

# BTI 2014 | Peru Country Report

	scale	score	rank	trend
<b>Status Index</b>	1-10	<b>7.04</b>	# 32 of 129	
Political Transformation	1-10	6.75	# 42 of 129	➔
Economic Transformation	1-10	7.32	# 25 of 129	➔
<b>Management Index</b>	1-10	<b>5.94</b>	# 36 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2014 – Peru Country Report. Gütersloh: Bertelsmann Stiftung, 2014.

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**Key Indicators**

Population	M	30.0	HDI	0.741	GDP p.c.	\$	10931.9
Pop. growth <sup>1</sup>	% p.a.	1.3	HDI rank of 187	77	Gini Index		48.1
Life expectancy	years	74.2	UN Education Index	0.713	Poverty <sup>3</sup>	%	12.7
Urban population	%	77.6	Gender inequality <sup>2</sup>	0.387	Aid per capita	\$	19.7

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

During the period under review, Peru's record of political and economic transformation was marked by progress in some areas and stagnation in others. The period mainly covers the first 18 months of Ollanta Humala's presidency. Humala was elected in June 2011 in a runoff against right-wing candidate Keiko Fujimori, the daughter of former president Alberto Fujimori, who is currently still in prison for crimes against humanity. A left-wing nationalist, Humala initially promised a "Great Transformation" of Peru, which some expected to entail radical institutional changes like those put in place by Hugo Chávez in Venezuela, Evo Morales in Bolivia and Rafael Correa in Ecuador. Instead, Humala made his program more moderate, as seen as early as the runoff campaign, to secure the votes of the center and to not alienate Peru's powerful economic elites. After taking office, Humala even seemed to move further to the right. He preserved the basic institutional framework of Peru's booming economy and even maintained highly controversial resource extraction projects. Such decisions drew criticism from the left as well as protests from citizens in several regions. Some protests turned violent and state security forces reacted harshly. Despite Humala's credible emphasis on social inclusion, the gap remained between citizens' high expectations and the administration's performance, which undermined the legitimacy of Peru's democratic institutions. Economic progress, social unease and institutional fragility thus characterized Peru's social and political climate throughout 2012.

Nevertheless, from a historical perspective it is worth mentioning that democracy in Peru is set to endure for more than 12 years for the first time in its history. Thus, it appears that despite rather slow democratic progress, Peru's political elites have gradually come to respect institutional procedures. Concerning political transformation, Peru's main problems still include a relatively weak state, a precarious structure of political representation, and above all, a weak judiciary that is badly undermined by corruption. These institutional weaknesses also continue to hamper the introduction of more socially just economic policies, as promised by Humala. In contrast, transformation to a more solid market economy framework showed more progress than political

reform did. Peru's economic institutions have been strengthened in recent years, enabling the country to use external support more efficiently and also withstand the external shock of the global financial crisis. Indeed, the country is living what experts have called "Peru's economic miracle" with high growth rates, low inflation, considerable budget surpluses and significant poverty reduction. The Humala administration, which governed somewhat erratically its first year, nevertheless gained lost ground during 2012. Still, the current government will have to substantially improve governance in order to reach greater political and social stability.

## History and Characteristics of Transformation

Since Peru's return to democracy in 1980, the country's transformation has been marked by abrupt changes. Political transformation began in the mid-1970s, when the political and economic failure of the military government (1968 – 1980) led to its retreat in a negotiated transition. After this rebirth of democracy, Peru experienced a gradual crumbling of the democratic order under presidents Fernando Belaúnde Terry (1980 – 1985) and Alan García Pérez (1985 – 1990), a process accompanied by debt crisis, hyperinflation and terrorism. This deterioration culminated first in the election of "outsider" Alberto Fujimori to the presidency in 1990 and then in his "self-coup" in April 1992. Under international pressure, Fujimori partially restored constitutional processes, leading to the 1993 constitution and the mostly free and fair 1995 elections resulting in Fujimori's re-election in 1995. However, a second wave of authoritarianism brought subtle infringements of freedom of the press, selective violations of individual civil liberties, and ultimately electoral manipulation, which secured Fujimori a third presidential term in July 2000. While civic protest against his re-election had been growing since 1996, it was only the discovery of an extensive network of corruption in 2000 that finally forced Fujimori to flee to Japan.

After the passage of the transitional government under Valentín Paniagua, and Alejandro Toledo's election in May 2001, Peru returned to the starting point of the democratic consolidation it had begun in 1980. However, the Toledo government did not succeed in strengthening democracy, with the last two years of the president's term leading to increasing political instability, including the surge behind Ollanta Humala's leftist nationalist movement. The 2006 elections were marked by the politicization of deepening social cleavages in contemporary Peru. This helped Alan García Pérez win a second presidential term. While the economy's boom continued, García – formally a social democrat – increasingly adopted right-of-center (fiscally liberal) positions. In the 2011 run-off elections pitting Ollanta Humala against Keiko Fujimori, the ex-president's daughter, Ollanta Humala pursued a more moderate political position similar to that of Lula. In so doing, he avoided an outright rejection on the part of Peru's elites and secured the presidency.

In terms of market economic transformation, Peru's development model of import-substitution industrialization fell into crisis in the 1970s. In the 1980s, neither the austerity policy of Belaúnde nor the heterodox economic policy of García proved able to curb the deepening economic crisis. Fujimori's administration finally tackled needed structural reforms in 1990 – 1991, initially with

support from the opposition in parliament. Fujimori initiated an orthodox policy of recessive stabilization combined with aggressive structural reforms that included a package of drastic measures (“fujishock”) aimed primarily at fighting inflation, restoring budgetary discipline and a restrictive monetary policy. In 1991, most state companies were privatized; the state withdrew from the financial sector; an independent central bank was established; foreign trade was deregulated; the exchange rate was allowed to float; and restrictions on the movement of capital were lifted. As supplementary measures, the labor market was drastically deregulated and the market for agricultural land liberalized. Fujimori’s reforms brought relatively rapid macroeconomic stabilization, and until the Asian and Brazilian crises of 1998, a very strong economic recovery.

However, the reforms stopped short of redressing decades-old structural imbalances, above all its severe societal distortions: the informal sector, poverty and underemployment. In part because of social policy shortcomings, the latter have become even more structurally entrenched. Under the Toledo government, especially since 2002, surprising macroeconomic success was recorded, but without major structural improvements. The García government was rather successful in maintaining high growth rates, which contributed to a remarkable reduction in poverty – but again without reducing informality or inequality. In the context of the free trade agreement with the United States, which President García pushed hard for, the government introduced several legal measures aimed at strengthening the institutional framework of Peru’s market economy. Humala has surprised many observers and national actors, by seeking to consolidate rather than have changed his economic course during the first 18 months of his term.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Question  
Score

The state's monopoly on the use of force is established nationwide, but remains challenged in territorial enclaves by guerrillas, drug-trafficking mafias and organized crime. The struggle against the last remnants of the Maoist rebel movement Shining Path (Sendero Luminoso) in their final bastions in the valley of the Apurímac, Ene and Mantaro rivers (VRAEM) and in the Alto Huallaga valley, showed ambiguous results during the period under review. On the one hand, in February 2012, the military captured one of the most important remaining leaders of the Shining Path ("Camarada Artemio") in the Alto Huallaga valley, which was lauded by the president as the beginning of the end of the Shining Path. On the other hand, important nuclei of the terrorist group remain active in the south – especially in the coca production area of VRAEM and also in several districts of the province of Cuzco, repeatedly leading to attacks on police and the military, as well as other criminal acts. In addition, the group has apparently begun to reorganize itself by trying to expand its base, for example among students. One driving force behind this is the Movement for Amnesty and Fundamental Rights (Movimiento por Amnistía y Derechos Fundamentales, Movadef) whose main goal is to release its leader, Abimael Guzmán, imprisoned since 1992, who presumably also is the leader of Movadef. Movadef is trying to register as an official political organization with the Electoral Tribunal (JNE), but has not been successful thus far.

Monopoly on the  
use of force

6

A major problem continued to be organized crime. Peru continues to be one of the main production areas of coca, the main ingredient of cocaine. According to the U.N. Office on Drugs and Crime (UNODC), Peru was the main producer of pure cocaine in 2012, ahead of both Bolivia and Colombia. Despite enhanced efforts by the government and the national police, security forces were largely unsuccessful in their fight against drug-related crime, especially with regard to the drug mafia. They likewise failed to hinder the Shining Path's connection with the drug cartels. One major challenge for Peru has been the internationalization of the Latin American drug

economy. In cooperation with the Shining Path in some of the coca producing regions, Mexican drug cartels have assumed control over drug-trafficking and are present at several strategically relevant locations for drug trade in the country. They include two small but heavily armed groups. In addition, organized crime apart from drug trafficking has also expanded. Several officials – mayors and even the vice-president of the province of Amazonas – were killed.

Though the Humala administration has made efforts to contain violent social conflict, non-state violence has persisted. Much as in the previous review periods, as of July 2012 the ombudsman office (Defensoría del Pueblo) reported nearly 250 latent and open conflicts, at least half of which were accompanied by violence. These conflicts – most of them driven by socio-environmental issues – occasionally turn violent because the state lacks the capacity to settle them and tends to use security forces for containment. In addition, the state is unable to contain the high level of everyday crime and violence, which has led to a growing sense of insecurity among citizens. According to the 2012 LAPOP AmericasBarometer survey, 48.6% of Peruvians interviewed said they felt somewhat or very insecure in their neighborhoods. While showing a decline compared to previous surveys, Peru is the somewhat dubious top performer on this issue in the Americas ahead of Venezuela, Bolivia and Haiti.

The large majority of the population accepts the nation-state as legitimate, and all individuals and groups enjoy the right to acquire citizenship without discrimination. According to the U.S. State Department’s 2011 Human Rights Report, an estimated “4.7 million citizens (15.9 percent of the population) lacked identity documents and could not fully exercise their rights, making them de facto stateless.” This is true in particular of poor indigenous women and children in rural areas. According to the report, the consequences include “social and political marginalization and barriers to accessing government services, including running for public office or holding title to land.”

