport line to connect Paris' suburbs (Kamal-Chaoui and Plouin, 2012).

Source: OECD (2014a), *OECD Regional Outlook 2014: Regions and Cities, Where Policies and People Meet*, <http://dx.doi.org/10.1787/9789264201415-en>.

Figure 3.5. GVA per worker: Peru's regions, 2013

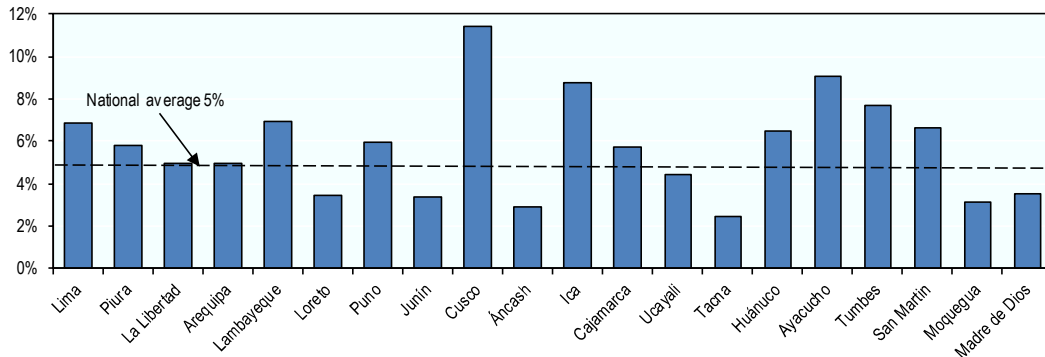


Source: OECD analysis based on data from INEI.

Cities are also not performing strongly in terms of their rate of economic growth. In the period 2007-13, the more urbanised regional economies of Cusco (11%), Ica (9%) and Lambayeque (7%) performed well above the national average of 5% average annual

growth rate in GVA. Lima also performed relatively strongly with an annual average growth rate of 7%. Other regions with larger urban populations performed at or below the national average: La Libertad (5%), Arequipa (5%), Loreto (3%), Junín (3%) and Áncash (3%). Regions with a smaller urban population such as Ayacucho (9%), Tumbes (8%), Huánuco (7%) and San Martín (7%) also performed strongly. Although rural-based industries are important to regional economic performance, these findings also suggest that some of the secondary cities in Peru are also underperforming.

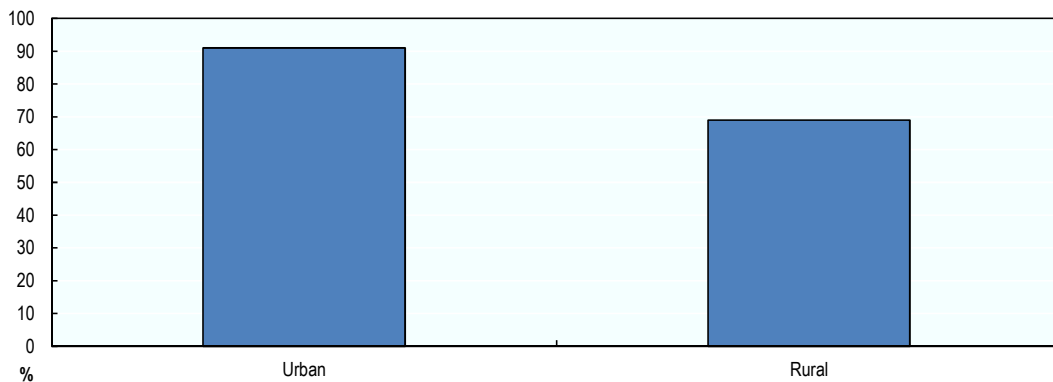
Figure 3.6. Average annual growth (GVA) for regions compared to the national average, ranked by total population in urban districts



Source: OECD analysis based on data from INEI.

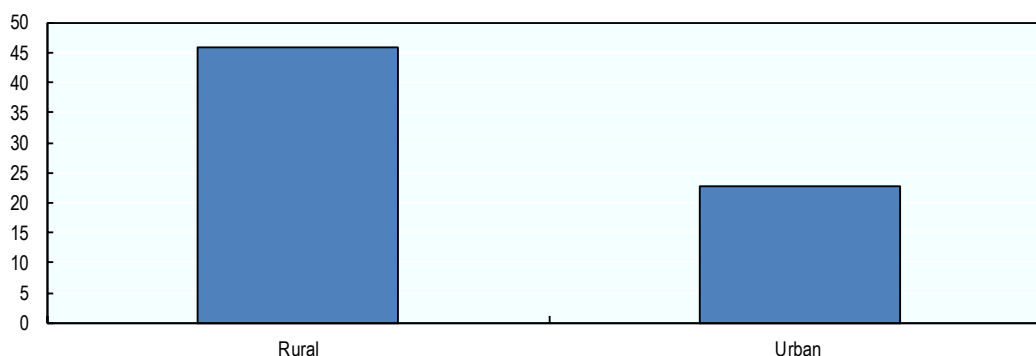
Regardless of this mixed performance, people living in urban areas generally experience higher standards of living. This is apparent in differences between urban and rural areas in terms of access to basic services and levels of poverty. These differences also suggest that access to public services and infrastructure has been an important factor in shaping migration trends in Peru.

Figure 3.7. Access to improved water sources, urban and rural areas, Peru, 2015



Source: World Bank (2016a), Improved water source, urban and rural (% population with access), <http://databank.worldbank.org/data/reports.aspx?source=2&series=SH.H2O.SAFE.UR.ZS&country=>

Figure 3.8. Percentage of the population living below national poverty lines, 2014



Source: World Bank (2016 b). Rural poverty headcount at national poverty lines (% of rural/urban populations) <http://databank.worldbank.org/data/reports.aspx?source=2&Topic=11>.

As the economy continues to transition, the productivity performance of Lima and other cities will become more important to aggregate growth. Cities are important to productivity growth, particularly in terms of the services sector, because they can enable easier interactions between firms and workers (OECD, 2014a). The ease of these interactions depends, in turn, on how cities are organised and the functioning of the transport network.

### Box 3.2. Agglomeration economies

Economic activity is not naturally dispersed; rather it tends to concentrate in some places rather than others, mainly owing to the benefits associated with economies of agglomeration. People want to live where firms – and therefore job opportunities – are concentrated, and firms want to locate where demand – and therefore population – is large. Agglomeration economies occur when firms enjoy increasing returns to scale (IRS) in a particular place. Some of these IRS effects are internal to the firm while others are externalities. Often, these external effects are reciprocal, at least to some degree – that is, agents are not compensated for the benefits they generate for their neighbours, but neither do they have to compensate others when they themselves benefit from positive externalities. The reciprocal effects are one of the main reasons why clusters form and flourish.

IRS could arise in a place because of the presence of natural advantages (i.e. natural resources, location, etc.), monopolistic protection, political factors (e.g. the decision to create a capital city or administrative centre) or some other reason. The presence of IRS also induces other firms to locate there, as people come in search of higher wages, a wider range of job opportunities, and better/more varied amenities and consumption opportunities. Part of the advantage of large cities thus stems from their attraction for high productivity firms and for individuals with high levels of human capital; in other words, a selection effect is at work. However, there is clear evidence that this selection process is magnified by agglomeration dynamics: other things being equal, individuals and firms become more productive in denser places. This reflects the opportunities that cities afford for sharing assets, improving matches on the labour market and knowledge diffusion. The result of these combined selection effects and agglomeration dynamics is that cities tend to be more productive, on average, than non-urban places (the major exceptions tend to be resource-rich rural regions). They have higher incomes and higher GDP per capita. Three main mechanisms work to produce agglomeration economies:

### Box 3.2. Agglomeration economies (*continued*)

#### 1. Mechanisms that deal with sharing of:

- Indivisible facilities such as local public goods or facilities that serve several individuals or firms. Some examples, other than public goods, are facilities such as laboratories, universities and other large goods that do not belong to a particular agent but where some exclusion is implicit in providing them.
- The gains from the wider range of input suppliers that can be sustained by a larger final goods industry. In other words, the presence of increasing returns to scale, along with forward and backward linkages, allow firms to purchase intermediate inputs at lower costs. While the literature has tended to focus on the variety of inputs available, a variety of potential suppliers is also good for firms, in that it is likely to lead to lower prices (more competition) and less risk of disruption if an upstream firm is distressed (redundancy in markets). The latter issue is particularly relevant in low-density places, where long supply chains and a lack of such redundancy can render firms vulnerable – and may in some cases prompt greater vertical integration than would be efficient in a denser place.
- The gains from the narrower specialisation that can be sustained with higher production levels. Several firms specialise in producing complementary products, reducing overall production costs.
- Risks. This refers to the idea that an industry gains from having a constant market for skills. If there are market shocks, firms can adjust to changes in demand if they have access to a deep and broad labour market that allows them to expand or contract their demand for labour.

#### 2. Matching mechanisms by which:

- Agglomeration improves the expected quality of matches between firms and workers, so both are better able to find a good match for their needs.
- An increase in the number of agents trying to match in the labour market also improves the probability of matching.
- Delays are alleviated. Contractual problems arising from renegotiation among buyers and suppliers can potentially result in one of the parties losing out to the other party in a renegotiation. However, if the agglomeration is extensive enough, agents can find an alternative partner.

#### 3. Learning mechanisms based on the generation, diffusion and accumulation of knowledge. This refers not only to the learning of technologies, but also the acquisition of skills.

OECD metropolitan regions benefit from agglomeration effects and thus tend to display higher levels of productivity, higher rates of employment and higher levels of GDP per capita than other regions. These benefits, however, are limited by congestion costs, diseconomies of scale and oversupply of labour, among other potential negative elements, and many metro regions have in recent decades tended to underperform national economies.

Source: OECD (2014c), *OECD Territorial Reviews: Colombia 2014*, <http://dx.doi.org/10.1787/9789264224551-en>.

Reshaping cities to realise these agglomeration benefits depends upon effective co-ordination between land use and infrastructure policies across levels of government

(OECD, 2014c). A larger number of stakeholders can increase the degree of complexity in policy co-ordination, and small municipalities can also fail to account for metropolitan-wide benefits in decision making about land use and infrastructure (OECD, 2015). These complexities can generate costs and empirical evidence suggests that administrative fragmentation can reduce productivity (Ahrend et al., 2014).

The governance landscape in Lima is complex. There are a number of national ministries which have responsibility for urban infrastructure and land-use policies including the Ministry of Housing, Construction and Sanitation; the Ministry of Development and Social Inclusion; the Ministry of Transport and Communications; and the Ministry of Production. The municipality of metropolitan Lima has the third-largest administrative area of any city in Latin America and includes 43 municipal districts. Callao is functionally integrated with Lima and is overseen by a different provincial government. There are also different entities involved in the planning, construction and operation of different elements of the transport network.

Table 3.2. Land area of Latin American cities

| City                     | Land area (km <sup>2</sup> ) |
|--------------------------|------------------------------|
| Sucre (Bolivia)          | 11 800                       |
| Brasilia (Brazil)        | 5 802                        |
| Lima (Peru)              | 2 670                        |
| Mexico City (Mexico)     | 1 485                        |
| Caracas (Venezuela)      | 777                          |
| Bogota (Colombia)        | 776                          |
| Santiago (Chile)         | 641                          |
| Quito (Ecuador)          | 352                          |
| Buenos Aires (Argentina) | 202                          |
| Montevideo (Uruguay)     | 200                          |
| Asuncion (Paraguay)      | 117                          |

Source: Data from Municipalidad Metropolitana de Lima.

Issues related to a lack of effective co-ordination between land use and infrastructure is apparent in patterns of urban growth within the metropolitan area of Lima. Lack of clarity in land use, infrastructure and housing policies has resulted in the development of an unequal city with insufficient provision of public infrastructure and services for a significant proportion of the population. Informal settlements constitute approximately 70% of the urban land area of the metropolitan region (DCC and MEF, 2014). People living in these informal settlements lack access to basic services, which creates barriers for participation in economic and social participation. Due to lack of land availability, the formal city is increasing in density, and this is placing further pressures on water and sewerage systems, and the transport network.

Table 3.3. Service gap in informal settlements

| Availability of public services | Service gap |
|---------------------------------|-------------|
| Drinkable water                 | 62.2%       |
| Rain drainage                   | 12.9%       |
| Sewage system                   | 61.1%       |
| Domestic/public lighting        | 73.1%       |
| Street paving                   | 16.0%       |
| Phone coverage                  | 94.9%       |
| Internet coverage               | 60.7%       |

Source: CEPLAN (2015), “Background report for National Territorial Review of Peru”, unpublished.

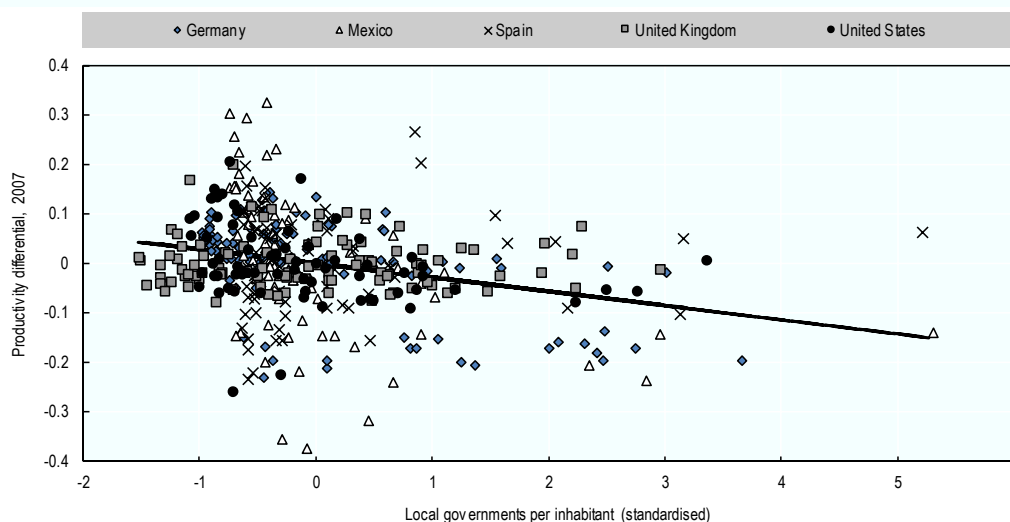
### Box 3.3. The price of administrative fragmentation in metropolitan areas

Metropolitan areas frequently contain more than 100 local governments. This degree of administrative fragmentation might create positive outcomes. Improvements can arise if competition among local administrations results in better services provided by the local governments or reduces the costs paid by residents through local taxes. But administrative fragmentation also adds a degree of complexity to the design and implementation of policies that require co-ordination, which can stymie the productivity of urban agglomerations. Particularly fields that require co-ordination at the metropolitan scale, such as land-use or transport planning, or economic policies that create externalities across administrative borders, are adversely affected by administrative fragmentation and result in a “price” that metropolitan areas have to pay when their administrative boundaries differ strongly from their economic realities.

Ahrend et al. (2014) quantify the impact of administrative fragmentation. Using a two-step estimation procedure, they first estimate the relative productivity of functional urban areas (FUAs) from micro-data on employees’ earnings. These differentials indicate how much more (or less) a worker with the same characteristics earns in different FUAs. Assuming that labour markets are competitive, these differentials capture how much productivity differs across FUAs. In the second step, the productivity differentials are explained by characteristics of FUAs that influence the productivity of the workforce. These characteristics include the FUA’s size (to capture agglomeration benefits), its industrial structure and degree of specialisation, and an indicator for capital cities and port cities. Crucially, Ahrend et al. (2014) also control for the degree of administrative fragmentation and the presence of a metropolitan governance body.

Ahrend et al. (2014) find a strong negative impact of administrative fragmentation on productivity. Their results also show that metropolitan governance bodies, which are present in many OECD metropolitan areas, can help alleviate the “price”. The empirical results indicate that for two metropolitan areas of similar size and population composition in terms of observable characteristics, but with one having twice the number of municipalities, the productivity in the more fragmented metropolitan area is about 6% lower. Governance bodies are estimated to reduce the penalty to about half its size.

Figure 3.9. Administrative fragmentation and productivity



It is important to note that these results are not the same for rural areas. Reducing administrative fragmentation in rural areas tends to produce no or detrimental results in terms of economic growth. This is due to the increased distances required to administer and deliver public infrastructure and services in low density areas.

Sources: Ahrend, R. et al. (2014), “What makes cities more productive? Evidence on the role of urban governance from five OECD countries”, <http://dx.doi.org/10.1787/5jz432cf2d8p-en>; Bartolini, D. (forthcoming), “Fiscal decentralisation and regional disparities: The role of fiscal vertical imbalances”.

These *ad hoc* patterns of urban growth and development have also led to an increasing problem of traffic congestion, which is impacting upon the productivity and

liveability of Lima-Callao. Between 1989 and 2012, annual motorised trips increased by 10 million, and there has been an increase from 1.1 trips per inhabitant to almost 2 trips per inhabitant (OECD, 2016). This increase in car use and mobility is generating negative externalities. It is reducing accessibility to jobs by increasing travel times (on average by 20% between 2004 and 2012); higher levels of pollution which is presenting public health risks; and deaths, injuries and disabilities caused by traffic accidents (OECD, 2016). Better integration of land use and transport planning to encourage a more efficient and sustainable urban form for Lima-Callao is a key challenge.

### ***National governments have an important role in shaping urban development outcomes***

There is no single definition for urban policies, and how these policies are conceived and delivered differs between countries. In the post-war period, many OECD countries developed national spatial planning frameworks to address inequities in the distribution of economic activity and welfare between regions. There has been a general trend toward urban policies which are more orientated toward the growth and competitiveness of cities, rather than distributional outcomes between cities and regions (OECD, 2006). Cities have developed strategic planning frameworks, which provide guidance for decisions about the location of businesses, housing, public services and transport infrastructure. There has been a growing recognition about the importance of how cities are organised to productivity, environmental sustainability and inclusive growth (OECD, 2015).