Despite being a multiethnic nation composed of whites, mestizos, indigenous people, blacks and Asians, the definition of citizenship has not been a politically relevant issue in Peru. Until recently, the politicization of Peru’s ethnic diversity – even for the indigenous population – has been of minor political significance compared to neighboring countries Bolivia and Ecuador. However, indigenous groups are gaining self-confidence and beginning to mobilize as they learn from the experiences in these countries. As the country suffers from a historically rooted racism directed most virulently against the indigenous population, the influence of ethnicism in Peruvian politics may again rise, undermining what is already a generally weak legitimacy accorded to the central state by the indigenous population.

The state and its legal order are largely secular. Religious dogmas have no noteworthy influence on politics or law. However, the preferential treatment given to the Catholic Church in terms of education, tax benefits, additional state remunerations and

State identity

9

No interference of religious dogmas

9

stipends continues to raise concerns about the potential infringement of non-Catholics' religious liberties. Though Article 50 of the constitution establishes a separation of church and state, it also says the state recognizes the Catholic Church's role as "an important element in the historical, cultural and moral development of the nation," and provides for collaboration. In addition, a 1980 agreement with the Vatican – ratified by General Morales Bermúdez on the penultimate day of the outgoing military regime's power – is still in force, bolstering the privileged status of the Catholic Church. A 2010 law on religious freedom ratified this agreement while also confirming the constitutional right to religious freedom and granting the competing religions the same tax benefits. The Catholic Church, representing about 80% of Peruvians (least available data from 2007), is an active pressure group. Catholic archbishops have repeatedly intervened in political issues, actively opposing gay marriage and new regulations on abortion, for example. In January 2011, the head of the Catholic Church and archbishop of Lima, Cardinal Cipriani, harshly criticized party leaders' proposals to allow gay marriage, arguing that the state has to base its laws on "respect for the natural order."

The state's basic administrative infrastructure extends throughout most of the country's territory, but its operation remains deficient. Particular problems include widespread corruption, employees' limited technical skills and the system's inaccessibility for most of the poor. The weak presence of the central state's administration in large parts of the country has always been a core problem for Peru's political and economic development. The administration's reach has improved since the end of the military regime and especially since the end of the Fujimori regime, but important structural problems remain. In addition, the widely supported process of decentralization has become a source of political instability, as the process has fragmented the political landscape and exposed unskilled local administrations to increasingly strong popular demands. Apart from law enforcement, deficiencies in transportation and basic infrastructure are a major concern. Since the 1980s, a peace justice system has existed for the adjudication of minor legal disputes. This system, which has its legal roots in a law dating back to 1854 and represents another legacy of path dependencies in the state's incapacity to provide legal certainty throughout the country, operates nationwide but is especially relevant in the poor provinces and the Andes region. It is a rather effective system, but as a system that exists in parallel to the official judicial system, there are often frictions between the two. A law introduced in 2012 aims to extend the peace justice system and harmonize it with the official system.

Basic  
administration

7

## 2 | Political Participation

There are almost no constraints on free and fair elections. After widespread electoral manipulation during the Fujimori decade, Peru has restored universal suffrage and the right to campaign for office. State agencies once again conduct elections properly. The National Office for Electoral Processes (ONPE) and the Electoral Tribunal (JNE), which together with the National Registry of Identification and Civil Status (Reniec) are responsible for the realization and monitoring of all electoral processes, are widely regarded as reliable and as two of the best-performing state institutions. During the period under review, national presidential and parliamentary elections were held in April 2011 and the presidential runoff in June 2011. According to the European Union election observation mission, these elections were free and fair, conducted professionally by the electoral authorities and without the post-election violence recorded in previous years, particularly after local and regional elections. Results were accepted by the contending parties and disputes about irregularities were of minor importance. Fairness was also guaranteed concerning media coverage, though the media landscape was somewhat biased toward the right wing, that is Keiko Fujimori. An obscure aspect nevertheless remained campaign financing. While the law provides for public financing of political parties represented in Congress, the García government had not allotted a budget for 2011 elections. Financing therefore remained mostly partisan or private – a practice rather non-regulated in Peru.

Free and fair elections

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In principle, elected rulers have mostly regained the effective power to govern as far as the classical veto powers (e.g. armed forces, landowners, business groups) are concerned. Individual societal groups in Peru are able to push successfully for their interests even against the interests of the state. Business represents a strong pressure group, however, and reportedly influenced the Humala government not to change economic policies. The military, which played a prominent role as a veto power following the return to democracy, especially under the Fujimori regime, is now mostly under civilian control. However, it seems to wield substantial influence in issues relating to security, military justice and human rights violations committed during the “dirty war” between 1980 and 1993. Just before the period under review, this was confirmed by four presidential decrees issued in September 2010 regulating the prosecution and trials of security forces accused of committing human rights violations, one of which had to be derogated after sharp criticism from civil society. President Humala, a former military officer, is well aware of the importance of the armed forces for Peruvian politics, especially concerning internal security. He has promoted several officers of his cohort to generals during 2011 and 2012 and named several ex-officers as personal advisors in government. Regarding the role of the drug trade, the drug mafia challenges Peru’s stateness and the rule of law, and the coca-producing peasants and their organizations in some provinces also present a real check on the state’s effective power to govern. This “cocalero civil society”

Effective power to govern

7



effectively opposes national anti-drug policies and tends to object to state interference in their affairs.

The state generally respects the rights of political organization, though governance problems and the high level of violent conflict have made politicians and the police inclined toward restrictions. Political and civic organizations can form freely, but union activity is still subject to certain regulations that violate international conventions on labor rights, and is also weakened by the large informal sector. Despite Peru's ethnic diversity, ethnic cleavages as such do not represent a fundamental obstacle to the dynamics of association in civil society. However, the combination of geographic and social marginalization still creates barriers for portions of the indigenous population. In addition, in some parts of the country, such as drug-production districts like Alto Huallaga and VRAEM, the population is cautious about exercising constitutional political rights.

Association /  
assembly rights  
8

With regard to assembly rights, restrictions exist in cases when a state of emergency has been declared, which has been applied not only to zones where the Shining Path operates, but frequently also in cases of massive – and sometimes violent – social protests. According to a decree issued in September 2010 by then-President García, the government may even send in the military to contain protests, as was the case in Cajamarca in 2011. The same decree also provides for military courts to handle cases of alleged rights violations by members of the military, which human rights organizations have criticized because of a higher probability of impunity of security forces. In addition, human rights organizations report that the Peruvian police have repeatedly arrested participants in demonstrations. Though not backed by the constitution, the police argue that participants in unauthorized demonstrations can be arrested. This practice is more frequent in rural areas, where protesting peasants and their leaders have been arrested without proof that they are disturbing the public order.

Freedom of expression is almost unrestricted in Peru, though at times state agencies, as well as individuals and organized crime, exert pressure on individual members of the media who report on sensitive issues, such as corruption. The structure of the media system – electronic as well as print – is differentiated at national as well as local levels, with radio being the most used medium. The media generally provide for a full range of opinions, though in certain instances – such as during the 2011 presidential elections or the Conga conflict – political polarization undermines plurality. Both public and private media – the latter of which clearly dominates the media landscape – are mostly free of government influence.

Freedom of  
expression  
8

However, freedom of expression is to some extent restricted by harassment, intimidation and violence against journalists as well as by a rigid application of libel laws and not least by self-censorship. Offenses against journalists are more frequent at the local level, where authorities and non-state actors feel free to take action against

their critics, including verbal and even physical attacks. The same holds for coca growers and the police; the latter often exceed their authority and seek to intimidate journalists. Pressure on local media has persisted in recent years, either because these media outlets criticized police actions or because they did not publish desired information. In 2011, three journalists were killed who had reported on corruption cases, and the National Journalists Association (ANP) reported 189 cases of intimidation including death threats.

### 3 | Rule of Law

Like all countries in continental Latin America except Suriname and Belize, Peru based its constitution and model of governance on the U.S. model, with separation of powers and checks and balances. While accepted in principle among the political elites, the separation of powers in Peru has always been somewhat incomplete and prone to a concentration of power in the executive, which either made use of legal provisions or simply circumvented the constitution. A weak judiciary and a formally strong but politically and operationally weak legislative have resulted in the absence of proper checks and balances to the government's legislative actions. A specific version of delegative democracy emerged as was especially the case during the García government and the many decrees issued between 2006 and 2011. Like his predecessors, Toledo and García, President Humala also had to confront the problem of a divided government. Humala succeeded in arranging an informal and surprisingly stable coalition of his alliance, Peru Wins (Gana Peru), with Toledo's The Possible Peru Alliance (Alianza Electoral Perú Posible). As a consequence, Congress mostly acted friendly toward the executive. Though it actively used its faculties of control toward the executive and especially to summon ministers – 13 cases in the first year of Humala's term, leading to the dismissal of three ministers – Congress conceded the executive considerable leeway in legislation. However, Congress also rejected some presidential bills and has overridden presidential vetoes, showing at least signs of a countervailing power (which nonetheless often lacks professionalism). Humala also issued necessity and urgency decrees, though at a much lower rate and they were scrutinized by Congress and the public. Despite the overall weak judiciary, Peru's Constitutional Court has constantly been an island of excellence since the return to democracy and has continued with its work to guarantee the constitutionality of laws and procedures. In sum, separation of powers seems to have improved and is moving in the direction of real institutional – and not merely politically motivated – checks and balances, with a strong component of cooperation, though significant deficiencies remain.

Since the demise of the Fujimori regime, most observers agree that the judiciary is one of the weakest institutions of Peru's democracy except for a few islands of excellence, such as the Constitutional Court, the Ombudsman (Defensoría del

Separation of powers

7

Independent judiciary

6

Pueblo) and – albeit with some limitations – the peace justice system. The judiciary functions as a distinct branch of government and operates relatively independently, though its decisions have occasionally been circumvented or even ignored. Its operations are severely undermined by corruption, inefficiency, and insufficient territorial and functional penetration. This weakness has fostered corruption, illegal action and impunity. As a result, neither citizens nor businesses have great confidence in the judiciary. According to the 2012 LAPOP survey, the judiciary is seen as the third least confidential institution out of twelve (the Catholic Church and mass media being the most confidential with 60.5% and 58.7% among the interviewees, respectively; and Congress and the political parties the least confidential with 36.6% and 32.0%, respectively).