National governments play an important role in urban development policy. Their first role is establishing the ground rules for cities (OECD, 2014a). National legislation typically defines cities' responsibilities, powers and revenue sources. This basic legislative framework is overlooked and the main elements are outlined below.

- Tax and budgetary frameworks, which may create powerful incentives that contradict other national policy priorities, such as promoting urban sprawl. For example, property tax systems can make greenfield development more attractive to cities than infill (Merk et al., 2012). Where property taxes are levied chiefly on buildings and other improvements rather than land values, as is the case across much of the OECD, those who hold good sites for infill but do not use them are taxed very little and it is often more profitable for new developments to take place on greenfield sites.
- Fiscal frameworks can also reinforce urban inequalities. In Chile, for instance, rules governing subnational governments' access to credit for capital investment projects require municipalities to demonstrate an ability to reimburse the credit within a specified timeframe. This favours wealthier municipalities and increases inequalities in service provision within and across metro areas (OECD, 2013a). More generally, mechanisms like performance-based grants, which are used in many OECD countries, can reinforce inter-municipal inequalities by ensuring that those with more resources and better capacities are better able to “play the game” (Steffensen, 2010).
- National policies also define to a great extent the terms on which inter-jurisdictional competition takes place. Some forms of competition are healthy and can drive cities to improve services and amenities in an effort to attract firms and households (Tiebout, 1956). Others, though, are undesirable and

can encourage attempts to externalise tax burdens, to entrench spatial inequalities or to engage in a regulatory “race to the bottom” (Spink, Ward and Wilson, 2012).

Secondly, national governments are responsible for sectoral policies that impact urban development (e.g. education, transport and health), and also develop explicit urban policies. Many national urban policies tend to focus on problems rather than potential (OECD, 2014a). They are frequently conceived in response to specific urban problems, such as social exclusion, infrastructure bottlenecks or a deliberate desire to steer settlement patterns across the national territory (Le Galés, 2007). The broader needs of cities are thus overlooked by a problem-focused concept of urban policies and a lack of recognition of other policies with important urban impacts.

Table 3.4. **Complementarities among selected policies in urban areas**

| Policy   | Impact  |   |  |
|--|---|---|--|
|  | Land-use zoning   | Transportation  | Natural resources  |
| Land-use zoning<br><i>Land-use zoning determines the density, height of buildings and proportion of undeveloped land on each property.</i>       |   | Segregation of land uses impacts travel distances and frequency; transit-oriented development zones encourage use of mass transportation. | Zoning designates natural resource areas that may be set aside to reduce vulnerability to flooding or urban heat island effects. |
| Transportation<br><i>Transportation policies determine the development and extension of road and mass transportation networks.</i>               | Transportation infrastructure policies shape demand for land and acceptance of density increases.                         |   | Transportation systems impact natural resources and preserved zones.   |
| Natural resources<br><i>Natural resource policies determine which areas are preserved from development and what uses are acceptable on them.</i> | Natural resource policies determine the limits of developed land-use zones and can improve quality of high-density zones. | Natural resource policies affect the placement of road and mass transportation infrastructure.  |  |

Source: Based on Kamal-Chaoui, L. and A. Robert (2009), “Competitive cities and climate change”, <http://dx.doi.org/10.1787/218830433146>.

Thirdly, higher levels of government can play an important role in terms of encouraging co-ordination amongst subnational governments. There has been increasing attention in recent years to the benefits of governing cities as functional economies rather than administrative units (OECD, 2014a). The greater Chicago tri-state area in the United States, for example, is home to no fewer than 1 700 municipalities and other special purpose governmental authorities. Even relatively modest-sized urban agglomerations are often quite fragmented. The evidence suggests that leadership from higher levels of government is often required to bring about the cross-jurisdictional co-operation among municipalities that is needed in complex metropolitan areas (OECD, 2013c).

### ***National urban policies are designed and executed within a complex institutional landscape***

In Peru, there are nine national ministries which have competencies related to the provision of infrastructure and the use of land, and therefore have a direct impact upon the form and structure of urban areas. This is comparable to OECD countries where the average government had 6.7 ministries or national level departments or agencies with



explicit urban policy functions (OECD, 2014a). Some of these national ministries in Peru potentially have overlapping or closely related responsibilities in terms of:

- strategic spatial planning (Housing, Construction and Sanitation, and Environment with the PCM-CEPLAN playing a key role in national and regional development planning which also relates to cities)
- the regulation of land use (Ministries of Housing, Construction and Sanitation; Environment; Agriculture and Irrigation; and Culture)
- infrastructure planning and regulation (Ministries of Transport and Communications, Education, Health).

These policy areas have important complementarities that need to be considered systematically by policy makers.

Table 3.5. **Roles and responsibilities of national ministries in relation to urban policy**

| National ministry                               | Roles and responsibilities  |
|---|---|
| Housing, Construction and Sanitation            | – Policies related to housing, construction, sanitation, public buildings and urban property<br>– National urban policy guidelines and planning legislation ( <i>ordenamiento urbano</i> )  |
| Ministry of Economy and Finance                 | – National budgeting responsibilities<br>– Instruments to assess subnational performance and investment proposals (SNIP)<br>– Oversight of public private-partnerships (PPPs)   |
| Environment                                     | – National land-use planning guidelines and regulations ( <i>ordenamiento territorial</i> )<br>– National environmental planning and regulation<br>– Guidance and technical tools for environmental planning at regional and municipal levels |
| Presidency of the Council of Ministers (CEPLAN) | – National development planning, and guidance and tools for the development of concerted regional development plans   |
| Transport and Communications                    | – National policies regulating transport and communications<br>– Management of the national highway network   |
| Culture   | – Management of cultural heritage   |
| Agriculture and Irrigation                      | – Soil management, regulation and use   |
| Education                                       | – Policies and programmes related to the provision of education infrastructure  |
| Health  | – Regulations and provisions related to water supply, sewerage and solid waste disposal   |
| Defence   | – Reservation of land for defence purposes  |

Source: OECD analysis based on information provided by CEPLAN.

In addition, the MEF has a responsibility for assessing budgetary proposals from national ministries and subnational governments. Several other ministries have sectoral policies, regulatory responsibilities and programmes that also impact upon cities. This includes the Ministry for Social Inclusion and Development, the Ministry of Production, the National Council for Competitiveness, and, with more cross-cutting responsibilities, the Decentralization Secretariat of the Presidency of the Council of Ministers (PCM). Overall, this emphasises the importance of co-ordination amongst national ministries to ensure policies are complementary for working toward common urban development policy objectives.

Co-ordination and alignment between levels of government is essential for delivering urban policies (OECD, 2014a). This is especially true for Peru in terms of co-ordination between provincial and district municipalities, which both play an important role in developing land-use plans and infrastructure at a local level. Each provincial municipality has the role of developing a spatial plan for their territory and supervising regulatory provisions related to it. District municipalities also prepare local plans, and have responsibility

for administrating regulatory instruments related to land use, building and infrastructure. There is also scope for district municipalities to co-operate a project level through *mancomunidades*, which is a legal instrument that enables inter-municipal co-operation and joint ventures. In turn, this raises the importance of co-ordination and alignment with the regional and national level, particularly when considering there are 196 provinces and 1 867 district municipalities in Peru.

Table 3.6. **Roles and responsibilities of provincial municipalities in relation to urban policy**

| Functions of provincial and district governments | Roles and responsibilities  |
|--|---|
| Exclusive functions of the provincial level      | <ul style="list-style-type: none"> <li>– Territorial Conditioning Plan that identifies areas for urban and rural land use, areas of protection or security from natural hazards, agricultural areas and areas of environmental conservation.</li> <li>– Approve the plans of metropolitan development and of urban development, the Rural Development Plan, the zoning scheme urban areas, the Development Plan on Human Settlements and other specific plans in accordance with the Territorial Conditioning Plan.</li> <li>– Supervision of the district municipalities in regards to regulatory approvals related to these plans including land use, building and environmental assessment.</li> </ul> |
| Functions shared by the provincial level         | <ul style="list-style-type: none"> <li>– Co-ordination of infrastructure works that impact upon multiple district or provincial municipalities.</li> <li>– Design and promote the implementation of municipal housing programmes for low-income families.</li> </ul>  |

Source: OECD analysis based on information provided by CEPLAN.

Table 3.7. **Roles and responsibilities of district municipalities in relation to urban policy**

|   |   |
|---|---|
| Exclusive functions of the district level | <ul style="list-style-type: none"> <li>– Approve the urban or rural district plan, as appropriate, subject to approvals from the provincial municipality for regulations they are responsible for.</li> <li>– Authorise and oversee the implementation of the plan of works for public and private services ensuring compliance with the rules on environmental impact.</li> <li>– Develop and maintain the district land register.</li> <li>– Promote the development and formalisation of human settlements.</li> <li>– Regulatory approvals related to building, land use, communications and infrastructure.</li> </ul> |
| Functions shared by the district level    | <ul style="list-style-type: none"> <li>– Provision of urban and rural infrastructure essential for the development of the district, in co-ordination with the respective provincial municipality.</li> <li>– Identify dilapidated property and land in which urban renewal tasks be carried out in co-ordination with the provincial municipality and the regional government.</li> <li>– In consolidating rural property, the Commission to Formalise Informal Property will act as a technical advisory body of local governments, for which the respective agreements will be signed.</li> </ul>                         |

Source: OECD analysis based on information provided by CEPLAN.

The regional level of government has a smaller role than other levels of government in urban policy matters. Regions are required to prepare concerted regional development plans, which provide an overarching policy framework for the development of the region. They also have a role in the implementation of regional infrastructure and economic development initiatives. However, regional governments do not endorse or monitor planning frameworks at a provincial level, and lack the financial resources that would provide incentives for collaboration. The national government also allocates and distributes resources directly to provinces and municipalities, which bypasses the regional level.

In sum, urban policies in Peru are designed and executed within a complex institutional environment which emphasises the importance of co-ordination and alignment between sectoral policies and levels of government. At a national level there are shared responsibilities for strategic spatial planning and infrastructure provision which directly affects the development of cities. In this context, co-ordination between different national ministries, alignment of policy objectives and consistency in how these

policies are administered at the subnational level is important. Provincial governments have important roles related to their strategic, supervisory and co-ordinating functions with districts that have a key implementation role. At the local level, co-ordination and alignment will also be important to achieving urban policy outcomes. The regional level of government is largely absent from urban policy matters, and there are not effective mechanisms in place to co-ordinate planning and investment at this scale. The following sections will examine how urban policies are operationalised within this complex institutional environment.

***The implementation of national urban policies depends upon effective multi-level governance and capacity at a subnational level, which is lacking***

The national government has begun to take steps to develop a better policy framework for managing urban growth and development. The NUDP (2006-15) provides broad policy guidance in relation to the development of policies to manage the growth of cities. It describes the urban system of Peru as: 1 national metropolis (Lima); 3 regional metropolises; and 33 intermediate cities with populations greater than 50 000. It is important to note that only two cities (Lima and Arequipa) currently have metropolitan plans.

The NUDP identifies four broad principles for urban development: 1) governance and governability; 2) connectivity, networks and fluxes; 3) productive specialisation, articulation and innovation; and 4) sustainability and competitiveness. The strategies set out in the NUDP also focus on guidance and tools related to planning at a subnational level. This includes the development of feasibility studies, and departmental or provincial plans required by law, and training and capacity-building initiatives associated with delivering them. The cost estimate at the time for implementing these initiatives was approximately USD 80 million.

One of the key issues related to these planning frameworks and tools is the capacity of subnational governments to design and implement them. The implementation of planning frameworks at a subnational level has been inconsistent. The budget attached to the NUDP earmarked close to USD 17 million for the technical formulation of 80 urban development plans in larger districts (population above 20 000) and 194 provincial plans (*planes de acondicionamiento/ordenamiento territorial*). However, these planning frameworks have only been partially implemented.

An evaluation of planning frameworks at a local level reveals these implementation problems. Concerted development plans (*planes de desarrollo concertado*) are required to access fiscal transfers and the vast majority (94%) of districts with a population over 50 000 has one. However, the proportion of these districts implementing planning frameworks which guide land use and infrastructure is much lower. For example, over half (53%) of districts with a population over 50 000 do not have an urban development plan (*plan de desarrollo urbano*) as the main tool in regulating, among other things, the crucial issues of zoning and land use.

These implementation problems are also apparent at a provincial level. Territorial conditioning plans (*plan de acondicionamiento territorial*) are important because they provide a basis for land-use planning at a provincial level, and the co-ordination of planning and decisions about land use at a district level. However, only 22% of districts have completed these plans. Arequipa is one city which prevented districts from enacting planning functions until their provincial development plan was completed, although given this analysis, it is unlikely this is occurring across other areas in Peru.

Table 3.8. **Proportion of districts with a population over 50 000 that have implemented urban development plans**

| Department    | Number of districts > 50 000 | Concerted municipal development plan | Urban development plan | Road plan | Plan of territorial conditioning |
|---------------|------------------------------|--------------------------------------|------------------------|-----------|----------------------------------|
| Áncash        | 2                            | 50%                                  | 50%                    | 50%       | 0%                               |
| Arequipa      | 9                            | 100%                                 | 56%                    | 22%       | 11%                              |
| Ayacucho      | 1                            | 100%                                 | 100%                   | 0%        | 100%                             |
| Cajamarca     | 2                            | 100%                                 | 50%                    | 50%       | 50%                              |
| Callao        | 4                            | 75%                                  | 50%                    | 50%       | 0%                               |
| Cusco         | 4                            | 100%                                 | 100%                   | 0%        | 75%                              |
| Huánuco       | 2                            | 100%                                 | 0%                     | 50%       | 0%                               |
| Ica           | 4                            | 75%                                  | 50%                    | 50%       | 25%                              |
| Junín         | 3                            | 100%                                 | 33%                    | 33%       | 0%                               |
| La Libertad   | 4                            | 100%                                 | 50%                    | 0%        | 0%                               |
| Lambayeque    | 3                            | 100%                                 | 33%                    | 0%        | 0%                               |
| Lima          | 36                           | 94%                                  | 31%                    | 33%       | 19%                              |
| Loreto        | 4                            | 75%                                  | 50%                    | 25%       | 0%                               |
| Madre de Dios | 1                            | 100%                                 | 100%                   | 100%      | 0%                               |
| Moquegua      | 1                            | 100%                                 | 100%                   | 0%        | 100%                             |
| Piura         | 5                            | 100%                                 | 40%                    | 20%       | 20%                              |
| Puno          | 2                            | 100%                                 | 100%                   | 50%       | 0%                               |
| San Martín    | 1                            | 100%                                 | 100%                   | 0%        | 100%                             |
| Tacna         | 2                            | 100%                                 | 50%                    | 0%        | 50%                              |
| Tumbes        | 1                            | 100%                                 | 100%                   | 100%      | 100%                             |
| Ucayali       | 2                            | 100%                                 | 100%                   | 50%       | 0%                               |
| Total         | 93                           | 94%                                  | 47%                    | 30%       | 20%                              |

Source: CEPLAN data.

Given the importance of Lima to the national economy, it is important to understand how these issues are playing out in the capital. The governance of the metropolitan region of Lima (or the functional urban area) is complex. The contiguous urban area of Lima incorporates a large proportion of the region of Lima, and the constitutional province of Callao, which also has the status of a region. The provincial municipality of Lima incorporates 43 districts within this urban area. Lima Metropolitana has been established to provide improved co-ordination in relation to urban planning and economic development and covers the constitutional province of Callao and the province of Lima.

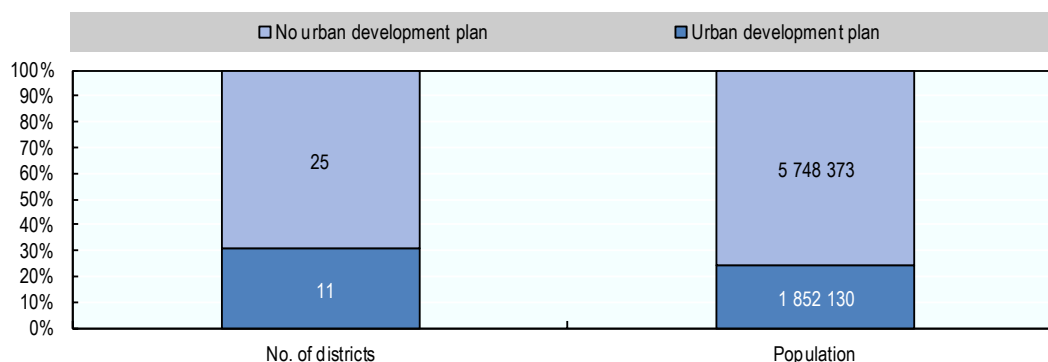
Although Lima has a metropolitan plan, less than 30% of the main Lima districts (representing only 25% of the 7.6 million of their population) have developed and approved an urban development plan. The lack of these basic land management tools contributes, among other things, to inefficient land markets and overcrowding of public infrastructure and services.

There are also a number of barriers and limitations related to metropolitan-scale planning and decision making. The implementation of the Lima-Callao Metropolitan Development Plan 1990-2010 (extended to 2012) provides some lessons in relation to these problems. The new planning document that inherited its legacy (*Plan Regional de Desarrollo Concertado de Lima 2012-2025*), identifies a number of factors that affected implementation.