Though judicial reform has been on the political agenda since 2000, there has been no notable progress due to unwillingness of political actors and a lack of interest within large parts of the judiciary itself. The malfunctions of the judiciary are relatively well-studied, and a blueprint for reform exists since the 2004 report issued by the Special Commission for the Integral Reform of the Justice System (CERIAJUS). During his campaign, Humala picked up the CERIAJUS suggestions to initiate the outstanding reforms. One major step has been the January 2012 inauguration of a program to modernize the justice administration (PMSAJ), a program co-planned and co-financed by the Inter-American Development Bank since 2009. However, the mere fact that several actors refer to the nearly 10-year-old suggestion of CERIAJUS indicates that little has been done during the last decade. Accordingly, to date there has been no real progress in the areas of corruption, judicial independence or judicial administration, even with respect to the reform of the criminal justice system initially initiated in 2004. The same holds for the well-known problem of bringing military justice institutions under the auspices of the national justice system which remains unresolved up to now, giving the military leeway to protect its members beyond national and international law, and therefore contributing to a widely shared climate of overall impunity.

Since the Fujimori and Montesinos era, political society, civil society actors and the public have become highly sensitized to corruption in politics. However, impartial prosecution and penalties for abuse of office are not general characteristics of Peruvian politics. While corrupt officeholders are increasingly prosecuted under established laws, they often slip through political, legal or procedural loopholes. These problems are even more pronounced at the subnational levels of administration, where cases of corruption are frequently identified. Several state and non-state agencies have made serious efforts to fight corruption in recent years. However, given the apparent magnitude of the problem, progress has been rather slow. Corruption is seen as endemic – as even former president Alan García declared recently, perhaps not without ulterior motive – and the Peruvians have no confidence in the sincerity of anti-corruption polices. According to the 2012 LAPOP survey,

Prosecution of  
office abuse  
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76.9% of the interviewees believe corruption to be widespread in the country. This is one of the highest levels of perceived corruption in the Americas. Also, 28.5% reported they had been victims of corruption during the last year, with police and public servants most prone to misbehavior. In November 2011 the department of public prosecution (Procuraduría Anticorrupción) declared there were about 20,000 open cases against public servants. In November 2012 the comptroller general reported that his agency had identified 45,000 cases of corruption between 2009 and 2012, most of them involving public servants. The comptroller estimated the financial loss to the Peruvian state to be about \$2 billion annually. Large corruption cases have also been reported involving the judiciary, the police and the military.

The state respects civil liberties in principle, but failed to strengthen them further and occasionally did not protect them adequately during the review period. As a consequence of the state's weakened authority, and especially a weak and corrupt judiciary, civil rights are violated in some parts of the country, or citizens are discouraged from seeking to claim their rights. In Peru's ethnically diverse and pervasively discriminatory society, this translates into "low intensity citizenship" for some segments of the population. Equal access to justice is still a severe problem for the poor despite programs to improve access and efforts in some provinces to exempt poor people from court fees. Almost one-third of the population has no access to judicial services. Positive signs include the new dynamism of the peace justice system and alternative systems of jurisdiction.

Civil rights

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The National Coordinator for Human Rights (CNDH), an NGO, reported that violations of individual and collective rights increased again in 2012. The state of emergency was applied several times, leading to the suspension of certain civil and political rights and the intervention of the armed forces to provide for internal security. According to CNDH, during the Humala administration, 23 citizens were killed and some 800 injured by security forces in the course of protests and demonstrations. None of these persons received any kind of reparation, nor have any of the perpetrators been sanctioned. Rather than serving as a tool for justice, the judiciary has increasingly been used as a weapon of the state to criminalize citizens who actively engaged in protests or human rights activities. The state security forces have carried out torture and abuse, though not systematically. The ombudsman office reported 139 cases of torture and inhuman treatment during 2009 and 2010, and 62 charges in 2011. Furthermore, the weakness of state institutions has led to a tendency toward vigilante justice across the country, which further undermines the role of the judiciary as a bulwark of civil liberties.

With regard to the civil rights of women, the problem is mainly the state's inability to protect women and girls against violence, including rape and spousal abuse. Insensitivity by law enforcement and judicial authorities toward female victims has aggravated abuses. According to CNDH, Peru has the highest number of femicides in South America. Discrimination against indigenous communities, ethnic minorities

like the Afro-Peruvians, and gay and lesbian persons is still widespread, though civil society organizations and the ombudsman office have engaged in campaigns to keep this issue on the public agenda. CNDH has also criticized the government for its lack of concern on this issue.

The state has made only minor progress in addressing questions of injustices perpetrated in the past. Prosecution of human rights violations committed between 1980 and 2000 remained difficult, and even a source of conflict between the branches of government.

#### 4 | Stability of Democratic Institutions

Democratic institutions perform their functions, but are often inefficient due to friction between institutions, a lack of professionalism, and corruption. Because state institutions virtually collapsed in the 1980s, and were subsequently dismantled in the 1990s, they lack solid grounding in the new democratic state. This applies especially to the rule of law, where necessary reforms continue to lag and political influence continues to seriously undermine judicial independence. Likewise, the process of decentralization, which began in 2003, was performed hastily and has led to mixed results. Though the process has resulted in more democracy, it has decreased the state's efficiency and hampered the process of demand aggregation. The relations between executive and legislative suffer from the pronounced asymmetry of power, and above all from a lack of professionalism on the part of Congress, which only sporadically assumed its government oversight role (above all to summon ministers in cases of evident misconduct). Despite these deficiencies, by September 2013 democracy will have endured for 12 years for the first time in Peruvian history. Viewed over this entire period, performance has somewhat improved and institutions cooperate more smoothly.

Nearly all influential political actors accept Peru's democratic institutions and regard them as legitimate. However, commitment to these institutions needs strengthening. A few players do not fully accept individual institutions of the democratic state. Also, the decentralized political institutions are often utilized for narrowly defined interests. Furthermore, political actors see the judiciary more as an obstacle to their decision-making than as a necessary counterweight able to guarantee sound democratic procedures. Finally, the failure to subordinate military justice to civilian rule still represents a serious example of explicit disregard for the democratic rule of law.

Performance of  
democratic  
institutions

7

Commitment to  
democratic  
institutions

7

## 5 | Political and Social Integration

Peru's party system is still unstable, with shallow roots in society. It features high fragmentation, high voter volatility and increasing polarization. The political parties have lost their ability to mediate adequately between the state and a highly heterogeneous and segmented society. At least on the national level, the most severe fragmentation of the party system was contained after passing the Law on Electoral Barriers in September 2005. The law established that in order to win seats in Congress, parties had to obtain at least 5% of the votes or at least six elected representatives in more than one constituency. The effective number of parties in the legislature subsequently declined from 4.36 to 3.78 in 2006 (but went up slightly to 3.96 in the April 2011 elections).

Party system  
4

The trend toward a more stable party system in the wake of the 2006 national elections thus did not hold. The formation of stronger center-right and center-left forces around APRA, National Unity (Unidad Nacional, UN) and Center Front (Frente del Centro) was undermined by the strong performance of newcomer Ollanta Humala and his Peruvian Nationalist Party (PNP). At the same time the regional, provincial and local elections in November 2006 and in October 2010 revealed a further fragmentation of the political landscape below the national level. The strong showing of regional groupings in these elections complicated prospects for interest aggregation within the Peruvian political system. All national parties, including APRA and PNP, have demonstrated their inability to establish stable relationships with voters, and have lost significant ground to independent movements. The APRA government in power until 2011, for example, lost its once-strong bastions in the north of the country for the second time (in the 2011 national elections, it won only four seats, mostly because it had not presented a presidential candidate of its own). Recent surveys show that Peruvians' trust in political parties is still at a low level. According to the 2012 LAPOP survey, only 32% of those interviewed have confidence in political parties. One major consequence of the weak party system is the high level of local and sporadic social conflict arising out of the lack of mechanisms of political intermediation.

Peru's landscape of interest groups continues to be relatively well-differentiated and rather dynamic, but it is highly fragmented and unable to aggregate and articulate societal interests. The broad spectrum of interest groups ranges from business and professional associations to unions, social movements and community organizations. Employers' associations, such as the National Confederation of Private Enterprise (Confiep) are the strongest organizations. They wield great influence and gained even more dominance under the García and Humala administrations. As a consequence, the unions, already severely weakened by neoliberal reforms and massive impoverishment since the end of the 1970s, have lost almost all of their political

Interest groups  
5

weight, a trend exacerbated by the very large share of workers employed in the informal sector. In addition, though not openly disregarding unions' rights, the government tends to neglect the views of the unions and to limit their activities when possible. On occasion, interest groups of a diverse nature are able to make their voices heard or even utilize extra-institutional pressure in support of their interests. This was repeatedly the case during the period under review, as exemplified by the recurring, occasionally violent demonstrations around the country. However, to date there are no intermediary organizations capable of aggregating these "post-material" interests.

Dissatisfaction among Peruvians with the functioning of the democratic system has affected their support for democracy. According to the 2012 LAPOP survey, levels of support for democracy in Peru are among the lowest in the Western Hemisphere at 63.6%, only ahead of Bolivia, Guatemala and Honduras. LAPOP experts explain this result mainly through the huge gap between citizens' high expectations – nourished by populist and non-populist politicians alike – and the subsequent disappointment created by the often meager or unsatisfactory political results, such as insecurity, corruption, discrimination, and unchanged levels of inequality. Using different methods, data from Latinobarómetro 2011 show similar results. Support for democracy reached 59% in 2011, still lower than Fujimori's last five years (1996-2000). Levels of satisfaction with democracy increased compared to 2010 but are still rather low at 31% (ahead of Guatemala, Mexico, Colombia, Bolivia and Honduras ranging between 23% and 29%, and again below the Latin American average of 39%). With respect to support for a potential military regime to resolve major societal problems such as corruption or organized crime, Peru ranked 15th out of 18 countries, with 54% of respondents saying they would never support such a regime (the leader in this area was Costa Rica with 90%; Guatemala, Paraguay and Mexico sat at the other end of the spectrum, respectively with 40%, 52% and 53% of rejection).

Approval of  
democracy  
5

There is a substantial number of autonomous self-organized groups, associations and organizations, but the level of trust among the population is fairly low. Partly because of the long-lasting spiral of impoverishment and the growth of the informal sector, the ability of Peruvian society to organize itself has significantly grown over the past two decades. However, the influence of this self-organization is unclear. In principle, a wide range of autonomous, self-organized groups, associations and organizations exist in the country, despite political, cultural and socioeconomic barriers. Due to the country's social segmentation and diversity, there is a split between more "liberal" and more "participation-demanding" currents inside civil society. The cocalero movement shows one of the dark sides of civil society in Peru by – directly or indirectly – supporting drug trafficking. According to the 2012 LAPOP survey, the level of interpersonal trust in Peru is rather low, and significantly below the Latin American average. When asked about the confidence they had in the people in their community, only 50.3% of those interviewed answered they would be "very trustworthy" or "somewhat trustworthy" – though rising since 2006 and being

Social capital  
5

significantly higher than 2010, this is still among the lowest levels among 25 countries. Using different methods, this is confirmed by Latinobarómetro 2011. When asked if one can trust the majority of people, only 18% of respondents agreed, placing Peru only ahead of Chile, Nicaragua and Brazil and below the Latin American average of 22%.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Peru's level of socioeconomic development improved slightly during the last two years. However, given the impressive economic growth, poverty and inequality could have been further reduced. According to World Bank data, GDP per capita rose from \$5,067 in 2000 to \$10,234 in 2011; estimates for 2012 are up to \$10,700. The Human Development Index 2011 ranked Peru 80th out of 187 states, ahead of Brazil and Colombia, with an index value of 0.725 (compared to an average of 0.682 for the world and 0.731 for Latin American countries). If adjusted for inequality, Peru's index value falls to 0.557 (surpassed by countries such as China or Mongolia). This means a loss of almost a quarter of its index value and a drop of five ranks compared to HDI, though Peru is still faring better than most of the countries in the region.

The most important positive trend in the 2000s had been a significant reduction in poverty rates. According to the National Institute of Statistics (INEI), the overall poverty rate declined from 54.7% in 2001 to 27.8% in 2011, meaning a reduction of almost 50% during one decade. Though poverty declined above average in the rural regions of the highlands (Sierra) and the lowlands (Selva), it is still very pronounced in the rural regions (56.1%) compared to urban centers (18.0%). Extreme poverty declined from 11.2% in 2007, to 7.6% in 2010, to 6.3% in 2011.

Apart from poverty-induced disparities, problems such as social exclusion and marginalization are still widespread, particularly in the highlands and the Amazon basin, where most of the indigenous population lives. These problems are largely attributable to education differences and gender discrimination. The above mentioned difference between Peru's HDI ranks is mainly due to inequalities in education and income; according to World Bank data, the country's Gini Index value was 0.48 in 2010, while according to more recent INEI data the Gini coefficient is 0.47, ranking Peru third in Latin America behind Venezuela and Uruguay. However, experts doubt the methodology of INEI and estimate the "real" Gini coefficient as almost 0.62. In addition, Peru also lost ground in the 2011 Gender Inequality Index.

Question  
Score

Socioeconomic  
barriers

5



Economic indicators		2009	2010	2011	2012
GDP	\$ M	126923.0	153544.9	176811.6	<b>196961.0</b>
GDP growth	%	0.9	8.8	6.9	<b>6.3</b>
Inflation (CPI)	%	2.9	1.5	3.4	<b>3.7</b>
Unemployment	%	6.3	7.9	7.8	-
Foreign direct investment	% of GDP	5.1	5.5	4.7	-
Export growth	%	-3.2	1.3	8.8	<b>4.8</b>
Import growth	%	-18.6	24.0	9.8	<b>10.4</b>
Current account balance	\$ M	-722.9	-3782.1	-3340.7	-
Public debt	% of GDP	28.4	24.6	22.0	<b>19.8</b>
External debt	\$ M	37336.5	41815.9	44871.7	-
Total debt service	\$ M	4365.0	6788.6	3310.0	-
Cash surplus or deficit	% of GDP	-1.1	0.5	1.3	-
Tax revenue	% of GDP	13.7	14.8	15.9	-
Government consumption	% of GDP	10.3	9.9	9.8	<b>10.3</b>
Public expnd. on edu.	% of GDP	3.0	2.7	2.6	-
Public expnd. on health	% of GDP	3.1	2.7	2.7	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.3	1.3	1.1	<b>1.3</b>

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

## 7 | Organization of the Market and Competition

Market competition in Peru has a strong institutional framework, with generally equal opportunities for all market participants, at least in the formal market. The informal sector, however, is quite large; some experts even speak of a dual economy, split between the coastal region's formal sector and the economies in the Andes and Amazon regions where strong informal sectors dominate. The competition framework was strengthened in the aftermath of the free trade agreement with United States in December 2007, leading to successive, smaller reforms concerning state

Market-based  
competition

7

capabilities, infrastructure, and the structural imbalances caused by the large informal sector. The World Economic Forum's Global Competitiveness Index 2012-2013 ranked Peru 61st out of 144 countries, a further significant improvement compared to previous years. However, severe obstacles remain despite these positive signs, including weak institutions, poor infrastructure, lack of technological readiness and few innovation capabilities. Yet the most problematic factors are an inefficient government bureaucracy, corruption and restrictive labor regulations.

While there are still a few goods and services with administered prices (such as public tariffs for electricity and water services, or fuel), currency convertibility is guaranteed and domestic and foreign investors are accorded equal treatment before the law in the course of all economic activities. Investor protection is rated rather high by the Global Competitiveness Index 2012-2013, placing Peru at rank 17 among 144 countries. The contestability of markets is limited due to their segmentation.

Though the García and Humala governments intensified their efforts to fight informality – and even risked conflicts, for example, with informal miners in 2011 and 2012 – Peru's informal sector remains one of the most significant impediments to enhancing the quality of competition and achieving social equity. Official data and data from the International Labor Organization (ILO) indicate that about 70% of the Peruvian labor force is still working in the informal sector, accounting for about 30% of GDP. The minister of justice has estimated that 40,000 unregistered business facilities may exist. According to the ILO, 51% of all jobs are generated by the informal economy, with only 15% having health coverage and a mere 4% enjoying retirement benefits.

Though the regulation of monopolies and oligopolies is still inconsistent, the institutional framework has improved slightly due to the growing awareness of the dangers of market distortions. In the course of neoliberal reforms in the early 1990s, anti-cartel legislation was introduced in 1991, establishing ex-post oversight of dominant market position abuses and collusive practices. In June 2008, the government issued a new competition law aimed at clarifying anti-competitive conduct, strengthening the state's investigative powers and assuring its independence. The law does not have any provision governing potentially anti-competitive mergers, and Peruvian law in general lacks provisions for pre-merger notification, except for those in the power sector. Nevertheless, governmental authorities do follow up on mergers, especially in sensitive economic sectors.

In the last 15 years, the government has strengthened the Institute for the Defense of Competition and Protection of Intellectual Property (Indecopi), giving it the power to sanction abusive acts associated with a dominant market position or restrictive market practices. Indecopi oversees the Free Competition Commission, Consumer Protection Commission, Unfair Competition Commission and the Market Access Commission. However, these governmental commissions apply the law only sporadically.

Anti-monopoly  
policy  
8

Corruption in the bureaucracy still takes a serious toll, and the desired market dynamics continue to have priority. The Global Competitiveness Index 2012 –2013 ranks Peru only 58th out of 144 countries with respect to the effectiveness of the government’s anti-monopoly policy. Though improving notably compared to 2010 – 2011, this still indicates a certain gap between legal provisions and actual practice.

Peru has extensively deregulated foreign trade since the 1990s. No fundamental state constraint on free trade remains. This particularly applies to the treatment of foreign investments and the holding of securities. The government has eliminated all restrictions and controls on payments, transactions, transfers and repatriation of profits. The free trade agreement with the United States, which went into effect on 1 February 2009, represented a considerable step forward in this area. Trade openness – measured as the sum of exports and imports to gross domestic products – increased from 27% of GDP in 2002 to 47% of GDP in 2011. Peru has also signed bilateral free trade agreements with Chile, Canada, Singapore, China, Cuba, Mexico, Panama, Korea, and Thailand, as well as regional FTAs such as those with the European Free Trade Association (EFTA), Andean Community, MERCOSUR and the European Union. Taken as a whole, these agreements approximate 100% of Peru’s international trade. Peru’s average tariff has been reduced steadily from almost 70% at the end of the 1980s to 2.5% in 2012. There are no import quotas or export limitations. However, the Heritage Foundation points to continuing non-tariff barriers including import restrictions, services market access restrictions, export taxes, price bands for sensitive agricultural products, and domestic preferences in government procurement. Peru has been a member of the WTO since 1995.

Liberalization of  
foreign trade

9

Peru’s banking system is remarkably solid and oriented toward international standards, with functional banking supervision and minimum capital requirements. Capital markets are open to domestic and foreign capital, with sufficient resilience to cope with sudden stops and capital flow reversals. With the opening to foreign institutions in the early 1990s, the Peruvian financial system modernized rapidly and became more competitive. The government has implemented some measures to strengthen bank supervision following the principles of the Basel II accord. Though these measures are still not up to the highest international standards, the Superintendency of Banks and Insurances (SBS) scrupulously observes the Basel standards already introduced. In line with Basel II, capital requirements for all types of risk have been introduced, including credit, market and operational risk. In sum, a 2012 IMF evaluation certifies Peru’s banking system as sound, well-capitalized and profitable, and with low non-performing loans. However, one problem remains high dollarization (one third of deposits and about 50% of credits in the banking system are in U.S. dollars) exposing the Peruvian banking system disproportionately to external risks.

Banking system

9

Peru’s banking system proved remarkably resilient in the face of the global financial crisis. This is not only due to weak ties with those elements of the international

financial system that proved to be fragile, but also a result of the successful coordination between the Ministry of Finance, the Central Reserve Bank (BCRP) and the SBS. Together, these bodies managed to ensure liquidity for the financial sector and capital markets, and successfully minimized systemic risks. Large quantities of official reserves, strong indicators of financial soundness within the banking system, and banks' limited reliance on external capital have helped preserve conditions of stable liquidity. Consequently, the Global Competitiveness Index 2012 – 2013 ranked Peru 20th of 144 countries with regard to the soundness of its banks.