- the recentralisation of decision making to the national government, which continued until the early 2000s

- the retention of key competencies and functions in urban and territorial development, such as water management; state-owned and agricultural land management; mass transport systems; fiscal and legal management of informal settlements
- Decree No. 776 approved in 2002 that distributed the FONCOMUN redirected funds from provincial municipalities directly to districts, weakening the financial and administrative functioning of the provincial municipalities
- the failure to reorganise urban growth and city management according to the “polycentric city” paradigm, conceived for Lima more than 20 years ago
- the absence of effective decision-making capability at a metropolitan scale, which would allow governing and co-ordinating municipal districts on matters and competencies of metropolitan relevance.

Figure 3.10. Availability of urban development plans in Lima’s main districts



Source: Elaboration based on data from the Ministry of Economy and Finance (2014).

The effective delivery of Lima’s new Metropolitan Plan will require a high level of co-ordination and alignment between different policy actors. The plan is based around a broad set of economic, social and environmental objectives. They are: inclusivity and equity, patrimonial and creative, sustainable, safe and resilient, compact, integrated, polycentric, and competitive and dynamic – positioning Peru as a global player (Municipalidad Metropolitana de Lima, 2016). The plan sets out a vision for the future urban structure of Lima in terms of transport, land use, open space, and energy and water infrastructure. These policy areas cut across the responsibilities of all levels of government in Peru.


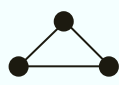
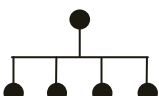
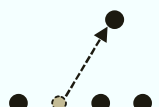
There are a number of problems with existing governance arrangements that will need to be overcome to realise this urban development vision. The first is lack of effective mechanisms to ensure systemic co-ordination of planning and investment decision making between the region of Lima and the Constitutional Province of Callao. The second is the lack of fiscal resources and incentives for Lima Metropolitana to effectively co-ordinate urban districts within the department of Lima. Although Lima Metropolitana is responsible for metropolitan-scale planning, investment decisions are taken at the local level, and there are not any mechanisms to ensure alignment of decision making. The third is the problems at the district level where the implementation of key planning instruments is inconsistent.

### Box 3.4. Metropolitan governance

Governance arrangements are central to the effectiveness of contemporary urban policies. Shaping the spatial form and structure of cities requires co-ordination between different policy areas, in particular land use, housing and transport policies. There are also other policy areas where spatial impacts are not traditionally considered (such as tax, higher education and innovation, and industry and regulatory policies), which shape the location of housing and public goods. These policy areas are also often the exclusive or shared competencies of different levels of government. The development of governance models that enable better co-ordination of policy actors at a metropolitan scale is an important trend across OECD countries (OECD, 2006; 2015).

Table 3.9. **Four common approaches to metropolitan governance**

Dots represent a municipality or other form of local government

|   |   |
|---|---|
| <p><b>1) Informal/soft co-ordination.</b> Often found in metropolitan areas with multiple urban centres, lightly institutionalised platforms for information sharing and consultation are relatively easy both to implement and to undo. They typically lack enforcement tools and their relationship with other levels of government tends to remain minimal.</p>  |    |
| <p><b>2) Inter-municipal authorities.</b> When established for a single purpose, such authorities aim at sharing costs and responsibilities across member municipalities – sometimes with the participation of other levels of government and sectoral organisations. Multi-purpose authorities embrace a defined range of key policies for urban development such as land use, transport and infrastructure.</p> |    |
| <p><b>3) Supra-municipal authorities.</b> An additional layer above municipalities can be introduced either by creating a directly elected metropolitan government or with the upper governments setting down a non-elected metropolitan structure. The extent of municipal involvement and financial capacity often determine the effectiveness of a supra-municipal authority.</p>                              |   |
| <p><b>4) Special status of “metropolitan cities”.</b> Cities that exceed a legally defined population threshold can be upgraded into a special status as “metropolitan cities”, which puts them on the same footing as the next upper level of government and gives them broader competencies.</p>  |  |

Source: OECD (2014a), *OECD Regional Outlook 2014: Regions and Cities, Where Policies and People Meet*, <http://dx.doi.org/10.1787/9789264201415-en>.

There is a growing interest across OECD countries in creating and reforming metropolitan governance bodies (OECD, 2014a). The type of institution depends on the particular context and is best determined on a case-by-case basis. However, there are some common lessons that can be drawn from creating and reforming these bodies, and the types of functions that are best suited at the metropolitan scale. Land-use planning and transport have a particularly important impact on the form and organisation of cities, and integrating them at a metropolitan scale is important because:

- The impacts of local decisions at a metropolitan scale. Failures in co-ordinating individual municipalities’ transport and land-use policies generates substantial costs at the metropolitan scale in terms of congestion, duplication of investment, and under-use or misuse of land.
- Public sector versus private sector leadership. Transport systems are an important tool for public authorities to shape urban development. Land development is largely driven by the private sector, and the influence of public regulations on market choices may sometimes be marginal. It is important that publicly provided

transport infrastructure and privately led urban development is co-ordinated at a metropolitan scale.

- Long-term versus short-term time horizons. Land-use decisions may sometimes be implemented rapidly, whereas large-scale transport projects are typically carried out over a medium- to long-term period. The benefits of integrating land use and transport are usually not visible until ten or more years have elapsed, in contrast to local political mandates, which are likely to require visible short-term gains, such as job creation.

Table 3.10. **Effective metropolitan governance reforms: Lessons from OECD countries**

| Lesson  | Description   | Example  |
|---|---|--|
| Identify a common cause for collaboration and build on (as well as communicate) successful collaboration outcomes | Starting with small-scale and concrete projects can sometimes help rally forces and progressively lead to setting a “big picture”, as success breeds success and trust.   | In Barcelona, three sectoral inter-municipal authorities (transport, environment and planning) were created in 1987. After participating in the elaboration of the Metropolitan Strategic Plan with the municipality of Barcelona in 1999, a metropolitan authority of Barcelona was set up in 2011.   |
| Develop metropolitan leadership and/or ownership  | A relevant personality and/or institution often plays a pivotal role in steering change and creating and maintaining momentum for reform. The reform needs a strong advocate as the engine of the process. Such clear demand for reform may stem from different constituencies.   | In France, impetus towards governance reforms in the three largest metropolitan areas has been largely (albeit not exclusively) driven by the central government in Paris; local governments in Lyon (municipalities and <i>départements</i> ); and the private sector as well as the central government in Marseille.   |
| Empower and engage stakeholders at an early stage, and ensure accountability and transparency                     | Those who are the ultimate recipients of governance/policy (and have the continuity that political bodies do not) – such as citizens, businesses and universities – need to be brought on board at the very beginning of the process. Policy makers, citizens and relevant parties require clear information both on short- and long-term gains/losses.   | The Montreal Metropolitan Community created a mixed committee of elected officials and citizens to jointly organise a biennial set of debates among elected officials and civil society to discuss the implementation of the Strategic Metropolitan Plan 2031. The first series of debates took place in February and March 2013.  |
| Strengthen the evidence base and track progress   | Solid background research and scrutiny from unbiased experts can help create and sustain credibility for the reform. Strong, reliable instruments for monitoring and evaluation contribute to fostering continuous improvement.   | In Canada, the Greater Toronto Civic Action Alliance convened all three levels of government with business, labour, academic and non-profit sectors since its diagnostic report “Enough talk: An action plan for the Toronto Region” (2003). It convenes a Greater Toronto Summit every four years to drive collective action on pressing issues such as transport, energy and socio-economic inclusion. |
| Provide (or secure) sources of financing  | Metropolitan public finance is often the nexus of political resistance as governments are torn between the search for fiscal autonomy and dissuasive taxation. Securing an appropriate stream of financial resources helps to avoid unfunded mandates and often determines effective collaboration. In addition to traditional fiscal tools (e.g. own taxes, grants and transfers, fees), strategic partnerships with the business and financial community can be instrumental in gathering additional resources for public investment. | Former Mayor of London Ken Livingstone built a close relationship with the London Chamber of Commerce and Industry, the local branch of the Confederation of Business Industry, and London First – he then invited them to sit on the newly created London Business Board (2000) and convened them frequently.   |
| Balance clear time frames and flexibility   | Providing visibility on the short and long term will allow actors to anticipate next steps of the process while leaving room for trial and error as well as midway adjustments.   | In Sweden, governance reforms have first been tested in a few pilot regions (Västra Götaland around Gothenburg, and Skåne around Malmö) with a multiannual timeline and evaluation mechanisms, before extending the possibility to other interested regions).  |

Source: OECD (2014a), *OECD Regional Outlook 2014: Regions and Cities, Where Policies and People Meet*, <http://dx.doi.org/10.1787/9789264201415-en>.

In sum, the NUDP (2006-15), led by the Ministry of Housing, has not accomplished its goal of serving as guide and catalyst for the development of Peruvian cities. However, it is important that an urban policy framework has been developed, which provides a platform to develop a national urban policy for Peru. A revised national urban policy framework for Peru would need to better identify the different roles and functions of Peru's cities, and provide a diagnosis of the challenges and opportunities they are facing. It would also need to move beyond broad policy principles, and develop measurable policy outcomes or performance measures to guide planning and resource allocation, and assess how different cities are tracking against them.

Reforms will also be required to more effectively link urban policy with investment decision making at a national level. Mechanisms to link urban policies with resource allocation at a national level are lacking, which means that the NUDP has not unlocked the investment required to support urban development objectives. Importantly, this is also about ensuring that investments are delivered at the right time, in the right location and in the right sequence (e.g. the co-ordinated delivery of economic and social infrastructure to support the development of new urban areas). This is not occurring consistently because urban policy objectives are not considered systematically by national ministries.

The regional level is missing from urban policy. The national government largely bypasses the regional level in relation to investment in urban infrastructure. There is also a lack of effective mechanisms for regions to co-ordinate planning and investment with the provincial and district levels. In addition, there is a lack of governance arrangements and co-ordination at the scale of functional urban areas. Regions could play an important intermediary role in urban policy, for example, in terms of increasing economies of scale in infrastructure investment, and supporting the integration of urban and rural areas.

There is a well-developed urban planning framework at a provincial and district level; however, it has not been implemented consistently across the country. These inconsistencies in implementation reinforce the point that there are not effective mechanisms in place to co-ordinate and align the various actors involved in urban policy. It also indicates differences in capacity between different provinces and district municipalities, and a lack of effective monitoring and evaluation of performance at regional and national levels. Even larger districts and provinces, which are likely to be better resourced, have low rates of implementation for key planning instruments. It is likely that other instruments, such as the cadastre, are also not updated or properly implemented, which in turn impacts upon the revenue-raising capacities of districts and provinces.

### ***Towards a comprehensive national urban policy for Peru***

Cities are important to the future development of Peru and they are not performing to their potential. Lima dominates the urban system, it is the key international gateway and is the location of high-value services. However, the metropolitan area is affected by inequalities with a significant proportion of the population without proper access to basic services. Peru's secondary cities are comparatively small and there is variable performance amongst them. They have not provided a buffer to the growth of Lima, or a growth engine for other areas of the country.

In part, these problems are due to the lack of effective institutions to manage urban development. There is a complex institutional context for urban policy in Peru and mechanisms to effectively co-ordinate decision making have not been adequately developed. National ministries do not systemically consider urban policy objectives in decision making, and these problems flow through to a subnational level. There is



inconsistent implementation of planning instruments at a subnational level, and a lack of enforceable rules and incentives to ensure co-ordination between different policy actors at the appropriate spatial scale.

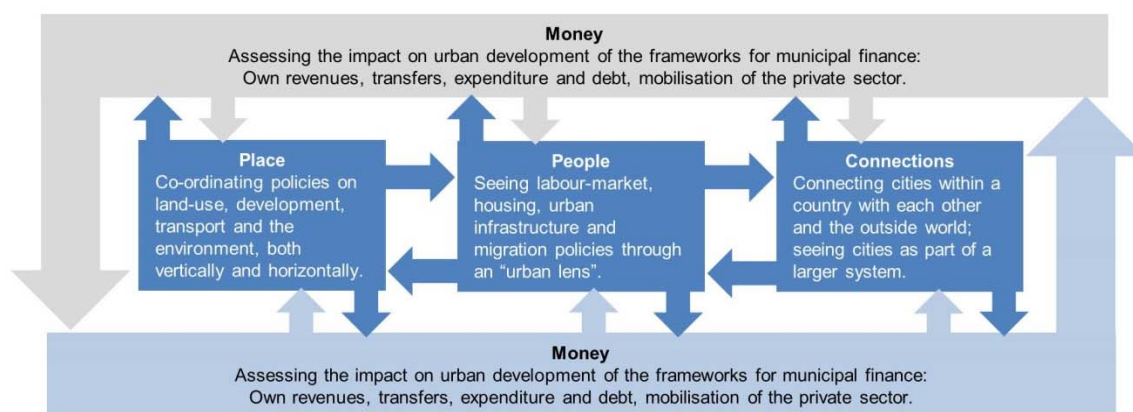
A growing number of OECD countries are adopting national frameworks, visions or strategies for cities (OECD, 2014a). This reflects increasing awareness of the need for policy co-ordination for cities. While 18 OECD countries still had no overall framework in place in mid-2013, a number were under preparation and urban policy in a number of other countries was encompassed in broader regional or spatial development strategies. This is a further indication of governments' desire for a more integrated, coherent approach to urban policies.

Designing national urban policy frameworks to improve co-ordination and policy coherence requires:

- identifying policies that have a particularly strong effect on urban development, even if they are not explicitly designated as “urban”
- analysing the interactions between these policies with a view to avoiding incoherence and, where possible, identifying potential synergies among them.

An assessment of national urban policies should consider five broad issues: money, place, connections, people and institutions. These areas should be considered as a system, rather than as policy “silos” to be managed in isolation. The critical question is: to what extent are the approaches adopted in the five domains coherent with one another? Two of the five – money and institutions – are effectively transversal, influencing all of the others. The other three concern the central issues around which sectoral policies must cohere (Figure 3.11).

Figure 3.11. Five broad issues for assessing urban policy



Source: OECD (2014a), *OECD Regional Outlook 2014: Regions and Cities, Where Policies and People Meet*, <http://dx.doi.org/10.1787/9789264201415-en>.

These policy implications provide a starting point for national policy makers to assess urban policies in Peru. The key priorities for Peru will be addressing the basic framework conditions for urban policy in terms of fiscal and institutional arrangements. These will be covered in greater depth in Chapter 4 and some initial guidance in relation to urban policies is provided below. A comprehensive review would also need to include an

assessment of policies affecting the structure and form of cities (particularly land use, transport and the environment), connectivity between cities, and areas where urban policies can help achieve social policy objectives (and vice versa). Some initial guidance for national policy makers in reviewing urban policies in Peru is provided below.

### **Box 3.5. Policy implications related to the thematic pillars for assessing urban policy**

A recent diagnosis of urban policies across OECD countries suggests the following policy implications related to these five thematic pillars (see Figure 3.10).

1. **Money:** Fiscal systems that determine urban finance are typically overlooked in the considerations of urban policy and governance. Policy makers therefore need to carefully examine the incentives provided by their fiscal systems for actions taken at the level of cities and their surroundings.
2. **Institutions:** The need for greater alignment of policy approaches also implies adapted governance arrangements to ensure that existing or new structures can sustain policy co-ordination for urban development across sectors, jurisdictions and levels of government.
3. **Places:** Spatial planning and land use, among other considerations, have far-reaching consequences for the way cities and their hinterlands develop. These policies, which help to determine urban form, are particularly important to co-ordinate together at the level of a functional urban area.
4. **Connectivity:** The nature of transport systems for people and goods both within and across urban areas has growth implications as well as environmental and social consequences. Connectivity is increasingly important for the performance of national urban systems.
5. **People:** Many urban policies are actually social policies. However, policy makers need to consider a wider range of policies for people that have a particularly important impact on cities, such as for labour market policy, affordable housing policy or policies for specific demographic groups such as immigrants.

*Source:* OECD (2014a), *OECD Regional Outlook 2014: Regions and Cities, Where Policies and People Meet*, <http://dx.doi.org/10.1787/9789264201415-en>.

## **Rural development and policies**

Peru's economy has developed fast, but 50% of rural people live below the poverty line. Rural poverty contributes to generating migration flows to cities and to Lima, in particular. So dealing with rural development would also yield better conditions in cities. Rural regions have been a key contributor to Peru's international competitiveness. The good economic performance that has characterised the past two decades depends on the increasing capacity of the country to capitalise on rural assets, including oil, minerals and agricultural products. Also, rural regions in Peru attract an increasing number of tourists every year. The international image of Peru does not depend upon on its capital city, but rather understandably on its mountains and jungle.

Table 3.11. Initial guidance to national policy makers in assessing urban policies in Peru

| OECD recommendations  | Guidance for national policy makers in Peru   |
|---|---|
| <p><b>Money:</b> Fiscal systems that determine urban finance are typically overlooked in the considerations of urban policy and governance. Policy makers therefore need to carefully examine the incentives provided by their fiscal systems for actions taken at the level of cities and their surroundings.</p>  | <p>A review of urban policies should begin with a rigorous analysis of the four facets of the fiscal framework as it affects cities: own revenues, expenditures, transfers and debt. This includes creating reliable local tax revenues that enable investment in local services, incentives to improve governance and co-ordination at the scale of functional urban areas, and ensuring that subnational governments have the funds to carry out their competencies.</p>  |
| <p><b>Institutions:</b> The need for greater alignment of policy approaches also implies adapted governance arrangements to ensure that existing or new structures can sustain policy co-ordination for urban development across sectors, jurisdictions and levels of government.</p>   | <p>Focus on how institutional capacity can be strengthened and co-ordination improved to give greater coherence to national policies at an urban level. This includes assessing the role of the Presidency of the Council of Ministers and the Ministry of Economy and Finance in co-ordinating at a national level, the role of regions in better managing urban-rural linkages, and how to build partnerships between levels of government.</p>   |
| <p><b>Places:</b> Spatial planning and land use, among other considerations, have far-reaching consequences for the way cities and their hinterlands develop. These policies, which help to determine urban form, are particularly important to co-ordinate together at the level of a functional urban area.</p> <p><b>Connectivity:</b> The nature of transport systems for people and goods both within and across urban areas has growth implications as well as environmental and social consequences. Connectivity is increasingly important for the performance of national urban systems.</p> | <p>An assessment of policies affecting the spatial dimension of urban development (land-use policies, property rights and land registries, urban transport, and environment) should focus on the coherence of different policies and addressing variations in how they are implemented for different cities.</p> <p>Policy makers will need to consider these important connections as part of the urban policy framework. An assessment of national infrastructure policies will need to consider how to foster a system of cities by establishing stronger linkages between them.</p> |
| <p><b>People:</b> Many urban policies are actually social policies. However, policy makers need to consider a wider range of policies for people that have a particularly important impact on cities, such as for labour market policy, affordable housing policy or policies for specific demographic groups such as immigrants.</p>   | <p>An integrated approach to housing and urban infrastructure provision will be required to address informality with Peru's cities. An assessment should also investigate how urban policies can assist in improving skills, particularly through the provision of labour market information and the better matching of training at the scale of functional urban areas.</p>  |

However, despite the importance of rural assets within the national economy, rural development is not within the top priorities of the government, and this for at least four reasons.