## 8 | Currency and Price Stability

Successful anti-inflation policy remained an essential part of what has been called the “Peruvian miracle”. Inflation and foreign exchange policies are pursued in concert with other economic policy goals, and are institutionalized in the largely independent central bank (BCRP). The Humala government continued its predecessors' consistent policy on inflation and currency. Since 2002, the central bank's inflation target has been an annual cumulative inflation rate of 2%, with an allowable band between 1% and 3%. The inflation rate, exploding to hyperinflation in the aftermath of García's first government in the early 1990s, returned to single digits in 1997 and has been kept low since that time. With the onset of the economic slowdown caused by the financial crisis, inflation fell to near zero in the second half of 2009. The overall annual rate thus fell to 0.2% in 2009 and to 2.1% in 2010, reaching 4.7% in 2011 and 2.8% in 2012.

The exchange rate regime is in principle a floating system, although the BCRP intervenes in the currency market by buying and selling dollars in order to curtail exchange rate volatility. More recently, the central bank's major concern is the appreciation of the currency against the dollar in a climate of the ongoing boom and increased capital inflow. During 2011 and 2012 the central bank repeatedly intervened in the foreign exchange market, raised reserve requirements on short-term foreign currency borrowing and eased restrictions on institutional investment abroad to contain currency appreciation. However, though the central bank purchased about \$13 billion in 2012, the nuevo sol steadily appreciated throughout 2012, which further slowed exports.

The Humala government continued with its predecessors' policies targeting macroeconomic stability. Its fiscal and debt policies promote macroeconomic stability, supported in part by institutional (self-)constraints. In 1999, the Fiscal Responsibility and Transparency Law (FRTL) was enacted, limiting the public deficit to 1% of GDP and the increase in government consumption to 4% a year. The public sector even recorded a surplus of about 2% to 3% of GDP between 2006 and 2008. A proportion of the surpluses were placed in a Fiscal Stabilization Fund (FSF), to be used in the case of downturn. With the onset of the crisis, the government reacted

Anti-inflation /  
forex policy

10

Macrostability

10

rather early with expansionary fiscal measures. Accordingly, the public-sector deficit increased to 2.1% of GDP in 2009 and amounted to 0.3% of GDP in 2010.

Against some fears voiced before elections, the Humala administration maintained solid macroeconomic management, keeping to the path of budgetary discipline and even creating surpluses of 1.8% in 2011 and 2.0% in 2012. In addition, public debt was further reduced. While public debt as a percentage of GDP stood at 47% in 2003, it was successively reduced to levels of about 20%, reaching a new low of 19% in 2012 and representing one of the lowest levels in Latin America. The largest part of it is long-term debt, which is of lower risk, though almost 50% is exposed to foreign exchange risks.

## 9 | Private Property

Regulations and rights governing the acquisition, use and sale of property are well defined in law, but there are occasionally problems with implementation and enforcement. The securing of property rights has greatly improved since the 1990s, supporting the new dynamics of the market economy. The main problem lies in the fact that property rights are not adequately protected in practice because the judicial and administrative systems are still flawed, inefficient and corrupt, hampering the ability of individuals and businesses to enforce contracts. Though registering property is fairly easy in Peru, the Global Competitiveness Index 2012 – 2013 ranks Peru only 98th of 144 countries with respect to protection of property rights, and 127th with regard to intellectual property protection, revealing stagnation compared to the 2011 – 2012 index. The Heritage Foundation's Index of Economic Freedom 2013 gives Peru a rather low score of 40 out of a possible 100 points resulting in the rank of 70th out of 177 countries.

In addition, in some of the country's areas, few landowners have formal titles to their land, or those titles are unclear. In some areas inhabited by the indigenous population, land titles are not defined at all, are not clearly defined, or are defined in a way that is incompatible with indigenous values. These ambiguities hamper the use and enforcement of property rights and sometimes lead to violent conflicts, such as those between citizens and resource-extracting companies; the most emblematic case has been the Conga case in the Cajamarca department in 2011 and 2012.

Private companies are viewed institutionally as the primary engines of economic production, and are given appropriate legal safeguards. Private enterprise was the driving force behind Peru's economic recovery during the last 15 years. The García administration put significant emphasis on the private sector as an engine of growth, and sought to attract private investment in nearly all sectors of the economy, especially the booming mining sector, which provides abundant royalties. The Humala government, while promising a different strategy in its rhetoric, has followed

Property rights  
7

Private enterprise  
9

this path by and large, largely due to pressure from private sector organizations. Bureaucratic hurdles to private enterprise have been eliminated. According to the World Bank's Doing Business 2012 report, starting a business suffers not so much from the number of procedures, of which there are relatively few, but instead from the time necessary (which is near the average of the BTI country sample).

The privatization of state companies in the 1990s was not always carried out in a manner consistent with market principles, leading to overall ambiguous results. As a consequence, since the return to democracy in 2000, the public has resisted further privatization, though a reversal of privatization is clearly not on the agenda. Any initiative suspect of eventually leading to privatization provoked intense debate and protest during the period under review, including proposals to privatize the water supply system, universities and prisons. The main instruments of private sector participation are now public-private partnerships and concessions granted to private companies. Major concessions have been granted for mining, ports and airport projects, but also to energy, natural gas, hydroelectric power and irrigation, telecommunications, sanitation, land transport, trains and tourism projects. Some of these projects are still underway or have been postponed.

According to Article 60 of the 1993 Constitution, the Peruvian state may only engage in entrepreneurial activities if the private sector cannot, refuses to or fails to provide solutions. Under the umbrella of FONAFE (Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado), 34 public enterprises are operating in sectors as diverse as banking, electricity, fuel (Petroperu), water supply and transportation.

## 10 | Welfare Regime

Welfare institutions designed to avert social risks exist but vary substantially along regional and social segmentations. Peru's hybrid welfare regime is limited to certain sectors and reaches only part of the population. Deficiencies are severe in rural areas. Even before the deep crisis of the 1980s, the social insurance system offered scant coverage and excluded the rural population. Since that time, a lack of funds and the expansion of informal employment have further eroded its effectiveness. The insurance system provides payments in instances of illness, pregnancy, disability, old age and death. Since 1992, the public social security system has been supplemented by a competitive private system modeled on Chile's. However, with the exception of health insurance, the system covers far less than half of the Peruvian labor force, as those working in the informal sector are not a part of the public system and the gradually growing market of "micro-insurance" is still underdeveloped due to people's distrust in insurance firms. According to [perueconomico.com](http://perueconomico.com), 77.5% of the population and 90% of the lower social strata was not covered by any insurance in 2011. Like the previous García government, the Humala administration is also working to create incentives to move informal labor into some kind of formality and

Social safety nets

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thus re-construct a social security web encompassing all citizens. Given Peru's extremely heterogeneous society, this is of course a huge challenge, and far from being completed.

The health system is composed primarily of the noncontributory comprehensive health insurance system (SIS), the contributory EsSalud social health insurance system, and the private insurance plans, with an additional health insurance system for the armed forces and the national police. The García administration reformed the health insurance system by introducing the Universal Health Insurance (AUS) and the Essential Plan of Health Insurance (PEAS) in 2009, making insurance obligatory and access to health care free. In May 2011, the Health Ministry, under the García administration declared that about 70% of the population was covered by some type of health insurance, up from 26% in 2005. This rise is mostly due to the extension of the SIS. The pension system is made up of the public pension system and a private system for the administration of pension funds. Figures reported by the ILO and World Bank indicate that the system covers only one third of the labor force. Unemployment insurance (CTS) exists only for workers in the formal sector, financed by contributions of employers and employees.

While avoiding – perhaps too timidly – a fundamental restructuring of the welfare system so as not to compromise the economic growth model, both García, and even more, Humala's administrations engaged in streamlining and updating the diverse welfare programs, using the windfalls of the economic boom. The Humala administration built upon successful programs, such as the National Fund for Compensation and Social Development (FONCODES) and the conditional cash transfer program, Juntos, which were implemented in spite of a lack of short-term political benefits, due to their medium- and even long-term impact. FONCODES began in 1991 and aims to reduce poverty by investing in economic and social infrastructure, particularly in the poorest rural areas. Juntos (meaning “together”) is a so-called conditional cash transfer program (CCT) initiated in 2005. By the end of 2011 the program covered about 2.8 million Peruvians, equivalent to 7.6% of the total population. Like many other issues in Peru, the success or failure of Juntos is heavily debated with respect to both efficiency and corruption. Recent studies indicate that the program works but could be significantly improved. The government also instituted a variety of new social programs and extended existing ones, including pensions for retirees in extreme poverty, stipends for poorer youth to access higher education and employment promotion.

Peru has institutions designed to compensate for gross social differences, but relative to the magnitude and broad range of inequalities they are limited in scope and quality. Despite persistently strong economic growth in recent years, about 30% of the population still lives in poverty; in some rural areas this rate is above 60%. Income inequality in Peru remains severe, although it is more moderate than in Brazil or Chile. Equal opportunity is not a reality in Peru, and access to public services does

Equal opportunity  
5

not take place on an equal basis. This inequality is often combined with discrimination against indigenous people.

The García and Humala governments developed certain mechanisms to promote the advancement of women, persons with disabilities and the socially disadvantaged, but their impact is still unclear. Women are still subject to employment discrimination, unequal pay, poverty, sexual harassment, and violence. The re-named Ministry of Women and Vulnerable Populations (MIMP) has programs specifically devoted to helping women, especially those suffering most from exclusion, poverty and violence. There are no special provisions aimed at enhancing women's political participation, with the exception of a provision established in 1996 mandating that at least 30% of candidates on party lists be women. However, not all the parties comply with this quota. Discrimination against women also persists within the state apparatus – especially the judiciary – although some progress has been made in national, provincial and local assemblies.

With respect to equality of opportunity for indigenous people, who are estimated to make up about one-third of the population, the National Institute for the Development of Andean, Amazonian and Afro-Peruvian Peoples (INDEPA) was created in 2005. INDEPA is tasked with formulating and supervising policies, programs and projects for integral development, and with coordinating specific policies with regional governments, including the protection of biodiversity and indigenous peoples' collective knowledge. However, INDEPA lacks a separate budget, and there has as yet been no evaluation of its effectiveness. In 2010, INDEPA was moved under the Ministry of Culture, provoking criticism by indigenous organizations and the National Coordinator for Human Rights, among others. In October 2011, the head of INDEPA was dismissed because she had annulled a decision allowing an Argentine gas firm to explore of territories inhabited by isolated indigenous communities. Though Peru adapted ILO convention 169 to the Law on Previous Consultation in 2011, the practice often contradicts the law, as has been criticized by Peruvian human rights groups.

## 11 | Economic Performance

During the period under review, Peru returned to the “miracle path” of high economic growth, low inflation, balanced budgets, low debt and high international reserves. However, Peruvian experts, as well as the IMF, see a major mid-term challenge for sustained growth due to the dependence on the external demand for raw material exports. Until now, the government has mainly maintained this model and has not introduced policies to induce structural change toward more sustainable growth.

Under the Humala government, GDP growth reached still impressive 6.9% in 2011 and 6.3% in 2012. The inflation rate rose slightly from 2.1% in 2010 to 4.7% in 2011

Output strength  
9



and 2.8% in 2012. The government's overall balance, which went negative in 2009 (-2.1% of GDP) and 2010 (-0.1%), returned to surpluses of 1.8% in 2011 and 2.0% in 2012. Public debt as a percentage of GDP reached a new low of 19% in 2012 representing one of the lowest in Latin America. Tax revenues, which had fallen to 14.1 of GDP in 2009, went up again to 15.2% in 2010, 15.9% in 2011 and 16.2% in 2012, which is, however, a suboptimal level in an international context. Still, supplemented by royalties and other revenues, total government revenues reached 26.3% of GDP in 2012. Foreign Direct Investment inflows increased again after the crisis, going up to \$7.1 billion in 2010 and \$8.1 billion in 2011, and then soaring up to \$17.9 billion in 2012. Foreign exchange reserves were not affected by the crisis and rose further from \$44.2 billion in 2010 to \$48.9 billion in 2011 and \$63.7 billion in 2012. The urban unemployment rate showed a slight decrease from 7.9% in 2010 to 7.7% in 2011 and 6.8% in 2012.

Major concerns include the exchange rate, as the Nuevo Sol has steadily appreciated against the dollar, and the current account deficit, which rose from about 2% in 2011 to about 4% in 2012. Given Peru's political fragility, the Economist has warned in January 2013 that "it will take clear heads and strong wills to prevent the party from getting out of hand."

## 12 | Sustainability

With the consolidation of Peru's current growth model during the first decade of the 21st century and the growing awareness of sustainable development, environmental concerns have been increasingly taken into account. Given the conflicting development goals, however, these concerns are occasionally subordinated to growth efforts. For example, the government has exempted investors from completing environmental impact certificates or refused to review controversial impact assessments, as in the Conga case. Essentially, environmental regulation and incentives are in place, but their enforcement at times is deficient. A major step toward strengthening the institutional framework was the creation of the Environment Ministry in May 2008. In May 2009, a new environmental policy was adopted, leading to the National Plan for Environmental Action (PLANAA), with a time horizon of more than 10 years.

The Humala government is committed to further developing a sound environmental policy and has even discovered political benefits to positioning himself as environmentally friendly following the two previous governments, who were viewed by the public as putting business before social and environmental needs. Building on the institutional reforms under García, which for Peru is in itself a remarkable step to institutional continuity, the government has started to refine the institutional arrangements in order to comply with its commitment to the 2012 United Nations Conference on Sustainable Development. In November 2012 Congress approved a

Environmental  
policy

7

bill to create the National Service of Environmental Certification for Sustainable Investment (Senace) to provide for a more impartial evaluation of environmental impact assessments, previously administered by the Energy and Mining Ministry. Observers also expect this to help bridge the sometimes broad interest gaps within society and government. In order to raise citizens' awareness of environmental issues, in December 2012 the government approved the National Environmental Education Policy. However, as the government itself has admitted in its report to the 2012 United Nations Conference on Sustainable Development, challenges are huge and many components of Peru's "new" environmental policy are still in the early stages of implementation.

Peru's education system does not suffer as much from lack of resources as from poor quality, and R&D is almost non-existent. Despite repeated reform attempts, Peru's education system is considered as one of the worst in Latin America. However, education and training facilities are at least available in most parts of the country, not an easy task in a country with such difficult geography. The education system is predominantly public, with a significant segment of private providers (about 15% of education services all levels combined). Schooling is obligatory and free of charge at primary and secondary levels in the public system; public universities are also free of charge for those passing the requisite exams. While Peru's primary and secondary education enrollment rate has reached high levels, the tertiary enrollment rate clearly lags behind Argentina, Chile and Uruguay. In addition, there are huge gaps between social strata and across the urban-rural divide, with indigenous communities especially marginalized. Concerning gender, there is almost parity on primary and secondary levels, while the female tertiary enrollment rate is significantly higher than the male enrollment rate.

The Humala administration seems sincerely committed to overcoming deficits in quality and inequality, and is using the revenues provided by the budget surplus as well as education monitoring systems to assess the status of education in Peru. To date, however, the government still struggles to meet the huge challenges it faces, acknowledging that the task of improving education will require continued efforts beyond its own term. In regards to education spending, the state's expenditure has hovered around 3% of GDP since the 1990s, reaching 3.0% in 2009 and 2.7% in 2010. The Humala government has raised education spending somewhat to about 3.3% of GDP in 2012, representing about 18% of the government's budget. Given the impressive growth rates this figures mean nonetheless that Peruvian governments have increasingly invested considerable sums to improve education.

Definite shortcomings persist in the area of R&D, with expenditure at around 0.1% of GDP. Except for a few extractive industries, Peru's technology standards – and thus its productivity – are low. This is in large part attributable to the low quality of its tertiary education system and the relatively small number of technology specialists. As part of its national export strategy, the government has launched

Education policy /  
R&D  
5

various initiatives aimed at raising technological standards in specific sectors such as textiles, jewelry, aquaculture and fisheries. However, the scale and impact of these initiatives have been limited thus far.

# Transformation Management

## I. Level of Difficulty

In terms of structural socioeconomic conditions shaping long-term political processes, post-Fujimori Peru faces a medium level of difficulty, with both positive and negative factors to be considered. The negative factors include Peru's relatively low level of economic and social development; widespread poverty; inefficient state administrative and legal institutions; significant ethnic, regional and social heterogeneity; severe infrastructural deficiencies in the Andes and the Amazon regions; weak political and civil societies; a large informal sector; and a growing dependency on the international economy. Yet there are positive factors that brighten the picture somewhat: In the 1990s, the state reestablished its monopoly on the use of force (though this has deteriorated slightly in the past few years); heterogeneity has not bred severe ethnic or religious conflict; social tensions have not escalated dramatically despite social segmentation; and despite the educational system's problems, Peruvians are for the most part able to obtain a basic level of education. Furthermore, most necessary structural economic reforms were achieved in the 1990s, with relatively broad consensus.

Structural  
constraints

5

Despite frequent civil mobilizations and the active engagement of pressure groups, the civil society traditions that began to emerge toward the end of the reformist military regime (1968 – 1980) today remain weak or of moderate strength. NGO activity has increased, but the landscape of voluntary organizations is not robust, and is plagued by scarce organizational resources (see “political participation”). The most important obstacle to democratic governance, however, is the low level of interest aggregation at the civil society level. In other words, Peru suffers from the absence of strong actors able to channel the diversity of social demands. Two significant developments relating to the culture of civil society have emerged in recent years, however. First, a more liberal wing within civil society has intensified its watch-dog work, monitoring human rights issues and the government's reform agenda, as examples. Second, participation in civil society has grown, leading to a diverse landscape of activist groups and a major increase in the voicing of demands at the national, regional, provincial, local and communal levels. According to recent data from Latinobarómetro and LAPOP, social trust and trust in institutions are both rather low, with resentment toward the “central state” quite strong in regional pockets.

Civil society  
traditions

6

Although Peruvian society is plagued by discrimination, and is divided along the lines of social class, the urban-rural divide and ethnic communities, this has not yet led to parallel splits in the political landscape, nor to major violent conflict since the 1993 defeat of the Shining Path. However, various mobilized groups and protest movements have become stronger in recent years, and on occasion have voiced their interests unconventionally. The police and the military – the latter having been empowered to intervene in cases of public unrest – have also contributed to the escalation of conflicts. In addition, radical political actors have demonstrated an increasing interest in mobilizing ethnic or social groups. The resulting “ethnicization” of Peruvian politics casts a dark shadow over the prospects for coherent management of transformation, as witnessed in neighboring Bolivia and Ecuador. However, Humala has not played this ticket so far. Instead, he has softened his views and has tried to address social conflict. Despite his efforts, violent incidents have occurred in Lima as well as in the Andes and Amazon regions. In fact, such incidents have increased slightly during the Humala administration. In sum, propensity to social conflict remains comparatively high and poses a challenge to the government.

Conflict intensity  
5

## II. Management Performance

### 14 | Steering Capability

Though the leadership was generally committed to constitutional democracy and a market economy guided by principles of social justice, the government did not make the advancement of these principles a priority. The main problem was not lack of commitment, but rather the lack of a concrete reform agenda. Entering office in July 2011, the Humala administration faced a wide range of political and social problems, though amidst the ongoing boom of the Peruvian miracle. One major problem concerning prioritization has been the change of Humala’s political orientation. His left-wing nationalism contributed to his defeat in the 2006 presidential elections, but Humala successively underwent a “Lulaization” in order to draw voters of the center of the political spectrum. Despite this shift, Humala still entered the 2011 campaign promising a “Great Transformation” of Peru to benefit the poor and support the social movements that were fighting big business, notably the big mining and hydrocarbon projects. However, to win the runoff against Keiko Fujimori, Humala moderated his positions, making the setting of priorities difficult. Then, after taking office, Humala embarked on an overall policy which very much approached the policies of García and which might be summarized as “solid economy first.”