1. Rural is not properly defined. Peru's current regional taxonomy is a very basic (binary) one, which defines rural in terms of non-urban status. Almost any cluster of housing and people is considered "urban", accordingly there is no room to adopt modern – holistic – approaches to rural development that also take into account accessibility to services and urban-rural interaction, for example.
2. Rural development policy is associated by government authorities with providing subsidies to agriculture, skills and capacity building, and diffusing technologies. There is little knowledge of international good practices and this impinges on the possibility to put in place a holistic approach to rural development.<sup>2</sup> Rural Peru's economic base is potentially very diverse, and agriculture is able to compete on international markets quite successfully.
3. Rural is not considered as a growth opportunity. This challenge depends on several factors. First, there is a disconnect between assets and people; the former contribute to national wealth, the latter are mostly poor. Second, most ethnic minorities – who are the poorest among the poor – live in the mountains or in the Amazonas. Third, several rural regions used to be home to the Shining Path, a Maoist organisation which caused instability in the country till the early 1990s. In

this context, in which rural and poverty are considered as synonymous, policy does not aim to promote investment and growth. Rather, it focuses on providing poor people with short-term relief, before they migrate to a city.

4. Rapid urbanisation is seen as a driver of growth and then as the main solution to poverty in the country. Rural-to-urban migration has become a diaspora that converges to the informal settlements surrounding Lima, the *asentamientos humanos*. This large-scale migration does not depend on the transition to a new economic system; rural citizens do not abandon their communities of origin to be absorbed by manufacturing and earn higher wages. Rather, they go to cities to access basic services such as education for their children and healthcare. Rural people do not have the skill-set to get formal jobs in cities and are drafted in the army of informal workers. As a result, the rural diaspora generates a misallocation of human capital that contributes to dragging Peru's growth down.

The following sections will assess the challenges and opportunities facing rural areas, strengths and weaknesses of the current approach to rural policies, and relevant lessons from across the OECD.

### ***Rural areas make an important contribution to the national economy***

Exports from rural areas have had a significant influence on the historical performance of the Peruvian economy (Hausmann and Klinger, 2008). As shown in Chapter 1, three-quarters of Peru's exports is composed of mining, hydrocarbons and agriculture. The share these sectors make to Peru's export basket has not shifted significantly in the last 40 years (Hausmann and Klinger, 2008). Although there have been some compositional shifts within them, with the decreasing relative importance of hydrocarbons and agriculture and the increasing importance of mining and non-traditional agricultural exports.

Tradeable sectors are also important for the development of rural economies. Growth in the tradeable sector attracts income into the region. New consumption is generated through some of this income and local businesses spend part of this and generate additional local consumption. These effects multiply the initial effect and generate new jobs, investment and value added. In addition, the tradeable sector is generally more productive, which leads to the introduction of new technologies into local supply chains.

Over the past decade agriculture has made an increasing contribution to the country's exports within the framework of the numerous free trade agreements that the country has signed over this period. Agriculture contributes to the "non-traditional exports", which have become important contributors to the national wealth.<sup>3</sup> In Peru, non-traditional exports are defined to include sectors such as agriculture, fishing, metal-mechanic and chemical. The country has been able to specialise in a number of higher value agricultural products.

In particular, in 2012, Peru ranked as the world's top producer of fresh asparagus (USD 408 million exported as of December 2013), paprika and organic bananas; the world's second-largest producer of artichokes (USD 85 million exported as of December 2013) and fresh grapes (USD 428 million as of December 2013); the sixth-largest producer in the world of coffee (USD 1.013 billion exported in 2012); and the seventh-largest producer of avocado (USD 137 million exported in 2012). Mango exports grew by 8.0% between 2012 and 2013, totalling USD 127 million. During 2013, exports

of quinoa and its by-products totalled USD 72.2 million, representing a 132% increase over 2012 (Ernst & Young, 2014: 7).

As outlined in Chapter 1, mining plays a critical role in the national economy. Mining accounts for 12% of GDP and half of the country's exports. Peru is one of the world's leading producers of zinc, tin, copper and silver, and has development potential in copper, gold and iron ore. Mining accounted for a quarter of Peru's foreign direct investment in 2013, and large multinationals such as Xstrata, Glencore, Rio Tinto and Anglo American have a significant presence in the country (Ernst & Young, 2014).

However, there are some challenges related to mining in rural areas. Mining only accounts for 1.5% of total employment in Peru. Although there are important indirect relationships (e.g. to manufacturing and services), the direct employment benefits to producer regions tend to be low. There are also difficulties associated with managing environmental impacts and achieving a social license to operate. There have been notable examples of mining projects generating conflicts with agricultural producers, and local opposition to development.

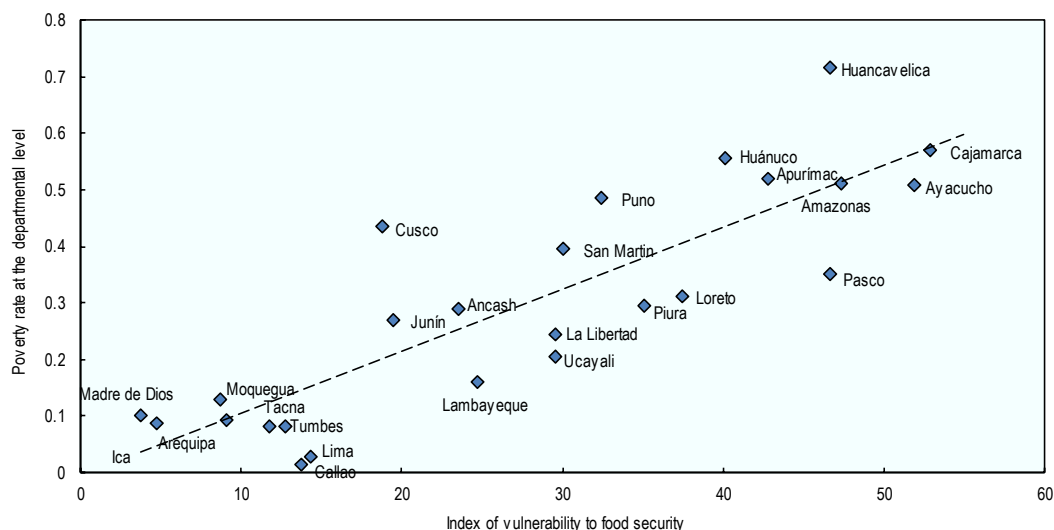
Tourism is also a significant source of growth potential for rural areas. International visitation to Peru increased from 479 000 in 1995 to 3.2 million in 2013 (World Bank, 2015). Tourism is estimated to make a direct and indirect contribution of 12% to Peru's GDP (World Economic Forum, 2013). A significant part of Peru's international tourism offer – in terms of landscapes, mountains, diverse flora and fauna, and world-famous cultural attractions – is located in rural areas. The main tourism destinations are in the regions of Cusco and Madre de Dios, which are far from the capital. There are a number of challenges to fostering the growth of the tourism industry which have a particular rural dimension, including high transport costs, poor sanitation, access to broadband and degradation of environmental assets (World Economic Forum, 2013).

***Although rural areas generate significant wealth, the people living there are generally poor, particularly indigenous populations***

Despite the fact that most of the national wealth generates from rural territories, 50% of rural people live below the poverty line. In 2014, less than one-third of the country's population lived below the national poverty line. In the same year, however, the national rural poverty rate was greater than 50%. For instance, departments with low population density and low regional accessibility like Huancavelica, Cajamarca, Huánuco and Apurímac are akin to those of severely underdeveloped economies in which poverty goes hand in hand with hunger and malnutrition (Figure 3.12). In Huancavelica, for example, 35% of children aged 5 and under suffered from chronic malnutrition in 2014. Similarly, in 2012, 42% of households in Cajamarca were exposed to caloric deficits (Table 3.12).

There is an important ethnic component that affects the possibility for rural people to be poor. Poverty rates are higher in the mountains and in the jungle area; those in which ethnic minorities are more numerous. Rural regions are especially impoverished: 17% of the population in rural Sierra, for example, was considered extremely poor in 2014. This compares with relatively low levels along the coast, and especially in the area of Lima. The poorest Peruvians are found in the arid Andean highlands that are home to a large majority of the indigenous *Quechua* and *Aymara*, many of which live below the poverty line.

Figure 3.12. Regions exposed to extreme poverty also suffer from food insecurity



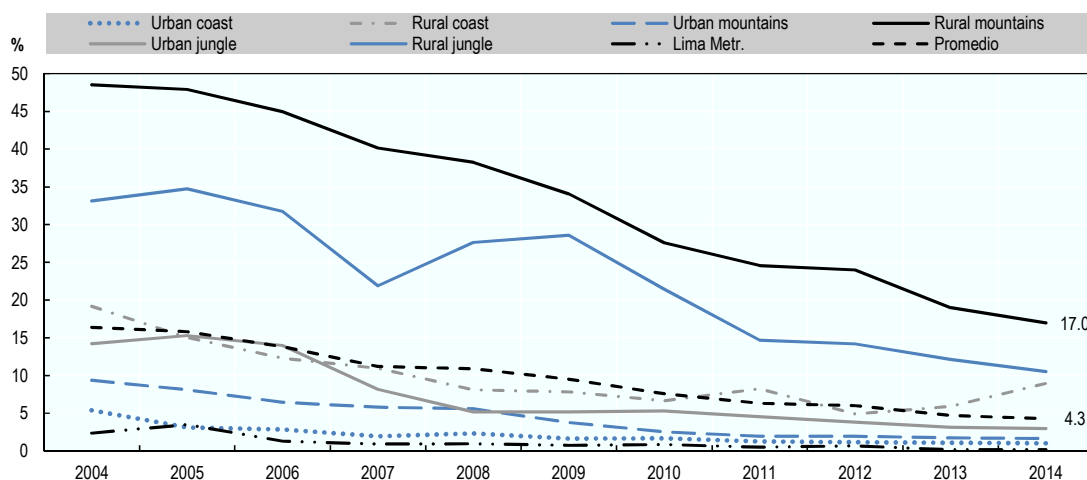
Source: OECD analysis based on data from INEI.

Table 3.12. Selected indicators of extreme rural poverty at the department level, 2012 and 2014

| Department    | Poverty rates at the department level, 2013 | Index of vulnerability to food insecurity, 2012 <sup>1</sup> | Children below 5 suffering from chronic malnutrition, 2012-14 <sup>2</sup> | Households with a deficit in calories, 2012 <sup>3</sup> |
|---------------|---|--|--|--|
| Huancavelica  | 46.6%                                       | 0.7163   | 35.0%  | 23.7%  |
| Cajamarca     | 52.9%                                       | 0.5688   | 32.2%  | 42.0%  |
| Huánuco       | 40.1%                                       | 0.5549   | 24.8%  | 34.6%  |
| Apurímac      | 42.8%                                       | 0.5183   | 27.3%  | 42.1%  |
| Amazonas      | 47.3%                                       | 0.5117   | 30.8%  | 27.3%  |
| Ayacucho      | 51.9%                                       | 0.5075   | 26.3%  | 38.1%  |
| Puno          | 32.4%                                       | 0.4865   | 17.9%  | 33.6%  |
| Cusco         | 18.8%                                       | 0.4358   | 18.2%  | 22.8%  |
| San Martín    | 30.0%                                       | 0.3948   | 16.0%  | 22.1%  |
| Pasco         | 46.6%                                       | 0.3522   | 24.9%  | 55.7%  |
| Loreto        | 37.4%                                       | 0.3124   | 24.6%  | 30.1%  |
| Piura         | 35.1%                                       | 0.2962   | 21.7%  | 22.9%  |
| Áncash        | 23.5%                                       | 0.2898   | 20.5%  | 29.2%  |
| Junín         | 19.5%                                       | 0.2696   | 22.1%  | 34.4%  |
| La Libertad   | 29.5%                                       | 0.2436   | 19.9%  | 25.3%  |
| Ucayali       | 29.5%                                       | 0.2061   | 26.1%  | 6.7%   |
| Lambayeque    | 24.7%                                       | 0.1589   | 14.3%  | 15.0%  |
| Moquegua      | 8.7%  | 0.1281   | 4.2%   | 19.7%  |
| Madre de Dios | 3.8%  | 0.1002   | 9.8%   | 7.7%   |
| Arequipa      | 9.1%  | 0.0931   | 7.3%   | 26.6%  |
| Ica           | 4.7%  | 0.0869   | 6.9%   | 8.7%   |
| Tacna         | 11.8%                                       | 0.0825   | 3.7%   | 14.5%  |
| Tumbes        | 12.7%                                       | 0.0815   | 8.3%   | 17.2%  |
| Lima          | 14.3%                                       | 0.0270   | 4.6%   | 17.2%  |
| Callao        | 13.7%                                       | 0.0138   | 7.0%   | 15.0%  |

Sources: 1. Normalised for population; Mapa de vulnerabilidad a la inseguridad alimentaria, 2012. Ministerio de Desarrollo e Inclusión Social (MIDIS) & Programa Mundial de Alimentos (PMA). 2. INEI – Encuesta Demográfica y de Salud Familiar (ENDES). 3. Encuesta Nacional de Hogares (ENAH0).

Figure 3.13. Distribution of poverty in a selection of urban and rural areas



Source: INEI (2004; 2014), Encuesta Nacional de Hogares, [http://webinei.inei.gob.pe/anda\\_inei/index.php/catalog/195](http://webinei.inei.gob.pe/anda_inei/index.php/catalog/195).

These outcomes are mirrored in OECD countries where indigenous people are more likely to experience poverty and disadvantage. Poverty rates are considerably higher than for the balance of the population, educational levels are lower, income is lower, housing is inferior and opportunities for advancement are worse. Almost by definition social exclusion is much higher, largely because indigenous people have a different status than other citizens. Social exclusion is also reinforced by government policy, which in most of these OECD countries has isolated the indigenous population on reservations and provides a separate set of social services to them.

Current approaches to improving the conditions of indigenous people in OECD countries are moving more toward a process where responsibility is more fully devolved to communities along with resources to begin a bottom-up development process. Most important, there is increasing recognition by governments and by indigenous people that economic improvement requires stronger economic integration. The challenge is finding a way to provide for continued cultural identity and values in an integrated market economy. While this has not yet happened, in many cases there are sufficient success stories to suggest it is a better approach.

### ***Poverty generates mistrust: In several provinces rural people have started opposing new developments***

Extreme poverty negatively affects the relationship between citizens and institutions, causing low levels of trust. As a result, in resource-rich rural provinces people have started opposing new mining developments. Based on their experiences, rural communities consider that mining companies limit their access to land and water, in particular. Mining generates negative externalities for industries such as agriculture, which are not necessarily offset by other employment opportunities for the people who are affected by these impacts. Other forms of compensation, such as royalty payments, do exist but are not associated with stronger growth performance (see Chapter 4).

### Box 3.6. Kaikōura and Miraka in New Zealand

New Zealand has a long-standing formal treaty with the Māori that was signed in 1840. After an extended period where the rights of the Māori were not fully recognised, there has been a strong effort in New Zealand to better respect the terms of this treaty. This has resulted in efforts to compensate the Māori for past injustices by: returning land; restoring rights to natural resource use, particularly fishing and forestry; and providing financial compensation. Māori now comprise about 15% of the New Zealand population.

Like indigenous people in other OECD countries, including Australia, Canada and the United States, the Māori are on average poorer, with lower levels of employment and education, and generally worse performance on all socio-economic indicators. Unlike in these other countries, the Māori have direct representation in the national legislature with specific seats reserved for Māori.

Indigenous people maintain a distinct relationship with other citizens. Their treaty rights provide them with specific rights not available to others, but their distinct existence means that they cannot fully assimilate into the dominant culture without losing their identity. A common consequence of this separation is weak participation in the general labour market, often because of physical isolation resulting from separate communities. This means that improvements in employment levels and earned income require developing opportunities near to Māori settlements and that are consistent with cultural norms. Where Māori-oriented activities can be integrated with the rest of the local economy, it is possible to achieve win-win situations for all.

An example of this is tourism development in the Kaikōura District on the South Island. The district was the site of a significant Māori population that relied on fishing and whaling before the arrival of European settlers. Europeans initially focused on whaling, but excessive harvesting reduced the fishing industry and the economy shifted to agriculture and later to a railway centre. In the 1980s, reorganisation of the New Zealand rail industry eliminated this economic function and unemployment increased in the region.

A high level of natural amenities, especially ocean-oriented elements like beaches and marine life, combined with proximity to Christchurch and a growing number of international tourists led to efforts to establish a strong tourism offer. A key element was the creation of Whale Watch in 1987 by members of the Kati Kuri tribe. It was the first whale-viewing enterprise and became a major anchor of a larger regional tourism sector. This now includes other wildlife viewing activities, beach visits, cafes and restaurants, and local art, including Māori artists.