Question  
Score

Prioritization  
7

Humala was somewhat clearer about his policies starting the second year of his term, emphasizing social and environmental policies as well as educational reform. However, the impression is still prevalent that he and his government move forward through improvisation instead of pursuing a sound agenda. Given that background, the principal goals of democracy and market economy, and the needed reforms to strengthen them, were sometimes postponed in favor of short-term crisis management strategies and other gains. For example, thorough judicial reform, the subordination of military justice under the civil justice system, and a more decisive anti-corruption policy were all put on hold. Another impediment to prioritization has been that some of the governments' stated objectives conflict, such as the pursuit of both security and civil liberties, and attempts to cultivate a good relationship with the armed forces while at least in principle being in favor of a more independent judiciary.

Though its reform agenda has been somewhat unclear, the Humala government had partial success in implementing some of its announced reforms. The economic agenda, including the strengthening of the macro-fiscal framework, social policy programs, and reforms in education and environmental policy were implemented, albeit with some difficulties and with mixed results. An important reform was the adaptation of ILO resolution 169 into the law on previous consultancy, which grants the indigenous population a long-desired recognition of their rights and provides the framework for negotiating conflicts over land rights and use. However, implementation of this law has been delayed and observers criticized it for potentially domesticating the indigenous organizations by subordinating them to a corrupt judiciary far away in Lima. Other agenda goals, such as judicial reform following the CERIAJUS proposals of 2004, have still not been implemented successfully, falling victim to postponement or outright abandonment. Implementation not only suffered from programmatic incoherence, but also from a lack of coordination and competence, and the inefficiency of the state administration.

As the government has mostly moved forward by reacting to political events, rather than formulating a long-term policy agenda, it has demonstrated little policy learning ability and limited flexibility. During the first year of his term, when adapting to the basic economic model of resource extraction and economic growth, the Humala government seemed inclined to rigidly enforce its political measures. Learning ability and flexibility vary across policy issues and ministries, however, and seem to have improved slightly over time. The Ministry of Economy and Finance, the re-named and re-organized Ministry of Social Development and Inclusion, and the Ministry of the Environment have demonstrated considerable ability to learn from their mistakes. The successful economic policies can, for example, be attributed to the lessons learned within the widely respected Ministry of Economy and Finance, which has proved able to operate effectively. The government also worked closely with the IMF (which in turn praised the authorities' cooperation). Other areas of government,

Implementation

7

Policy learning

6

however, suffered from the weaknesses of Peru's state administration (a situation even more dire in regional and local bureaucracies). These administrative impediments badly undermined the government's attempts to rely on effective monitoring and evaluation. Two cabinet changes, constitutionally required due to the dismissals of the prime ministers Lerner in November 2011 and Valdés in July 2012, also hampered the process of continuous policy learning, as well as of institutionalization. On the whole, learning processes affect policies inconsistently, but the government at least tries to learn from past experiences, uses observation and knowledge exchange, and relies on consultations with academic experts and practitioners.

## 15 | Resource Efficiency

Though the Humala government did not make optimum use of available human, financial and organizational resources, it has sought to improve efficiency. The government was not only committed to sound macroeconomic policies and a carefully balanced budget, but it also managed the state's surpluses well. The level of state debt is comparatively low. In addition, the state's budget is rather effectively audited by the autonomous Comptroller General, who supervises the execution of budgets at all state levels – the public debt operations as well as the acts of institutions subject to its control. In April 2012, the government created a commission composed of international and local advisors to further enhance the transparency of fiscal policy. The García and Humala governments both took steps to streamline the public administration, improve coordination between agencies and programs, and simplify administrative procedures by further implementing the rather complex state administrative reform plan. However, due to the inefficient bureaucratic apparatus, policies and measures that went beyond core areas (macroeconomic management, management of state resources) were not implemented.

Important deficiencies remain concerning human resources. Despite various attempts at reform, many observers consider Peruvian bureaucracy as inefficient and corrupt, with a near total lack of meritocracy. The government's efficiency suffers from a state administration with low skills, particularly at the regional and local levels. Politically motivated staff changes decreased in comparison to the Toledo government, but remained present and more pronounced at lower levels of the state administration. According to the Ministry of Labor, there are an estimated 1.3 million state employees, comprising about 8% to 9% of Peru's active labor force. However, as the director of the National Authority of the Civil Service (SERVIR) admitted in 2010, confirmed by the Labor Minister himself at the beginning of 2012, the Peruvian state does not know the exact count of state employees, as there has been no registry created to date. SERVIR was created in 2008 to improve the professionalism and enhance the transparency of Peru's civil service in the mid and long term, and is

Efficient use of  
assets

5

successively forming and implementing policies to promote a meritocracy. However, progress is slow.

The Humala government sought to coordinate conflicting objectives and interests, but in the absence of a sound political agenda, found itself faltering in this regard, at least during the first year of its term. The most obvious failure in coordinating policies – probably also due to political events surprising the government in its first months – concerned the management of social conflicts inherited from the previous government and deeply rooted in a history of elites' political promises and society's disappointments. In those months Humala especially failed to coordinate the specific preferences of ministries, such as the Ministry of Economics and Finance, MIDIS, the Ministry of the Environment and the Ministry of the Interior. As a consequence, in view of escalating violence, he had to dismiss Prime Minister Simón Lerner and then his successor, Prime Minister Oscar Valdés. The threefold re-shuffling of the cabinet in only one year signaled the difficulties the leadership had in coordinating the originally heterogenous cabinet composed of economic technocrats, military officers and left-wing activists.

Policy  
coordination  
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By giving way to a more centrist cabinet, headed since July 2012 by Juan Jiménez Mayor, Humala now seems better prepared to develop and coordinate a more concrete policy agenda based on continuity in macroeconomic policies, social reforms and the fight against corruption. There have also been renewed attempts to improve the often difficult coordination between the three state levels involved in policy implementation. However, a sound strategy to balance the rather conflicting interests of big investors in resource extraction and the local population is still not visible. In addition, conflicts between ministries or other state agencies (e.g. between the Ministry of the Interior and the chief of the police) occasionally surface and are often resolved in a zero-sum logic, that is, one of the contenders involved has to resign.

Though essential integrity mechanisms and a strong legal framework to combat corruption have been successively enacted over the past 12 years, most analysts agree that the anti-corruption measures have been weakened by inefficiency, a lack of implementation and in many cases, a lack of genuine political will. The Humala government has surely been more committed in its fight against corruption than his predecessors Toledo and García. However, fighting corruption in a country where the practice is almost generalized rarely shows immediate results. The Humala government has built upon existing regulations and institutions and tried to give the anti-corruption measures more continuity. The Toledo and García governments repeatedly created national anti-corruption agencies, but later replaced or deactivated them. Humala instead built upon the Anti-Corruption Commission (CAN) created by García in 2010, and in 2012, he presented the National Anti-Corruption Plan 2012-2016, which replaced García's 2009-2012 Fight Against Corruption Plan. The government also strengthened the anti-corruption prosecution unit (Procuraduría

Anti-corruption  
policy  
6



Anticorrupción), which was in disarray when the new anti-corruption prosecutor Julio Arbizu took office in 2011.

Concerning integrity mechanisms, core legislation aimed at fighting corruption exists. State spending is audited by the Comptroller General, though the labyrinth of Peru's administration – there are about 1,500 public entities – often impedes transparent auditing, particularly of spending at the regional and local levels. Party financing is regulated by the Party Law, but lacks a sound framework or rigorous auditing mechanisms, with the result that contributions to parties and campaigns have little transparency. Citizen and media access to information on all state activities has been improved by the Law on Access to Information and by additional regulations providing for transparency. However, there has been no rigorous evaluation of this measure's impact. To promote transparency, Peru's domestic legislation requires public officials in senior positions to provide asset declarations. It remains to be seen how the measures introduced by the Humala government to strengthen these mechanisms – e.g. special anti-corruption plans inside the ministries, the reformed law against money laundering or tighter control of so-called suspicious operations – will bear fruit in the near future.

## 16 | Consensus-Building

Apart from illegal actors (i.e., guerrillas and organized crime groups), virtually all significant political and social actors agree in principle that establishing a stable democracy and market economy should be the goals of reform, though there is some controversy over strategic priorities such as the weight to be given to social and environmental policies. While many initially doubted Humala's commitment to democracy and a market economy, these doubts dissipated thanks to the pragmatic political course he pursued during the first months of his term. This "Lulaization" also allowed him to maintain his focus on the need to strengthen social safeguards within the economy. However, the extent to which social safeguards should be embedded within the economy is a heavily contested issue in Peru, with the economic establishment on one side and leftist forces seeking stronger regulation of market forces on the other. In addition, consensus-building proved to be hampered by the weak system of interest mediation and the often particularistic nature of demands. In some of the existing disputes, the parties involved showed little interest in compromise.

Consensus could have been strengthened by referring to the National Agreement on Governance (Acuerdo Nacional), which was launched by President Toledo and his team in 2002, and included all of Peru's important parties and social forces. Though its implementation failed due to the political stalemate, it is still seen as a blueprint for the course the country must take. The Humala government referred occasionally to the agreement, but this could be done more systematically and accompanied by an

Consensus on goals

7

integration of the political forces backing the accord into the policymaking process. Again, a fragmented party system and a weak Congress are additional obstacles.

In narrowly defined terms, the government successfully integrates potential veto powers such as the military and the business community into its fold. The military seems to be subordinate to civil authorities; the government has been eager to cultivate civil-military relations, given the importance of the armed forces in Peru's political scenery. Perhaps to avoid any ruffling of positive relations with the military, Humala maintained decrees issued by García, which allow military personnel accused of human rights violations to be judged by military courts. Otherwise, there are severe problems with illegal actors such as the Shining Path and the coca mafia, though the latter are mere criminals and may not count as "anti-democratic" actors in the BTI sense. The Shining Path seems eager to re-build a political force via the Movement for Amnesty and Basic Rights (Movimiento por Amnistía y Derechos Fundamentales, Movadef) and thus to participate in democratic politics. The Humala government has started to encounter the further rise of Movadef with legal and political measures, including counter-insurgency. The cocaleros and their unions, who openly demand an end to the government's coca eradication policy, are a special case: They pursue illegal aims, but do so legally and in public.

Anti-democratic  
actors  
8

Given the potential for severe conflicts arising from unaddressed demands, Peru's political leadership has been partially successful in managing social cleavages but has also failed to resolve some of the most emblematic conflicts. Though the Humala government initially tried to depolarize cleavage-based conflict and to expand consensus across the dividing lines by issuing reforms and promoting dialogue, realities and the occasional mishandling of conflict, as in the Conga case, made this a difficult endeavor. While Humala's first prime minister, Lerner, was more inclined to negotiation and dialogue, Humala dismissed him for allegedly doing nothing to address the rise in conflicts. In contrast, his second prime minister, dismissed in July 2012, exercised a heavy-handed policy with regard to social protests, frequently declaring a "state of emergency" and calling in the armed forces for internal security. As a result of these conflicts, at least 20 people died and about 800 were injured, which is surely a sign of poor crisis management. One reason for citizens' dissatisfaction may be the expectations Humala himself nurtured in recent years and even during his campaign. By maintaining the same economic model, many interpreted this as confirmation that the Humala government would fail to fulfill its promises.

Cleavage /  
conflict  
management  
6

Though overshadowed by these obvious failures, there have been other measures taken to mitigate cleavage-based conflict. Dominant cleavages in Peru are ethnic, class and regional divisions, which often overlap. Demands arising from these cleavages have been an issue in many parts of the country, and the government has indeed taken action to address them, though some of them will bear fruit only in the mid or even long term. These actions include the extension of social policies, the

government's introduction of a law stipulating the involvement of indigenous peoples in decision-making processes according to ILO Convention 169, and the intensification of dialogue in cases where conflict has not yet escalated.

In terms of long-term political strategy, the Humala government has clearly improved on its involvement of civil society and has tried to provide channels for more participation, especially for groups involved in social, environmental and indigenous peoples' issues. While the García government tended to ignore civil society actors and formulate its policy autonomously, the Humala administration is more aware of the need to involve citizens and civil society actors into the diverse steps of policymaking. One major difficulty, however, has been the change of course concerning the economic model. While civil society actors, especially from the left, participated in the formulation of the "Great Transformation" plan, Humala has turned away from some of the plan, undermining the trust of some civil society groups.

Civil society  
participation  
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In addition, fragmentation and the centrifugal tendencies in Peruvian civil society – reinforced by the weak party system – make it sometimes difficult to find adequate counterparts in civil society who are interested in sound national policies, not just single goals. Peruvian politics has long been marked by the neglect of many social demands and a failure to deliver on promises. Rather than purposefully addressing demands from civil society, the government still has the habit of reacting to the outburst of protests. Some civil society actors, such as the employers' organizations, work behind the scenes to identify political priorities and formulate policies. Though the state is interested in containing excessive conflict, its measures have sometimes run counter to democratic principles.

Like its predecessors, the Humala government recognizes in principle the need to deal with historical acts of injustice, but this goal is subordinated to other political goals in practice. Reconciliation is still a contested issue in Peru given that the major perpetrators of human rights violations, namely the military and the Shining Path, still exert great influence. The political elite and large parts of the public are not very eager to touch this issue, thus progress is very slow. The conflict has not been sufficiently investigated, and given the lack of established facts, many different narratives circulate, among them a recently published report of the military called "In honor of the truth".

Reconciliation  
5

Progress made during the 2000s was mainly driven by civil society actors rather than by politicians or elites. The establishment of the Truth and Reconciliation Commission (CVR) in 2002 has led to intensive work collecting testimonies, compiling a new record of the victims of human rights violations (70,000 people were killed – not the previously presumed total of 30,000), and identifying the perpetrators of crimes. However, the impetus for a true reconciliation was lost in the wake of these successes, and most of the commission's recommendations have not been carried out.

Indeed, most relevant actors including the Catholic Church, criticized the CVR final report.

Still, some progress has been made. In 2007, the National Council for Reparations began its work monitoring reparations given to victims of human rights abuses documented by the truth commission. By 2010, most of the victims had been identified and integrated into the victims' registry. Reparation payments coordinated by a special commission (Comisión Multisectorial de Alto Nivel, CMAN) have begun through the financing of projects in several communities identified as victimized by the armed conflict.

While the Humala government at least tried to push for a better coordination and budgeting of reparation procedures, true reconciliation has stalled. The Minister of Defense openly declared in September 2011 that there should have to be a cut-off point for the reconciliation of the country, meaning nothing else than the perpetuation of immunity for human rights violations. In 2012, the Supreme Court had to revoke a decision of one of its chambers to reduce penalties to members of a death squad operating under Fujimori after domestic and international protest, indicating the struggle behind the scenes on that topic is still ongoing, leaving the victims somewhat alone.

## 17 | International Cooperation

The political leadership works with bilateral and multilateral international donors, and tries to make efficient use of international assistance. In significant sectors it makes well-focused use of international aid in order to implement its long-term development strategy. As outlined above, this strategy aims predominantly at economic and social development, and to a lesser degree at strengthening the institutional framework of democracy, though some steps have been taken in the realm of anti-corruption policies. The government coordinates its high-priority reforms closely with the IMF, the World Bank, and the Inter-American Development Bank, and has earned guardedly positive marks from these institutions. The World Bank gives support in areas such as social programs, infrastructure, public services, and state efficiency and acknowledges the cooperation on the part of the Peruvian government. The government also satisfactorily works with NGOs. For example, the Ministry of the Environment and the World Wildlife Fund (WWF) recently renewed agreements to continue their collaboration concerning the conservation of natural protected areas and forest resources.

In general, the Humala government acted as a credible and reliable partner in its relations with the international community, and was able to build confidence in its reform policies. While there were some doubts in regard to his commitment to democracy and market economy principles before and even shortly after his election

Effective use of support

8

Credibility

9

as president, especially in circles close to the international business community, Humala soon established himself a type of “Lula” concerning economic pragmatism. His government’s continuity and professional macroeconomic management – which led to a loss of credibility at home – soon contributed to a recovery of confidence from Western partners. Apart from the country’s close relations with bilateral and multilateral donors, the web of free trade agreements established all over the world represents an additional sign of trust in the Peruvian leadership. In the same vein, his nationalist positions from years back successively disappeared from his political agenda, though his party is still named Peruvian Nationalist Party. A major step to confirm his credibility was the manner in which he accepted the resolution procedure to resolve the maritime border dispute with Chile, which had been brought before the International Court of Justice at The Hague under the García administration. The government thus demonstrated its willingness to adhere to international norms of peace and justice. Between 2008 and 2009, Peru obtained investment-grade status from all three major rating agencies and was further upgraded in 2011 and 2012. The rise in its rating was attributed to the significant decrease in Peru’s fiscal and external vulnerabilities; broad and diversified sources of growth; low levels of inflation; and improved macroeconomic fundamentals. The agreement with WWF mentioned in “effective use of support”, which signifies the continuation of cooperation between these two actors, is also a sign of confidence in Peruvian leadership.

Peru’s political leadership cooperates with most neighboring states and complies with the rules set by regional and international organizations. Given his more leftist “Lula” image, Humala also succeeded in maintaining friendly relations with Bolivia, Ecuador and Venezuela, thus leaving behind the tense rhetoric characteristic of the García era. Occasionally tensions have arisen with Chile, but despite Humala’s nationalist rhetoric during his campaign, there has been no real conflict between the two countries. The maritime border dispute between the two countries has been brought before the International Court of Justice in The Hague.

Regional  
cooperation  
8

## Strategic Outlook

In Peru, there remain considerable structural impediments to change. The veto power of entrenched elites represents a further impediment to change. The governments since 2000 have resisted the temptations to engage in a Bolivarian-like “revolution” or in the end were politically too weak to do so. Accordingly, Humala’s move from a vision modeled after Chávez to a more pragmatic Lula-like policy program, resolved credibility problems among entrenched elites, but created new ones among his base and large parts of Peruvian society. Despite this problem, the Humala government gained lost ground after re-defining its policy agenda and surviving its first year against heavy criticism. Apart from successful economic governance, some of the administration’s reform measures during the period under review moved in the right direction despite insufficient communication with the public and with civil society.

However, Peru’s problems will only be surmounted through strong policymaking and critical reforms, which will require a strong political consensus. It remains unclear whether political elites will be able to build upon the recent transformation successes – fragile as they may be – and whether the Humala government will continue the as-yet-incomplete reforms as originally planned through the medium and long term. One good sign is that the Humala government tried to continue some of the previous government’s policies and programs. Although social development has been insufficient to date and needs to be addressed in the near future, Peru’s most urgent transformation problems lie in the realm of politics and political management. Though the Humala administration has continued or initiated some elements of a comprehensive transformation strategy, more action is required. This process should focus on four key elements:

- **Strengthening the rule of law and the judiciary:** Though most actors and observers have agreed for years that the judiciary is – apart from stateness problems – the weakest political institution, progress since 2001 was meager at best. All of Peru’s political actors need to demonstrate a stronger commitment to systemic judicial reform. As the Chilean example has shown, a successful reform requires both committed reformers and the capacity to identify and break anti-reform interests (inside the judiciary, inside the state apparatus and among the political elite). The use of international advice and support will be crucial in implementing the daunting but necessary reform measures.
- **Improving stateness:** Though the García and Humala governments confronted the problem of stateness more thoroughly than the Toledo government did, problems are huge nevertheless due to the growth in transnational drug trafficking. Because the problem is multifaceted – spanning the issues of guerrilla activity, urban crime, anomic tendencies and mafia organizations – the leadership should also develop a national master plan that more effectively combines the legitimate use of force with “softer” strategies such as prudent conflict management, socioeconomic measures and – in the case of coca producers – an offer of alternative production options. Above

all, the state should draw a clear line between the sometimes violent social protests and crime, whether organized or not.

- **Strengthening the system of political representation:** Peru's party system remains weak and does not fulfill the function of aggregating interests and channeling the diverse demands of Peruvian citizens. This weakness contributes to the recurrent political turmoil in various parts of the country. In order to strengthen the party system, the political elites need to improve the functioning and internal democracy of the Peruvian political parties. Stronger party legislation is necessary, especially concerning regional and local activities, where centrifugal tendencies are undermining the still-weak representation structures between society and the state.

- **Communicating policies and improving dialogue with citizens.** This would have to include clearer statements about the feasibility of deepening social progress and the timeframe involved. Of course, convincing citizens of the necessity to pursue long-term goals is not an easy task, given Peruvians' high expectations and their frustration that the state has long ignored their demands.