A second example is Miraka, a majority Māori-owned dairy company based in Taupo on the North Island. A number of Māori investment companies are major shareholders and the firm processes milk from local dairy farms operated by Māori and non-Māori families. The main product is milk powder that is exported to Viet Nam, the People's Republic of China and other countries. The company has been profitable almost from its opening day and has steadily expanded production. The key features of the project are that it involves investments from a variety of Māori trusts from different regions, and it buys milk from local farms of both Māori and non-Māori heritage – in both instances showing a high level of collaboration.

Source: OECD (2014b), *OECD Rural Policy Reviews: Chile 2014*, <http://dx.doi.org/10.1787/9789264222892-en>.

Cajamarca, a rural department in the north of Peru, offers a good example of how the resource competition between the agricultural and mining sectors has impeded economic growth and compromised the provision of public goods to local communities. The province is home to approximately 1.5 million people, a large share of them belong to indigenous minorities. Agricultural and mining activities constitute the base of its economy. The agricultural sector employs 430 000 people across a myriad of small holdings, making it the department's primary source of employment. The mining sector, on the other hand, employs relatively few people (approximately 14 000).



### Box 3.7. Building trust between communities and proponents of major resource developments

Social license to operate (SLO) refers to the level of acceptance or approval by local communities and stakeholders of mining companies and their operations. The concept has evolved fairly recently from the broader and more established notion of “corporate social responsibility” and is based on the idea that mining companies need not only government permission (or permits) but also “social permission” to conduct their business.

Increasingly, having an SLO is an essential part of operating within democratic jurisdictions, as without sufficient popular support it is unlikely that agencies from elected governments will willingly grant operational permits or licences. However, the need for and ultimate success of achieving an SLO relies to a large extent on a functioning government and sound institutions. Many mining companies now consider gaining an SLO as an appropriate business expense that ultimately adds to the bottom line. Research shows that an SLO can be achieved where industry invests in developing genuine, trust-based relationships with community stakeholders.

This has important public policy implications. For example, in Queensland, Australia the state government requires mining proponents to develop a social impact management plan in consultation with government and key stakeholders. This provides a framework for identifying risks associated with major resource developments, engaging the community in managing them and ensuring accountability throughout the project life cycle.

Following a social impact assessment, a thorough and well-researched social impact management plan is prepared by the proponent. The plan should:

- reflect the findings and recommendations of the project’s social impact assessment, including consideration of the results of engagement with stakeholders
- present only a concise summary of the findings of the social impact assessment, including an analysis of the existing social and cultural area and potential positive and negative impacts (mitigation measures should be described in detail in the project’s social impact assessment)
- provide a summary for all stakeholders regarding the potential positive and negative impacts of the project, proposed mitigation and management strategies and implementation actions
- be developed for the life of the project
- promote an active and ongoing role for communities, local authorities and all levels of government through construction, operation and decommissioning.

The social impact management plan establishes the roles and responsibilities of proponents, government, stakeholders and communities throughout the life of a project, in mitigating and managing social impacts and opportunities during construction, operation and the decommissioning of major resource development projects.

*Sources:* Fraser Institute (2013), “What is the social license to operate (SLO)?”, [www.miningfacts.org/Communities/What-is-the-social-licence-to-operate](http://www.miningfacts.org/Communities/What-is-the-social-licence-to-operate); CSIRO (2013), “Social license to operate”, [www.csiro.au/en/Research/MRF/Areas/Community-and-environment/Social-licence-to-operate](http://www.csiro.au/en/Research/MRF/Areas/Community-and-environment/Social-licence-to-operate); Queensland Department of Infrastructure and Planning (2010), “Social impact assessment: Guideline to establishing a social impact management plan”, [www.statedevelopment.qld.gov.au/resources/guideline/simp-guideline.pdf](http://www.statedevelopment.qld.gov.au/resources/guideline/simp-guideline.pdf).

The department is, however, endowed with vast reserves of gold and copper and there is tremendous potential for the expansion of the sector. For example, Cajamarca is home to Yanacocha, the fourth-largest gold mine in the world, which produced 0.97 million ounces of gold in 2014 (Basov 2015). Yanacocha is an open pit mine located a few kilometres north from the regional capital, the city of Cajamarca. Newmont Mining Corporation, a US company, runs the mine and is the largest stakeholder together with a Peruvian company.

Conflicts between the agricultural and mining sectors have created a situation where potential for economic growth is left unrealised. Competition for scarce water resources, for example, is intense. Agricultural productivity has suffered from the water-grabbing practices of mining developments and resulted in increased poverty for households dependent upon agricultural activities.

New mining developments are therefore subject to considerable local opposition. For example, in 2010, a USD 4.8 billion mining project in the Conga area of Cajamarca was subject to vehement opposition by the local population. The project was anticipated to yield 200 tonnes of gold and 180 000 tonnes of copper per year. The central government approved the project. Local communities, however, elected to strike with the support of the department's governor. In 2011, the strikes escalated into rioting that caused several deaths and was declared a national political emergency. The project has since been blocked.

### **Box 3.8. Conflicts over land use due to low institutional capacity: The case of San Martín**

Poor trust in the government and weak institutions (in the sense of both rules and government entities) also affect the potential of San Martín, a relatively wealthy province at the edge of the Amazon basin. Despite the different economic performances of the two provinces, as in Cajamarca, San Martín there is a suboptimal utilisation of regional assets in San Martín, with a disconnect between business opportunities and rural dwellers.

For instance, two factions of indigenous people compete for land use. On the one hand, there are the Quechua communities that migrated from the Andes to cut the forest and farm land in the hills of San Martín; on the other, there are the indigenous communities endemic to the area that make a living out of the forest resource and depend on the traditional landscape.

In this case, the government has not mediated between the two positions. As the land is poor, it cannot be used for long. So each farmer has to cut new pieces of the forest every two years. The result is a dramatic change of landscape. The “use value” of the forest, i.e. the capacity to extract value from the forest instead of simply cutting the trees to access poor quality agricultural land, is poorly understood.

Foreign businesses have taken advantage of the situation and have patented molecules discovered in the plants populating the rainforest. This is not necessarily a bad thing, only it shows that national stakeholders in the region are not considering the right business opportunities due to the lack of information and low institutional capacity.

In recent times, Peru has put in place policy and administrative reforms to improve the management of mining projects. This includes the establishment of the National Environmental Certification Service (SENACE) which was established in 2012. SENACE is chaired by the Ministry of the Environment and includes other key ministries involved in the development and approval of mining projects. SENACE is currently developing improved tools for social impact assessment, and an important aspect for Peru will be ensuring these impacts are effectively monitored and reported on.

### ***Institutional framework for rural development in Peru***

Addressing poverty has been a policy focus of successive national governments in Peru. The Ministry of Development and Social Inclusion, and the Ministry of Agriculture and Irrigation play major roles in rural development policy. There are also a number of other national ministries – such as Transport and Communications, and Health – which have developed rural-specific policies. A large number of different social programmes

have evolved which provide transfers to poorer households, and invest in public services and basic infrastructure. There are comparatively less resources dedicated to economic development programmes. Subsidies to agriculture were removed in the 1980s, with support shifting to initiatives such as extension services and the development and diffusion of irrigation technologies. Since the 1990s there has also been significant investment in the road network (largely funded by the proceeds of the *canon*), which has benefited rural producers and helped to reduce rural poverty (Webb, 2013).

Subnational governments also play important roles in delivering initiatives that address poverty and economic development issues in rural areas. Regional governments set priorities for development through instruments such as concerted regional development plans. They also have a role in the implementation regional infrastructure and economic development initiatives. Provincial and district municipalities have roles related to the development and land-use plans, improving housing, and investing in infrastructure at a local level. In addition, the *canon* and other fiscal transfers provide district municipalities with significant resources compared to other policy actors. This has enabled, amongst other things, significant improvements to the local road network in rural areas since the early 1990s.

### *The Ministry of Development and Social Inclusion*

The Ministry of Development and Social Inclusion (MIDIS) is very active in rural areas, although its programmes are not specifically conceived for rural areas. MIDIS was created in 2012 to integrate several government agencies and policy packages. It is responsible for, among other things, the co-ordination and delivery of the national policy referred to as “Include for Growth”. This national policy prioritises the following five axes, using a life-long approach:

1. childhood nutrition
2. early childhood development
3. development of children and teenagers
4. economic inclusion
5. senior population.

“Include for Growth” is composed of a series of programmes that can be categorised into two groups: those focusing on poverty alleviation and those that try to create income-generation opportunities for people suffering from exclusion and poverty. “Include for Growth” takes a life cycle approach and programmes tend to be organised by age cohorts. These include:

- *Cuna* and *Juntos* that address infant nutrition (0-3 years of age)
- *Qali Warma* and *Juntos* that address early childhood development (3-5 years old)
- *Qali Warma* and *Juntos* that address childhood and adolescence (6-17 years old)
- *Mi Chacra Emprendedora* (also known as *Haky Winay*) and other programmes delivered by a deconcentrated body of the Ministry of Development and Social Inclusion referred to as Foncodes that address economic inclusion (18-64 years old)
- *Pensión 65* that addresses senior protection (65 years and older).

Among these programmes, some focus on social issues while others try to promote job opportunities and better framework conditions (well-being) for rural residents.

Concerning programmes with a focus on social issues, the most important is certainly the conditional monetary transfer programme (CCT) Programa Nacional de Apoyo Directo a los más Pobres (*Juntos*). As of 2014, the programme was active in 1 150 districts spread across 15 departments. Approximately 800 000 households received transfers in 2014. *Juntos*' budget in 2015 was increased to USD 340 million. This makes it the largest programme, in terms of budget allocation, implemented in rural areas, albeit – it should be noted – that technically *Juntos* does not differentiate between urban and rural areas (it could not do so due to the poor regional classification used in Peru), but it is mostly delivered to rural people as they tend to be more exposed to extreme poverty.

Launched in 2005, *Juntos* mirrors the experience of other Latin American countries with CCTs. The overarching objective of these programmes is to break the vicious cycle of poverty via the provision of education and healthcare to children in impoverished communities. The governance of CCT programmes varies across countries. In Peru, for instance, *Juntos* is managed from the centre (MIDIS) and implemented by a network of deconcentrated agencies. The programme puts a lot of pressure on subnational entities, including local and regional governments, as they have to deliver the public services – schools and hospitals – poor people need to use to respect the conditions that give them access to the cash transfer.

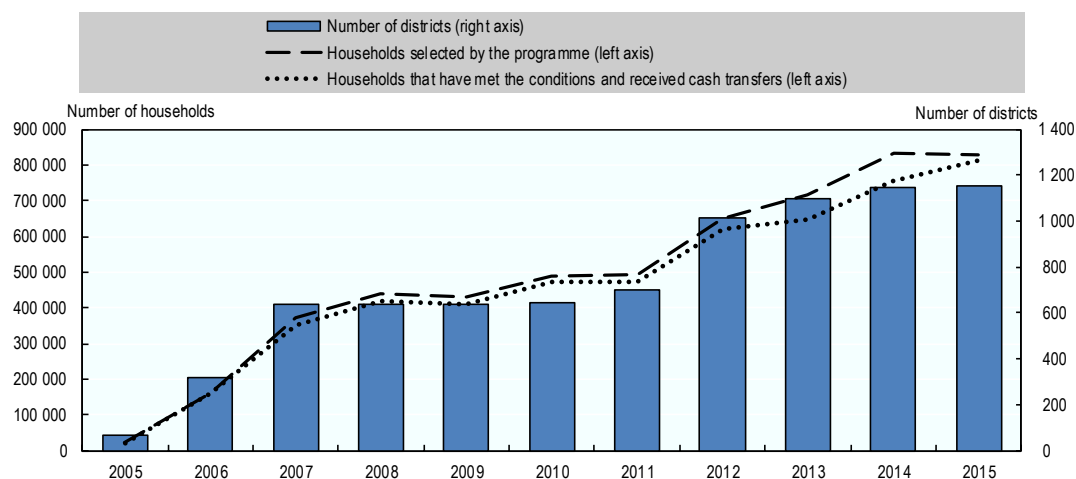
These programmes have become very effective at identifying households in need that are eligible for the cash transfer; this is to improve efficiency and reduce free riding. For instance, the *Juntos* programme selects eligible territories according to five criteria: 1) the presence of “Shining Path” (a Peruvian terrorist organisation); 2) level of poverty as measured by the number of households with basic unsatisfied needs; 3) poverty rates; 4) number of children exposed to chronic malnutrition; and 5) prevalence of extreme poverty. Only households with children, teenagers or expectant mothers are eligible for the programme. Households must also be validated by the community prior to enrolment in the programme.

The programme allocates an average of USD 60 to households every month conditional on the fulfilment of three obligations: 1) pregnant mothers must go to health centres for pre-natal testing; 2) children aged 36 months and under must be taken to health centres for development and growth controls; and 3) children must attend school. Households remain enrolled in the programme until their children have either completed secondary school or have turned 19. All households receive USD 60 regardless of the number of children they have.

*Juntos* provides beneficiary households with approximately 15% of their income, which is lower than in many other Latin American countries, including Colombia (30%) and Mexico (30%). The programme has experienced some notable success. For instance, it has: improved schooling in households participating in the programme; improved access to healthcare for pregnant women and infants; increased the use of banking and financial services (i.e. debit cards); increased the percentage of the population with national identity documents and health insurance; contributed to women's empowerment; increased the income of beneficiary households by 43%; increased food expenditure and non-food consumption in beneficiary households by 15% and 54%, respectively (World Bank, 2009); decreased poverty and extreme poverty rates in beneficiary districts by 14% and 19% respectively (between 2005 and 2009). Furthermore, households receiving benefits from the programme for a year or more have higher chances, with more

important impacts in terms of poverty reduction and increase in consumption. Children in beneficiary households are 11% less likely to get sick.

Figure 3.14. **Districts and household enrolment in *Juntos***



Source: Data from INEI (2015).

Another programme dealing with social aspects is *Qali Warma*, which means “Strong Child” in Quechua. This is a large-scale programme whose aim is to address childhood food insecurity and malnutrition. It has, thus far, equipped close to 50 000 establishments (i.e. primary schools) with a kitchen and, in doing so, has provided fresh food to more than 3 million children. The programme also includes education initiatives to teach children about healthy eating.

*Qali Warma* was launched in 2012 and is now, in terms of budget allocation, the Ministry of Development and Social Inclusion’s largest programme. The programme is delivered via an inclusive governance system that assigns important and active roles to local stakeholders. Each school, for example, must establish a purchasing committee composed of public officials and parents that is tasked with buying foodstuffs and a school feeding committee that consists of teachers and parents that is responsible for monitoring the quality of the food and delivering the food to students. Interviews with national stakeholders have indicated that the programme has successfully addressed health issues and improved children’s learning capacities. The programme is due to be extended across all of Peru over the coming years.<sup>4</sup>

The Ministry for Development and Social Inclusion is also responsible for a number of economic development programmes targeted to rural communities.

- *Mi Chacra Emprendedora-Haku Wiñay*<sup>5</sup> (meaning “my enterprising little farm” and “we are going to grow”) are just two names of the same programme, which is concerned with increasing the productivity of small holdings, and currently serves 90 000 households. The programme is delivered by Foncodes. Foncodes was founded in the early 1990s with the mandate to develop Peru’s primary and secondary road networks. In 2012, however, it was brought under the control of the Ministry of Development and Social Inclusion and has since focused on issues of food security and nutrition.

- The *Mi Chacra Emprendedora* programme promotes agricultural innovation, and in turn improved productivity, via the maintenance of networks of local leaders and systems of peer-to-peer learning. The programme has found particular success in the Andean region. In the department of Cajamarca, for example, local leaders provided assistance and knowledge to small-scale farmers to help them cultivate new profitable and exportable crops including quinoa and *aguaymanto*. These small-scale farmers have realised benefits from the *Mi Chacra Emprendedora* programme in the form of increased incomes and enhanced food security and nutrition. The *Mi Chacra Emprendedora* programme is, however, very much in its infancy. In Cajamarca, for example, the programme has only been implemented in 5 of the department's 12 districts. The said, plans to scale-up the programme and expand its coverage have been made.
- The Economic Inclusion Fund in Rural Areas (FONIE)<sup>6</sup> provides funding for local infrastructure projects identified by subnational governments. The scope of action is the 670 poorest districts, it considers the two poorest quintiles nationally. FONIE finances, preferably simultaneously, the implementation of infrastructure for water and sanitation, electricity, telecommunications, and roads.

### *The Ministry of Agriculture and Irrigation*

The Ministry of Agriculture and Irrigation, also called MINAGRI, is an important player for rural development in the country. It has developed the National Rural Development Strategy which establishes an economic, social and environmental framework to develop agriculture in collaboration with local communities. The policy framework is currently being updated in collaboration with the Ministry of Development and Social Inclusion.

Table 3.13. **National Rural Development Strategy: Policy themes and strategic objectives**

| Policy themes  | Strategic objectives  |
|--|---|
| Economic, social and environmental sustainability                              | <ul style="list-style-type: none"> <li>– Development of competitive productive agricultural and non-agricultural (e.g. tourism, agro-industrial transformation) options in rural zones</li> <li>– Access to active production for rural groups</li> <li>– Rural services to improve the quality of life of the rural population</li> </ul>  |
| Sustainable management of natural resources and risk management                | <ul style="list-style-type: none"> <li>– Execution of strategies for the sustainable use of natural resources</li> <li>– Rural economic exploitation that responds to the potential and sustainability of the natural resources</li> <li>– Protection of environmental and cultural heritage based on the knowledge of local populations</li> <li>– Implementation of a system of prevention and mitigation of production weaknesses and rural infrastructure linked to the risks of natural disasters</li> </ul> |
| Promotion of the capacities of rural inhabitants and social inclusion          | <ul style="list-style-type: none"> <li>– Development and provision of an education system in rural zones that would offer services of quality</li> <li>– Strengthening of the organisational and managerial capacity of rural populations</li> <li>– Integration of excluded social groups</li> </ul>   |
| Institutional changes that create appropriate conditions for rural development | <ul style="list-style-type: none"> <li>– Capacity building and focus on decentralised public management and regulations</li> <li>– Strengthening of local governments' and social organisations' management capacity</li> <li>– Participation of the lower levels of governments and civil society in the elaboration of norms and policies</li> </ul>  |

Source: Ministry of Agriculture and Irrigation (n.d.), [www.minagri.gob.pe](http://www.minagri.gob.pe).

In 2015, the Ministry of Agriculture and Irrigation released a National Agrarian Policy which identifies the core challenges for agriculture as the fragmentation of land,

low human capital and limited use of technologies, poor access to services, and vulnerability to climate change. The policy sets an objective to enable sustained increases in agricultural income by:

- achieving efficient and sustainable management of water, land and forest resources
- ensuring security and legal stability in access to agricultural resources by communities and farmers
- increasing infrastructure and irrigation technology
- expanding supplementary credit markets, insurance and agricultural services
- strengthening and expanding the capacity of agricultural research and innovation
- improving the productive and entrepreneurial capacities of farmers and women farmers
- achieving full articulation to markets and value chains of domestic farmers.

Table 3.14. **National Agricultural Policy: Policy hub and objectives**

| Policy hub                                      | Objectives   |
|---|--|
| 1. Sustainable water and land management        | – Improve water management for agricultural use<br>– Retrieve, preserve and extend the quality and amount of soil for agricultural use   |
| 2. Development of forestry and wildlife         | – Improve conditions to develop activities for management, use, renovation and trade in the forestry sector, and the harnessing of wildlife and biodiversity with a special focus on profitability, and socio-environmental and territorial sustainability |
| 3. Legal security over land                     | – Increase the legal security for land within the agricultural sector  |
| 4. Infrastructure and irrigation technology     | – Enhance efficiency and operating for infrastructure and new irrigation technologies to facilitate investment nationwide, giving priority to small and medium-scale agriculture   |
| 5. Financing and agricultural insurance         | – Strengthen and expand market access by agrarian credit and insurance for small and medium farmers  |
| 6. Innovation and agricultural modernisation    | – Increase innovation by adapting new technologies, looking for agricultural productivity and profitability  |
| 7. Management of risk disaster in agriculture   | – Implement a framework for risk management disasters in the agricultural sector to ensure the continuity and productivity of small farmers, regarding the issue of climate change   |
| 8. Capacity building                            | – Increase capacity building and agribusiness productivity for small farmers, with a specific approach for women and youth   |
| 9. Productive restructuring and diversification | – Promote crop diversification and new technologies procedures, for favorable impacts on social, economic and environmental issues   |
| 10. Market access                               | – Strengthen and expand local, regional, national and international markets for small and medium farmers to be involved in the food supply chain   |
| 11. Agricultural health and agrifood safety     | – Protect, strengthen and expand the sanitary and phytosanitary heritage as well as food safety  |
| 12. Institutional development                   | – Strengthen governance in the national agricultural sector  |

Source: Ministry of Agriculture and Irrigation (n.d.), [www.minagri.gob.pe](http://www.minagri.gob.pe).

Likewise, in 2015 MINAGRI developed the National Strategy for Family Farming 2015-2021, which aims mainly at a comprehensive state of intervention for achieving favorable results for farmers and family farmers taking into account a commitment for socio-economic inclusion of rural population. The strategy is composed of three approaches, which aim to guide and organise the basis of sustainable use of natural resources.

Table 3.15. Family Farming Strategy: Development approaches

| Development approaches     | Strategic options  |
|----------------------------|--|
| 1. Territorial development | <ul style="list-style-type: none"> <li>– Involves integrating the economic and institutional, dimensions (productive-cultural, environmental and political partners) and provide a comprehensive view of the territory, to promote co-ordination of rural areas with urban ones, through proposals for development of regional and municipal governments.</li> <li>– In this context, the commitment to the exercise of citizenship is key as it allows the recognition and respect of the rights and duties of individuals and overcomes forms of inequity and exclusion by strengthening self-esteem and equality of opportunity between men and women, putting an emphasis on youth empowerment.</li> </ul> |
| 2. Sustainable development | <ul style="list-style-type: none"> <li>– Refers to the process of natural, economic, social, cultural and institutional transformations aimed at a cumulative and durable increase to improve equitable safety and quality of human life, without damaging the natural environment or compromising the foundations of development for future generations (harmony between economic, environmental and social dimensions).</li> <li>– In this context, risk management also arises because Peru is highly vulnerable to the risks caused by natural phenomena or effects of climate change such as flooding, freezing, landslides, droughts, cold fronts, among others.</li> </ul>                              |
| 3. Human development       | <ul style="list-style-type: none"> <li>– This approach emphasises that the purpose of human development is to create conditions and opportunities for enriching human life and not only to increase the rate of economic growth since, according to the approach, the wealth of the economy is, ultimately, only one dimension of the lives of people and not their ultimate goal.</li> <li>– Consequently, National Strategy for Familiar Agriculture (Estrategia Nacional de Agricultura Familiar-ENAF) proposes a model centered on people and their potential. In this context, the strategic commitment to multiculturalism is key.</li> </ul>  |

Source: Ministry of Agriculture and Irrigation (n.d.), [www.minagri.gob.pe](http://www.minagri.gob.pe).

The characteristics of agriculture are uneven across the country. Due, in part, to agrarian reforms during the 1990s, farms are generally small in Peru, and 85% of the population owns less than one hectare of land (EU, 2013). Larger farms, which are also export orientated, are mainly located in the coastal region. Smaller farms are a bigger feature of agricultural production in the highlands and rainforest regions. Importantly, Peru does not provide farmers with subsidies or other forms of public support. The advantage of such a situation is that Peruvian agriculture constantly reacts to signals provided by the international market, and in particular demand and price.

However, in the context of Peru, not having a policy supporting small farmers may expose ethnic minorities living in the mountains to extreme poverty. These farmers have to deal with many sorts of shocks, including El Niño, low international commodity prices and problems accessing local markets. Reflecting this situation, and as in the case of MIDIS, the Ministry of Agriculture and Irrigation implements two kinds of programmes: those to increase agricultural incomes in rural areas and those to improve the economic performance of rural territories. Concerning the first group, MINAGRI participates in inter-ministerial commissions dealing with poverty and food security and is a member of the Multi-Sectoral Commission for Food Security and Nutrition.

The ministry has developed the National Plan for Agriculture that co-ordinates several programmes and provides guidance to subnational governments. It is active in programmes like *Mi Riego* that promote access to water for irrigation. Access to water is inevitably tied to issues of food security and nutrition. *Mi Riego* employs a holistic approach to water management to tackle challenges related to water availability, a lack of relevant infrastructure and water usage. The involvement of the Ministry of Agriculture and Irrigation in programmes like *Mi Riego* facilitates their integration into the National Plan for Agriculture, thereby increasing their sustainability and the political support they receive.



In addition, to supporting agriculture in mountainous areas, MINAGRI co-ordinates the programme *Sierra Exportadora* (exporting mountains). This programme, created in 2006, promotes a range of rural sectors in the mountains, with emphasis on agriculture, livestock, aquaculture, handicrafts, textiles, jewellery, reforestation, agroforestry and tourism, as well as activities of transformation and industrialisation connected with these sectors. *Sierra Exportadora* focuses on the creation of supply chains and clusters of firms, which are considered as any agglomerations of firms in a given mountain territory. The programme is based on the following actions:

- Promotion of investment by elaborating plans for competitive entrepreneurship. These plans are connected with national territorial programmes.
- Implementation of public-private partnerships.
- Access to public funding.
- Technical assistance and capacity building to promote the creation of local value chains.
- Access to national development banks and funds (PROCOMPITE and AGROBANCO, for instance).

*Sierra Exportadora* also connects with other programmes, such as Agrorural. This co-ordinates a series of projects, including *Sierra y Selva Alta* (forest highlands) and *Aliados* (allies) designed to develop the skills and incomes of agricultural producers in rural areas. *Sierra y Selva Alta* parallels *Mi Chacra Emprendedora* assessed above. It has similar objectives and is delivered by providing information and capacity building to selected members of the local communities (*Yachachiq*) to favour peer-to-peer learning.

Small agricultural producers tend to have limited access to financial markets and insurances. MINAGRI also has several initiatives to develop productive credit programmes, guarantee schemes and insurance systems via AGROBANCO, a state-owned bank focused on agricultural production with 80 offices nationwide.

### Box 3.9. *Sierra y Selva Alta* in the province of San Martín

In the province of San Martín, *Sierra y Selva Alta* provides local communities with information and also with some funds to engage them in new activities such as tourism, fish farming and flower production, among others. The programme favours a sustainable use of local environmental assets. This includes:

- Initiatives promoting birdwatching to attract international tourism. The programme pays an ornithologist to work with the community and work with people to identify ways to capitalise on the fact that their territory displays record high biodiversity.
- Likewise for fish farming, projects try to capitalise on the fact that rivers are abundant in the region and there are several species with a good commercial value that can be easily farmed in the rich Amazon's waters.
- Flowers are another abundant resource of the Amazon. Some small-scale pilot projects have started supporting communities to sustainably collect orchids from trees, including from trees cut by farming.

These projects are also assessing the current barriers (regulation) that need to be modified to give the rural people involved with this activity the possibility of benefiting from the immense resources of the forest without necessarily replacing the forest with low-quality agricultural land.

### *Other national ministries with significant rural programmes*

There are a number of other ministries that also have significant rural programmes, and/or national programmes which have a significant impact on poverty and economic development outcomes for rural communities:

- In terms of economic development, the Ministry of Transport and Communications plays a key role in rural development through programmes related to rural roads and departmental roads.
- The Ministry of Transport and Communications delivers the “Pro Región” and “PATS – Support Program for Sub-national Transport” programmes, which are meant to promote the development of transport at the subnational level, with a logistical and competitiveness approach that meets the needs of the productive sector by developing the potential and opportunities in each locality.
- The Ministry of Transport and Communications also delivers the Program of Subsidized Flights (*Programa de Vuelos Subsidiados*) that provides air transport services to isolated areas where there is no private offering (Loreto, Ucayali, Amazonas and San Martín). This represents significant time savings, decreasing one-day travel to 30-40 minutes. It also represents savings rates between 30% and 53% for users.
- The Ministry of Labour and the Promotion of Employment has a focus on linking business and skills development initiatives with poverty reduction. The Responsible Peru programme includes initiatives to provide formal employment opportunities for targeted groups such as women and young people, skills matching, and to promote entrepreneurship.
- The National Water Authority (ANA) implements some policies related to the provision of rural social services, which are related to water resources, such as: drinking water, sewerage and electricity from hydropower.
- From a social policy point of view, the Ministry of Health also has a rural development strategy that develops at least seven major lines of intervention involving rural areas of the country.
- The Ministry of the Environment also plays a key role in terms of environmental and land-use regulation. Spatial planning and land-use regulation is important in terms of helping to identify key natural resources and implementing land-use regulations to help ensure their sustainable use. The ministry is currently working with the region of San Martín to implement zoning rules related to economic development and ecological resources. This will allow the department and municipalities to better identify ecological resources, areas for the location of human settlements, and appropriate sites for forestry and agricultural developments.

### ***There are lots of good projects but they are fragmented and not connected to an agreed national strategy for rural growth and development***

The governance of rural policy in Peru is complex and there are multiple actors that deliver programmes affecting rural communities. Granularity of programmes may facilitate the matching between needs and policy responses. However, it is also likely this is leading to duplication and lack of critical mass. As these initiatives are not connected to a regional strategic framework or governance arrangement, it means that complementarities

between policies are not realised. This problem is apparent in a disconnect between economic development and social programmes, which will need to be addressed in order to make further progress in reducing rural poverty and growing rural economies.

### Box 3.10. Advances in land management in the region of San Martín

Important efforts are currently underway in the process of land-use planning of the San Martín region. Land-use planning is regulated by the Ministry of Environment and uses the ecological and economic zoning as input for the formulation of plans and strategies to intervene in the region. San Martín is a department that has suffered high rates of population migration due mostly to the exploitation of rubber and the opening the marginal road of the forest, which has led to the establishment of human settlements in unsuitable areas, expanding the agricultural frontier and thus generating deforestation.

Economic ecological zoning allowed the authorities to identify the potential and limitations presented by the territory, identifying the areas for the location of human settlements, and the need to preserve and restore ecosystems, optimise the appropriate use of the territory considering its agricultural, forestry vocation and other activities, considering both the urban and rural problems of the territory.

The San Martín region currently has programmes and projects for the implementation of the Regional Forest Plan approved by Regional Ordinance No. 008-2008-GRSM/CR, the same as that produced from the economic ecological zoning, in order to solve deforestation problems faced by the region, thus allowing the recovery and expansion of these forests.

*Source:* Ministry of Environment (2016).

### Box 3.11. Policy complementarity: What is it and how does it work?

The concept of policy complementarity refers to the mutually reinforcing impact of different actions on a given policy outcome. Policies can be complementary because they support the achievement of a given target from different angles. For example, production development policy, innovation policy and trade policy all support the competitiveness of national industry. Alternatively, a policy in one domain can reinforce the impact of another policy.

Sequencing is also important in policy complementarity. Some policies are best put in place simultaneously. For example, innovation, industrial and trade policies must be synchronised to address the issue of industrial competitiveness from all angles. Other policies realise their synergies in a sequential way. For example, investments in broadband infrastructure need to be followed up with specific policies on access and diffusing those services to the population.

Complementarities between policies can be “latent”, but can be triggered by specific governance arrangements, for example mechanisms that facilitate co-ordination across levels of government (vertical co-ordination) can help attain complementarity across policies from various levels. Alternatively, they can be induced, by combining different policies through conditionality schemes, or when the complementarities are the result of strategic planning. Employment generation opportunities, for example, can be attached to direct cash transfers to support the inclusion of poor people in production so that they can avoid dependency on income transfers.

Policy complementarities can also be spontaneous when they appear as positive side effects of independent actions of ministries or bodies.

*Source:* OECD (2014d), *OECD Territorial Reviews: Netherlands 2014*, <http://dx.doi.org/10.1787/9789264209527-en>.

Peru does not have a full-fledged rural policy, but a large number of programmes. For instance, the government has invested to improve regional accessibility in remote areas since the 1990s. Improved road connections (unintendedly) delivered rural development (Webb, 2013). Likewise, the national conditional cash transfers programme, *Juntos*, has contributed to reducing poverty in the country, reaching out 1 million households, most of which are rural, in 2014. Finally, some smaller programmes promote business and aim to generate rural jobs. This is the case of *Mi Chacra Emprendedora* (also called *Haku Wiñay* – which means “growing together”, in Quechua), implemented by MIDIS and its twin programme *Sierra y Selva Alta*, which is implemented by MINAGRI. Having different programmes managed from the centre by different ministries is inefficient. It generates duplications and needless complexity.

The key problem facing rural areas is that rural assets make a significant contribution to national wealth but the income levels and well-being of rural people are low. Sustained economic growth and the implementation of numerous large-scale social programmes – conditional cash transfer programmes among them – have lifted more than 20% of the country’s population out of poverty; however, some 50% of rural people remain below the poverty line. Up to 17% of rural children aged 5 and under are malnourished and many of them suffer from stunted growth. It has proven difficult to implement effective policies in programmes in rural areas for a number of reasons. Among them are a lack of information to inform strategic planning processes, capacity constraints at the local level, and generally weak regional governments that are often unable to scale up policies and provide public goods.

### Box 3.12. *Mi Chacra Emprendedora* programme

The *Mi Chacra Emprendedora* programme (or its version at the Ministry of Agriculture and Irrigation: *Sierra and Selva Alta*) is an example of a programme that should be scaled up and implemented in food insecure rural regions. The peer-to-peer learning systems impel agricultural innovation and diversification into new, more profitable crops.

The programme also contributes to the establishment of a relationship between the central government and rural communities. This permits communities to articulate their needs and priorities to decision makers at the national level and could also conceivably lead to the more efficient delivery of public services in underserved communities. Enhanced public services provision could, in turn, stem the outflow of rural citizens to urban areas.

Peru’s various programmes promoting rural development are insufficiently co-ordinated. The Ministry of Development and Social Inclusion is responsible for a large number of programmes, and it should be responsible for co-ordination of the other ministries. However, it does not have the capacity or the power to co-ordinate a broad rural development agenda. Most programmes have therefore focused solely on the immediate relief of poverty rather than embarking on a more comprehensive policy that deals with the factors generating poverty. For instance, *Juntos* successfully reaches people in need (1 million households in 2014). But it is not able to provide these people with income-generation opportunities: with a pool of skills or capital to sustainably improve their living conditions. Conversely, transferring cash – albeit very efficiently – can generate dependence and lower the incentives to leave the system.

The Ministry of Agriculture and Irrigation is confronted by similar challenges. Its programmes are providing rural citizens with tailored interventions, but most of them are on a small scale and do not co-ordinate with similar initiatives implemented by other branches of the government, including MIDIS (Table 3.16).

Table 3.16. **Programmes provided by the Ministry of Agriculture and Irrigation (select details)**

| Programme  | Budget 2015 USD | Number of households involved | District or province   |
|--|-----------------|-------------------------------|--|
| High Sierra Project  | 8.9M            | 18 533                        | Lima, Amazonas, San Martín and Cajamarca (total of 85 districts)   |
| North Sierra Project   | 2.4M            | 839                           | Lambayeque, Cajamarca, Amazonas and La Libertad (total of 115 districts)   |
| Sierra Development Project II*   | 0.8M            | 0                             | Arequipa, Puno, Moquegua, Tacna, Apurímac and Cusco (total of 60 districts)  |
| Support for Rural Productive Partnerships in the Sierra (ALIADOS) II     | 12.9M           | 16 611                        | Apurímac, Ayacucho, Huancavelica, Hunauco, Junín and Pasco (total of 480 districts)  |
| My Irrigation  | 54.4M           | 4 534                         | Amazonas, Áncash, Apurímac, Arequipa Ayacucho, Cajamarca, Cusco, Huancavelica, Huánuco, Junín, La Libertad, Lima, Moquegua, Pasco, Piura, Puno and Tacna (total of 64 districts) |
| Small and medium-sized infrastructure in the highlands of Peru – PIPMIRS | 10.6M           | Implementation has not begun  | Amazonas, Áncash, Ayacucho, Cajamarca, Huancavelica, Huánuco, Junín, La Libertad and Piura (total of 39 districts)   |

Notes: Number of beneficiary families based on a statement provided in 2015. \* The project has been closed.

Source: Ministry of Agriculture and Irrigation (n.d.), [www.minagri.gob.pe](http://www.minagri.gob.pe).

Peru's social programmes are largely detached from the country's competitive agenda, focusing on the creation of employment and income-generating opportunities. The Ministry of Production does not, for example, actively participate in efforts to address poverty and promote local economic development in rural areas. The same disconnect is evident at the subnational level and in non-governmental organisations and citizens' organisations; the engagement of the business community is minimal. For instance, *Juntos* (and the large pool of information the programme collects about households and communities) may operate in co-ordination with a pro-growth programme, or better a policy, that empowers people and creates the conditions to enable them to leave the conditional cash transfer system, after some rounds.

Yet these programmes are establishing an important legacy: they contribute to the creation of stronger rural stakeholders who may be able to influence the national approach to rural development in the near future. Emerging rural constituencies may become important to interface rural communities with investment, including in mining activities, in the coming years. This might facilitate developments and allow the country to increase the volume of its exports in a moment of low international commodity prices.

There is now a general need for strong leadership, a clear vision and greater co-ordination among policies and programmes. Rural development should be based on a whole-of-government approach in which programmes are co-ordinated and scaled up. There is a need for a multidimensional policy that delivers regional accessibility, valorises cultural and natural amenities, and gives communities the power and resources to directly govern some key issues, such land use and local taxes for instance, in their

territories. This would provide the country with a full-fledged rural development policy, like the ones that can be found in OECD countries.

### Box 3.13. Place-based approach to addressing poverty: Findings from Brazil

Territorial inequality among Brazil's states is very high by the standards of OECD TL2 regions. Inequality in Brazil has been declining steadily since 2004. From 1980 to 1986, inequality in gross domestic product (GDP) per capita among the states experienced a large decline, but then increased again until 1989. During the decade that followed, territorial inequality fluctuated but has been trending downwards since 1998. The trend in territorial inequality strongly resembles the trend in interpersonal inequality, suggesting that the performance and development of different locations are highly linked to overall trends.

Like Peru, Brazil has successfully implemented a large number of social policies intended to benefit disadvantaged citizens, many of them located in disadvantaged areas. However, these programmes are not integrated and economic development and dynamism has not yet taken hold in areas with high levels of poverty. Moreover, these policies are not cost-free. Dependency relationships between citizens and regions receiving the transfers can potentially develop, especially if they depend on external rather than endogenous resources for development and growth in the medium and long term.

Targeted social policies, usually characterised by transfers to households and investment in basic infrastructure and services, have brought many disadvantaged citizens out of poverty. However, it was found that these policies could be enhanced by place-based policies focused on addressing local bottlenecks for development. Brazil's lagging regions have significant gaps in human capital and infrastructure. Targeting these key areas for development through an integrated approach can help put them on the way to a sustainable growth path. This requires national sectoral policies to be targeted in space, so they interact and complement each other in positive ways and avoid unintended consequences.

Source: OECD (2013b), *OECD Territorial Reviews: Brazil 2013*, <http://dx.doi.org/10.1787/9789264123229-en>.

To realise this outcome, governance arrangements for rural policy will need to be improved. Mirroring the situation in cities, rural regions would benefit from the creation of stronger regional governments that can co-ordinate investment and the delivery of public services. These include rural-urban partnerships that help adjacent communities interact and that facilitate the delivery services and public goods at the right territorial scale. In fact, the lack of an intermediate government level that co-ordinates different streams of national policies is a key challenge in Peru that particularly affects the capacity of the public sector to promote the sustainable development of the country. An effective co-ordination body will also be needed at a national level, coupled with a clear vision and political leadership. For this reason, and given the importance of rural development in the country, the PCM and MEF should play a more proactive role in the rural development agenda to deliver a genuinely whole-of-government approach.

There are a number of experiences from OECD countries that Peru can learn from to address issues related to developing a pro-growth rural development agenda, and improving the alignment and co-ordination of policies. Over the past two decades, the OECD has developed a rural policy agenda which, in part, is designed to address these issues. The following section outlines this and highlights good practices for rural policy makers in Peru.

## Lessons from OECD countries for improving rural development policy

### *The New Rural Paradigm (NRP)*

The New Rural Paradigm (NRP) is a framework adopted by OECD member countries to promote development in rural regions. Globalisation, the dramatic reduction in farm employment and the emergence of important non-farm niche markets have generated a common understanding that rural policy falls short of being conceived only as agricultural policy. On the contrary, across OECD countries rural areas are increasingly looked upon as a heterogeneous array of regions where one-size-fits-all policies are no longer suitable to capture the diversity of rural needs and opportunities (OECD, 2006a). In this context, innovative governance structures have been created in many OECD countries to strengthen co-ordination across sectors and levels of government and between public and private actors; and innovative policy instruments aimed to identify and exploit the varied development potential of rural areas. The OECD has labelled this policy shift as the “new rural paradigm” whose two main characteristics are: 1) a focus on places instead of sectors; and 2) a focus on investments instead of subsidies (Table 3.17). The key features of the NRP are:

1. an investment-oriented approach
2. a holistic focus on the entire rural economy and not just a few sectors
3. a bottom-up development strategy that reflects local priorities and an inclusive style that encourages the participation of all potential stakeholders, not just a small elite group.

Table 3.17. **The New Rural Paradigm**

|                   | Old approach                                    | New approach  |
|-------------------|---|---|
| Objectives        | Equalisation, farm income, farm competitiveness | Competitiveness of rural areas, valorisation of local assets, exploitation of unused resources  |
| Key target sector | Agriculture                                     | Various sectors of rural economies (for example rural tourism, manufacturing, ICT industry, etc.)   |
| Main tools        | Subsidies                                       | Investments   |
| Key actors        | National governments, farmers                   | All levels of government (supra-national, national, regional and local), various local stakeholders (public, private, non-governmental organisations) |

Source: OECD (2006a), *Competitive Cities in the Global Economy*, <http://dx.doi.org/10.1787/9789264027091-en>.

The aim of the NRP is a better alignment of policies aimed at incentivising rural regions to mobilise their assets and resources. This approach to rural development creates the potential for rural regions to move from lagging status to making a stronger contribution to national development. The strategy does not envision that in this process rural regions will inevitably grow to become large urbanised regions. In the regional hierarchy there are specific roles for both large urban and smaller rural regions and these roles are complementary. Instead, what is contemplated is a process where rural regions develop in the sense of accumulating the types of capital that are appropriate for their particular role in the national and global economies.

The NRP is a framework for thinking about rural policy. It is up to each country to determine how to implement the approach. A necessary first step is the identification of a national rural development strategy, followed by the introduction of policies and

programmes, and finally the implementation and evaluation of these interventions on a regional basis. The idea is to integrate and better co-ordinate all national programmes that concern the rural domain and at the same time add flexibility to national policy to ensure that it adapts to the different needs of various rural regions.

The NRP promotes a place-based approach involving top-down and bottom-up development processes. Because the NRP is an investment approach, it implicitly adopts economic development as wealth or a capital expansion approach. In rural regions, the current and optimal mix of capital are likely to differ, and will also differ from those of urban regions. This suggests that there can be important benefits from introducing both urban and rural development approaches. Further, because rural regions are more reliant on natural capital, and natural capital endowments vary considerably across rural regions, it is important to follow a bottom-up approach where each region identifies its particular assets and opportunities, and identifies a specific strategy to make investments that augment its unique capital stock.

The NRP recognises the large variability in the needs and assets of rural regions requiring adaptability and flexibility. This large variability makes it impossible for a central authority to manage the development process. While national governments have the important role of setting out broad goals and acceptable behaviour, it is important to provide a flexible approach at the regional level to finding ways to achieve these goals. National financial support can help or limit this process depending on how it is provided. Where it is provided with some flexibility in how the funds can be used, it can greatly facilitate the development process. However, when funds are tightly restricted to specific uses, the result is typically activity in rural areas that leads to limited development. The region takes the money that is offered and implements the project, but the project provides few long-term benefits, so in effect the money is wasted.

The final part of the NRP is a recognition that an integrated rural policy requires significant co-ordination among various national government ministries, regional and local governments, and private firms. This point is further expanded in Chapter 4. Effective development requires contributions from all actors, but these contributions need a degree of co-ordination. The aim of multi-level governance is to provide at least a forum where each party knows what the other parties intend to do. In some cases this may lead to a co-ordinating agency, but this is neither always necessary nor desirable.

### ***The New Rural Policy 3.0***

The current rural framework, however, has evolved since 2006. The OECD Rural Policy Programme has engaged in 12 national rural policy reviews covering a wide spectrum of national conditions and rural regions. Given that each review was conducted with the new rural paradigm as a metric, they contain valuable information on the adoption of this paradigm by member countries.

In addition, the elaboration of a number of rural thematic reviews has also provided a fresh perspective on the changing nature of rural economies and the opportunities and constraints facing rural development. Thematic reviews are also tools to facilitate international policy dialogue and mutual learning. The most recent thematic rural reviews focus on the interactions between urban and rural regions (OECD, 2013d); identification of key factors and bottlenecks for economic growth (OECD, 2008; 2012b); and the links between renewable energy deployment rural development (OECD, 2012a).



Furthermore, recent advancements of the OECD on regional and urban policy have shed light on important dimensions of rural policy. In particular, the elaboration of functional urban areas (FUAs) has important implications for rural policy as FUAs bring about a new framework with which to address rural-urban interactions. This framework also considers medium-sized towns and cities and the elaboration of multidimensional indicators to measure well-being at the regional and local levels. This provides a broader perspective with which to examine differences and similarities in the quality of life across different types of regions.

The OECD's approach is now evolving – from the New Rural Paradigm to the New Rural Policy.<sup>7</sup> Where the New Rural Paradigm provided a conceptual framework, the New Rural Policy focuses on mechanisms for the implementation of effective practices. The various elements of the policy are not distinct – they overlap and mutually support one another.

Table 3.18. **The New Rural Policy 3.0**

|                             | Old paradigm                                  | New Rural Paradigm (2006)   | Rural Policy 3.0: Implementing the new rural paradigm   |
|-----------------------------|---|---|---|
| Objectives                  | Equalisation                                  | Competitiveness   | Well-being considering multiple dimensions of: 1) the economy; 2) society; 3) the environment   |
| Policy focus                | Support for a single dominant resource sector | Support for multiple sectors based on their competitiveness                   | Low-density economies differentiated by type of rural   |
| Tools                       | Subsidies for firms                           | Investments in qualified firms and communities                                | Integrated rural development approach – spectrum of support to public sector, firms and third sector  |
| Key actors and stakeholders | Farm organisations and national governments   | All levels of government and all relevant departments plus local stakeholders | Involvement of: 1) public sector – multi-level governance; 2) private sector – for-profit firms and social enterprise; 3) third sector – non-governmental organisations and civil society |
| Policy approach             | Uniformly applied top-down policy             | Bottom-up policy, local strategies  | Integrated approach with multiple policy domains  |
| Rural definition            | Not urban                                     | Rural as a variety of distinct types of place                                 | Three types of rural:<br>1) embedded in metropolitan region;<br>2) adjacent to metropolitan region;<br>3) far from metropolitan regions   |

Source: OECD (2016), *OECD Regional Outlook 2016*, forthcoming.

### ***Rural-urban linkages peri-urban, intermediate and remote rural***

The New Rural Policy, by combining bottom-up and top-down approaches, can better adapt policy to the needs of different types of rural regions. This flexibility is important given the differences in the types of rural regions, each with its particular urban and rural interactions. Chapter 1 of this review displayed the importance of the choice of a rural definition in determining how much of a country is characterised for policy purposes as urban or rural. In all three general types of rural regions, whenever administrative boundaries are drawn, unless they are tightly drawn around population centres, there will be some incorporation of rural territory into what is defined as urban areas.

The needs and characteristics of remote rural regions, rural regions close to cities and rural regions integrated into functional city regions are very different, despite the existence of strong urban and rural interactions in the three cases.

- There is rural territory that is strongly integrated into an urban context as part of a metropolitan region. In this territory, the development process of the rural territory cannot be decoupled from the larger urban development process.
- There is rural territory that is adjacent to a metropolitan centre but not strongly attached to it. This territory may be incorporated into an administrative region that is considered to be urban, but the territory and its population are in reality still rural. In these regions, while there are some important connections between urban and rural territory, mainly through the flow of goods and services, the two types of territory follow different development paths.
- The third type of rural territory has very weak urban links and is distant from any major urban concentrations. While there are urban places in these remote rural regions, they are small and exert only limited influence on the rural population and landscape.

Functional urban areas, or metropolitan regions, contain a strong degree of symbiosis between the urban and rural parts. This is especially true when urban regions are defined as metropolitan areas that include an urban core and a related hinterland (OECD, 2013d and Box 3.14). These functional regions are based on commuting patterns that attach a rural zone that extends beyond the formal boundary of a city to create a hybrid rural and urban territory. Within this territory the urban function is dominant, but there is a strong degree of symbiosis between the urban and rural parts (OECD, 2013c). These urban and rural territories are linked through flows of people, economic exchanges, shared infrastructure, environmental services and government interaction.

In the case of the Nuremburg Metropolitan Region, there was a conscious effort to extend public transport out into the rural territory to create easy opportunities for rural residents to take advantage of retail opportunities and more advanced services in the core, but also to encourage urban residents to take short trips to the countryside to experience nature. Conversely, because the city of Prague and the adjacent rural territory had uncooperative relations, there were constraints on Prague's growth and uncoordinated housing and transport development.

An important share of rural areas (and population) is contained in FUAs. Particularly when larger administrative regions are used in defining functional areas, as in the case of the United States, the share of rural territory that is embedded within the functional areas is quite large. Indeed, the share of rural population found in metropolitan statistical areas (MSAs) in the United States is larger than the share of rural population in non-MSAs.

In intermediate regions there is typically more balance between urban and rural populations. This balance carries over into the economy where there are often very strong synergies between urban and rural specialisations. In the Lexington, Kentucky MSA (United States), the main city, Lexington, hosts the major financial, retail, health and education functions, but manufacturing tends to be found in adjacent counties, as does a large share of moderate income housing. Similarly, the Geelong region of Australia consists of a city and a large rural area that is divided into several autonomous local governments. The traditional economic manufacturing base of the city is declining, but the high amenity and agricultural production value in the surrounding rural territory is being used to help restructure the regional economy around advanced services. With a high quality of life, largely based on high-quality rural amenities, it is easier to attract the high-skilled professionals that Geelong needs to transform its economy.

### Box 3.14. Proximity to cities and economic growth

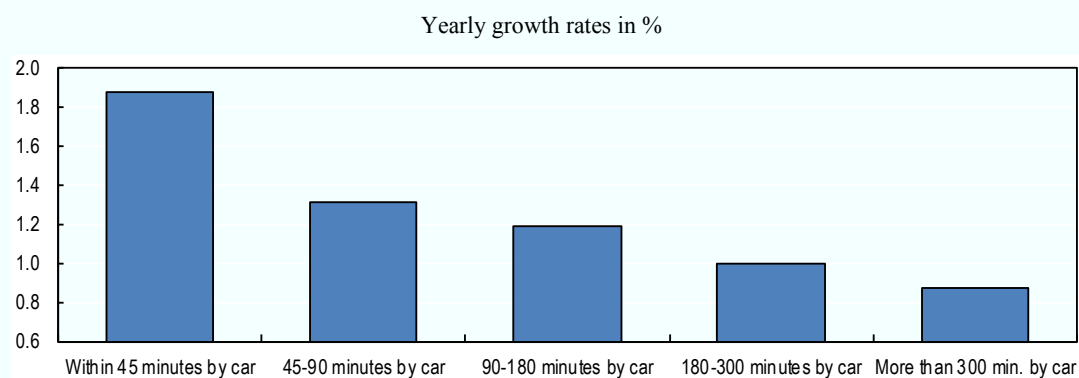
Large metropolitan areas are important drivers of economic activity within countries and typically have the highest per capita gross domestic product (GDP) of all regions within a country. However, the economic effects of large metropolitan areas are not confined to their borders. They also play important roles for economic activity in surrounding regions. Their size and economic strength implies that they are key markets for many firms in rural areas. Even firms that do not directly sell to metropolitan areas rely on them due to their function as hubs for long-distance travel or because providers of highly specialised business-to-business services can predominantly be found within them. Therefore, large metropolitan areas form the geographical focal point of economic activity even for regions that are a considerable distance away.

Ahrend and Schumann (forthcoming) estimate the relation between distance to metropolitan areas and economic growth. It turns out that the actual travel time required to reach a metropolitan area is a better predictor of economic growth than aerial distance. Travel time indicates the time required to travel by car from the centre of a region to the centre of the closest large metropolitan area and is obtained from Google Maps. In contrast to aerial distance, travel time also accounts for factors such as the state of transport infrastructure and geographical characteristics that affect car traffic.

Between 1995 and 2010, longer travel time to metropolitan areas has been associated with significantly lower growth of per capita GDP at the regional level. The effect is most pronounced when it comes to distance to very large metropolitan areas with more than 2 million inhabitants. However, it is also visible for distance to smaller metropolitan areas. The marginal effect of an additional minute in travel time is greatest at short distances to metropolitan areas. It becomes continuously weaker for longer travel times. Beyond 300 minutes the correlation between travel time and per capita GDP growth disappears.

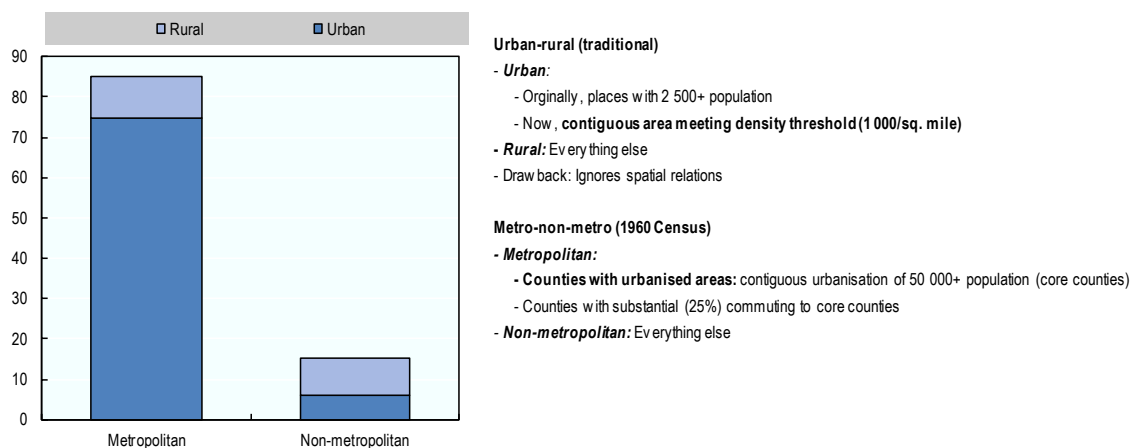
Figure 3.15 shows the results of a regression of yearly growth rates on a set of dummy variables for the respective travel time brackets (including initial per capita GDP levels and a set of country fixed effects as control variables). The data cover TL3 regions from 18 OECD countries over the 1995-2010 period. The graph shows average yearly growth rates for each group of regions conditional on the control variables. It illustrates that regions within 45 minutes of a metropolitan area with more than 2 million inhabitants grew on average by 1.8% per year. The growth rate is almost half a percentage point higher than the growth rate of regions within 45 to 90 minutes of metropolitan areas of the same size. See Ahrend and Schumann (forthcoming) for further details.

Figure 3.15. Annual growth rates for regions (time taken to travel by car to metropolitan area)



Source: Ahrend, R. and A. Schumann (forthcoming), “Does regional growth depend on closeness to urban centres? The role of economic and geographic distance”.

Figure 3.16. The official definitions of “rural” concept in the United States



Remote rural regions also display strong urban and rural interactions. In many OECD countries, the majority of the rural territory, but not the majority of the rural population, is found in territory that is only weakly connected to a large urban place. Nevertheless, within these predominantly rural territories there are urban places and some of them can be large towns. Importantly though, the urban places in these regions almost always derive their economic function from the surrounding rural territory. In these more remote rural regions, urban places follow a more traditional urban role of being market points for the export of rural production and the import of inputs needed for rural production.

In small remote regions such as central Finland, there are considerable problems in providing high-quality public services at a reasonable cost. Individual communities are too small to provide them individually and often can be too far apart to have a single central site for a region. In this case, not only are shared services required among small communities, but attention has to be paid to finding innovative ways to deliver them. Central Poland represents another highly rural region with only small urban settlements. Here, too, the challenge is to organise dispersed local governments to deliver better public services. In the case of Poland, there is not a strong tradition of local co-operation and historically local governments were very weak and took few independent decisions. This has complicated efforts to form effective partnerships among urban and rural areas despite the highly interconnected local economy.

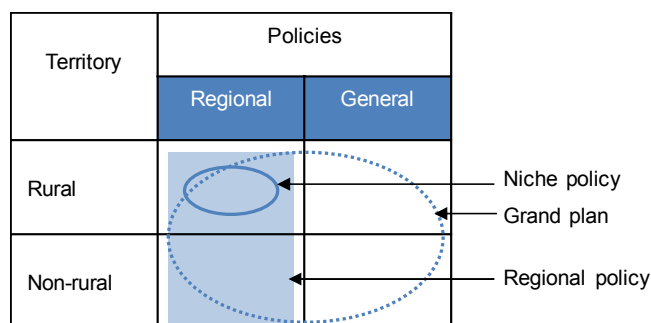
### ***A flexible approach works best for modern rural policies balancing broad and narrow rural policy***

Given that rural policy involves a wide number of ministries, the policy framework should on the one hand bring coherence to a complex policy setting and on the other hand adaptability and flexibility to address the specific needs of rural areas. Due to the large number of ministries and agencies with responsibility for some aspect of rural policy, there is a danger for rural policy to be watered down within the internal multiple priorities of these sectoral ministries. In order for rural policy to exist in a way that is “fit for purpose”, an institutional framework has to be put in place that provides a proper context. OECD member countries have followed one of two approaches by adopting either a broad or narrow rural policy.

1. broad rural policy refers to the efforts to influence all actions with impacts on rural areas within and by the different administrative sectors as part of the development of the rural society
2. narrow rural policy includes the measures and instruments targeted specifically at rural development.

Broad and narrow rural policy can address the needs of rural policy in different ways. Broad rural development policies are those that adopt a grand overarching design – a cross-sectoral policy in practice, one that attempts to integrate all policies. Included in this frame are those policies and programmes that were designed with other objectives in mind (perhaps without a rural focus or considerations) but which have intended or unintended impacts on rural dwellers and places. In contrast, the more “niche” or “narrow policy” approach is policy designed specifically to address the needs of rural communities (Figure 3.17). Often with the grander scheme, the effort to “address all areas of a rather broad policy framework” such as agricultural policy, transportation policy and energy policy outdistances capacity. As such, the push to co-ordinate all actions and bridge all gaps tends to yield more inertia and inaction than concrete results (OECD, 2006b). The too narrow rural policy delivers results, but also policies that risk being too disconnected from other regional, sector or national policies.

Figure 3.17. OECD matrix for rural policy analysis



Source: OECD (2006b), *The New Rural Paradigm: Policies and Governance*, <http://dx.doi.org/10.1787/9789264023918-en>.

A broad rural policy tends to see rural regions as being quite similar to urban regions in terms of their opportunities and constraints, and more importantly in terms of the types of policy instruments that can be provided to them. It largely assumes that there is little need for a territorially specific policy because a single national policy operated by each ministry can adequately meet the needs of people wherever they are located. By contrast, narrow rural policy is inherently territorial in nature. It supposes that there are such fundamental differences between urban and rural regions that a single policy will be ineffective in at least one type of territory. Instead of a single uniform policy, ministries may need specifically targeted policies that are designed to be effective under rural conditions.

Different OECD member countries apply different combinations of broad and narrow rural policy addressing their own needs:

- The government of Spain adopted the Law on Sustainable Development of Rural Areas. This law extends the responsibility of rural policy from a sole actor, the Ministry of Agriculture and Irrigation, to the government at large (OECD,

2009b). By creating the *politica rural de estado*, or a “rural policy of state”, it has enabled a way to better co-ordinate the efforts of the regional administration and better link them with the national government. The national body tasked with overseeing this effort is comprised of representatives of different ministries and one representative from each region, the *consejero* in charge of rural development in each region. Mainstreaming rural policy at the national level was key because Spain has a highly decentralised governance structure with extremely autonomous regions. Each region has extensive experience with rural development policy garnered through the LEADER programmes and local action groups. But the approach to a rural governance policy framework was often disconnected at the regional and the national level and yielded suboptimal results (OECD, 2009b). The law essentially formalised much of what already existed in Spain as well as creating a state rural policy with oversight at the national level.

- England has tried to achieve flexibility by adopting a broad rural policy that relies on the general programmes of line ministries to deliver essentially the same forms of support to urban and rural places. But because the EU overlays a narrow approach to rural policy through its Rural Development Funds, there is ultimately a mixed approach to rural development that combines broad (mainstreaming) and narrow (the Rural Development Programme for England, RDPE) approaches. Undoubtedly, mainstreaming equates rural with urban and moves rural beyond the negative of rural “special pleading” to focus on the positive contributions of rural areas to the overall health of the regional and national economy. Since “basing policies just on rural needs” could shadow this view and cause “policy makers to see delivery to rural communities as a marginal activity” and possibly “raise unrealistic expectations”, the preference in England is to limit rural-specific interventions to the RDPE (Atterton, 2008). Ironically, mainstreaming rural in the context of England is almost too broad and too narrow, placing it in a space that needs further clarification and support. Thus in England, where the vast majority of the rural population is found within urban metropolitan regions so they have ready access to urban services, the inability to provide any targeted support to rural areas causes problems. For example, while school choice is relatively easy to accommodate in an urban context where there are several schools relatively near any house, it is a difficult situation in a rural location where there is only one school that is accessible.
- Finland has also adopted a mixed approach. The National Rural Policy Programme (*Maaseutupoliittinen kokonaisuusohjelma*) is drawn up by the Rural Policy Committee and is one of the four special programmes derived from the Regional Development Act (602/2002). It is the main instrument of broad rural policy and as such aims at providing coherence to the different sectoral policies oriented towards rural areas. Revised every four years, the programme contains both a strategic perspective and concrete proposals carried forward by the Rural Policy Committee. The Rural Policy Programme includes a special Rural Policy Programme. The narrow rural policy refers not only to EU programmes but also to other activities of the national rural policy and the main instrument of the narrow rural policy is the Rural Development Programme for the Mainland Finland 2007-13. Thus, Finland has successfully integrated EU programmes at the core of its “narrow rural policy” and is considered a “model” in many respects for other EU countries, especially its LEADER method and its approach to

mainstreaming national funds and other EU funds in order to cover the entire countryside.

Whether a broad or narrow perspective is appropriate will largely depend upon the mix of rural territory, as described in the preceding section. It will also largely depend on the types of rural regions in a given country:

- Where a significant share of the rural population lives far from an urban centre and has a quite different quality of life and level of well-being, a narrow rural policy is needed. Differences in conditions and geographic separation make it unlikely that rural residents can rely on urban-oriented policies.
- Conversely, if the majority of the rural population lives in close proximity to urban territory so they can easily take advantage of urban providers of goods and services and are well integrated into the urban economy, then a broad rural policy may be appropriate.

For the case of Peru, a flexible approach combining broad and narrow perspectives might be needed. A broad approach would be needed to better integrate the economic and social development initiatives currently targeting rural areas. This would need to be complemented by a narrow approach which recognises the territorial diversity of the country, and the varying institutional capacities within different regions.

There are a number of different dimensions to this diversity which would need to be taken into account in designing policies:

- Geographic diversity between the coastal, highlands and rainforest areas. This physical geography results in very different climatic conditions and access to markets.
- Proximity to Lima and larger cities. The economies of the coastal regions, in particular, are shaped by urban dynamics.
- Degree of rurality. Rural areas tend to have a higher level of poverty and informality. Indigenous populations experience poorer socio-economic outcomes, particularly in the Amazonia.
- Presence of the mining industry. The mining industry generates particular socio-economic and environmental dynamics which need to be taken account of.

While it would be an exaggeration to say that every region needs a unique rural policy, it is clear that each region requires the flexibility to align national rural priorities with regional needs. Because the rural situation varies considerably, rural policy has to incorporate this diversity if it is to be effective. This kind of flexibility is dependent upon effective multi-level governance and fiscal arrangements, which is the subject of Chapter 4.

## Recommendations

Peru has laid the foundations for a contemporary approach to national urban and rural policies. There is a growing interest at the national level in urban policies reflected in the NUDP (2006-15). Investment has been committed to improving the quality and coverage of planning instruments at a subnational level. Rural policies are currently mainly orientated toward the alleviation of poverty, which is understandable given the socio-economic conditions in many rural places. Economic development programmes seek to support rural communities in improving agricultural productivity and natural

resource use. These programmes have created local networks and constituencies which provide a platform for a place-based approach to rural development.

There are similar challenges related to co-ordination and alignment across both policy areas. Multiple ministries and agencies at a national level have an interest in urban and rural policies, yet there is a lack of effective whole-of-government co-ordination. Policy and planning frameworks which have been developed are not connected to resource allocation decisions in a co-ordinated way, and their implementation is not consistently monitored and evaluated. There is significant variation in how policies are implemented at a subnational level, and a lack of alignment between different levels of government. In some cases, national ministries take a direct role in the delivery of services at a regional and local level, and in other cases responsibility is given to subnational governments without adequate resourcing. Regions are largely bypassed, which reduces incentives for collaboration between provincial and district municipalities.

These institutional issues mean that the challenges facing Peru's cities and regions cannot be effectively addressed without policy reform. There are a number of challenges which provide a compelling case for change.

- overcrowding of public infrastructure and services, and spatial inequalities within the metropolitan area of Lima
- relative underperformance of Peru's secondary or intermediate cities
- uneven distribution of poverty, which is now concentrating in fewer rural places
- low benefits which tend to be generated for local communities by extractive industries.

### ***Develop a more strategic approach to national urban policy***

The Peruvian government should develop a comprehensive approach to urban policy which builds upon the lessons of the National Urban Development Plan (NUDP) 2006-2015, and encompasses the following elements:

- clear policy objectives and indicators, which are outcomes-based, and monitored and evaluated
- leadership of the Presidency of the Council of Ministers and the Ministry of Economy and Finance to ensure co-ordination in urban policies across national ministries (in particular Housing, Construction and Sanitation; Transport and Communications; Environment; and Production)
- incentives and technical assistance for provincial and district municipalities to implement planning instruments and systems for land management (land-use zoning, development approvals and cadastre)
- enforcement of laws to protect public land and property rights, which is currently lacking
- the incorporation of strategic spatial planning into the fiscal framework (for example funding proposals for infrastructure should be required to demonstrate alignment with strategic spatial plans)
- incentives to encourage the matching and co-ordination of policies at the scale of functional urban areas



- an articulation of how cities can contribute to national strategies to lift productivity and promote economic diversification, and an identification of the economic roles and functions of cities within Peru’s urban system.

In parallel with this work the government should also work with key stakeholders to identify options for improving the governance of land use and infrastructure for functional urban areas. This includes ensuring each city has an endorsed strategic spatial plan and urban plans, and that there is a co-ordinated process for linking this with investment decisions about infrastructure at a subnational and national level. The government should prioritise reforms for the metropolitan region of Lima, which will then provide lessons for improving planning and governance arrangements in intermediate cities.

Implement a pro-growth rural agenda by:

- ensuring that the vision, objectives and priorities for rural development have a strong focus on productivity and diversification and are included in relevant policies across government (the centre of government – Presidency of the Council of Ministers and the Ministry of Economy and Finance – should work in partnership to ensure buy-in and commitment from different national ministries to this policy agenda)
- prioritise the development of initiatives which are designed to enhance productivity and diversification opportunities for rural communities (e.g. mining, agriculture, fisheries and tourism)
- adapt existing social programmes such as *Juntos* and better link clients with opportunities for skills development, employment and entrepreneurship (this will provide a platform to make further inroads into poverty reduction, and reduce reliance on transfers over time)
- strengthen the role of regions in the planning and co-ordination of rural development initiatives by ensuring concerted regional development plans include a strong focus on rural economic development.

## Notes

1. Ordinance No. 1862, December 2014, issued by the Metropolitan Municipality of Lima, related to territorial and urban development planning of the metropolitan area of Lima, is not in line with the national regulation (DS No. 004-2011-VIVIENDA) issued by the Ministry for Housing, Construction and Sanitation (Ministerio de Vivienda, Construcción y Saneamiento - MVCS).
2. Peru eliminated any kind of support to agriculture in the 1980s, when the country was facing a severe economic and budgetary crisis. Since then, its agriculture has become more productive, flexible and able to compete at the international level. However, small farmers are exposed to all kinds of shocks, including those caused by mining activities competing for water and land.

3. Non-traditional exports summed up to USD 11.6 billion in 2014, representing a 5.8% increase from the same period in 2013. Agricultural products – in particular quinoa, cocoa, fresh avocados and grapes – compose the most important sector among non-traditional exported goods, since those represented 36% of the total shipments with added value. The Central Reserve Bank of Peru (BCR) reported that in 2014, agricultural exports amounted to USD 4.2 billion alone (Ojeda, 2015).
4. <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=39557612>.
5. The programme is called “*Mi Chacra Emprendedora*” in the Spanish-speaking communities and “*Haku Wiñay*” in those where Quechua is the dominant language.
6. FONIE was created by Article 23 of Law No. 29951 – Public Sector Budget for Fiscal Year 2013. Its purpose was to finance pre-investment studies and/or the execution of public investment projects by the regional or local governments, as well as the sector or private legal entities.
7. The New Rural Policy was endorsed by delegates of the 10th OECD Rural Conference, “National Prosperity through Modern Rural Policy”, held in Memphis, Tennessee on 19-21 May 2015.

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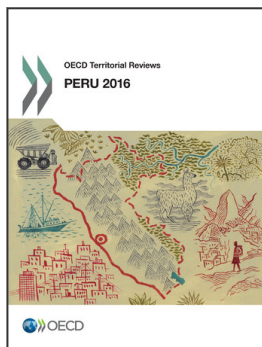
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