

BTI 2016 | Peru Country Report

	scale	score	rank	trend
Status Index	1-10	6.86	# 31 of 129	
Political Transformation	1-10	6.55	# 48 of 129	➔
Economic Transformation	1-10	7.18	# 25 of 129	➔
Management Index	1-10	5.40	# 49 of 129	

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. 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>.

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Key Indicators

Population	M	31.0	HDI	0.737	GDP p.c., PPP \$	11989.3
Pop. growth ¹	% p.a.	1.3	HDI rank of 187	82	Gini Index	44.7
Life expectancy	years	74.8	UN Education Index	0.664	Poverty ³	% 9.7
Urban population	%	78.3	Gender inequality ²	0.387	Aid per capita \$	12.0

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

This report covers the intermediate stage of the administration of Ollanta Humala (2011-2016). Viewed in retrospect, the president won the national election amid voter fears regarding his government's alleged proximity to the Venezuelan "chavista" model. However, Humala assumed a center-left orientation during the first months of his term, thus consolidating the image of a Peruvian "Lula." At the end of his first year in office, Humala made a radical right turn in the middle of a climate of social conflict; this decision was expressed in the designation of former military Oscar Valdés Dancuart as president of the Ministers' Council and the increasing distance from the leftist cadres with the help of whom he won the presidency. This path did not consolidate his power either, and months later, in mid-2012, Humala tried to return to the political center with the appointment of Juan Jiménez Mayor as president of the Ministers' Council. Humala's Nationalist Party has been a weak and fragile coalition, and contributed to these ministerial crises and other governance shortcomings.

The new cabinet tried to restore relations with various political and social forces. Jiménez has lasted a comparatively long time in office for Ollanta Humala's government (one year and three months). In October 2013, new cabinet changes wore down the government, limiting its ability to articulate a coherent policy. Between 2013 and 2014, Ollanta Humala appointed three presidents of the Ministers' Council. At first he boldly opted for a regional leader, Cesar Villanueva, who did not stay long in office and was replaced by a former minister, René Cornejo, who also failed to stay long in office – both were politically independents, without a national party affiliation. Villanueva was somehow boycotted by President Humala himself, and Cornejo was severely questioned and weakened due to claims about his potential conflicts of interest with the private sector.

Currently, Ana Jara, from the Nationalist Party, seems to have balanced this situation with great effort. Humala has presented cabinets with technocrat cadres in order to carry out major reforms. But without strong political support, these reforms are easily blocked. At the same time, without

a clear political strategy, the government appears extremely shortsighted and short-term motivated. The initiatives of reform depend too much on the individual will of specific ministers, and are not the result of a collective political strategy.

Throughout this, the government of Ollanta Humala has been caught in tensions with the opposition and civil society. The administration is approaching the end of its mandate mired in a crisis the resolution of which is not easy to foresee. At the same time, there have been heightened concerns about insecurity and the expansion of illegal networks. The elections of subnational authorities exposed the involvement of organized crime in some cases. These concerns are exacerbated by several regional presidents involved in corruption and crime, as the case of César Álvarez in the Department of Ancash.

There is growing concern about how the government will finish its term, and how stable and peaceful the 2016 national elections, and the beginning of the new administration will be. Following a decline in commodity prices, Peru's economy is currently suffering the effects of a significant reduction in growth rates. At the same time, the Humala government's political weakness and isolation has grown increasingly more evident.

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.

During these decades, the Peruvian party system and democratic institutions collapsed, introducing some of the main characteristics of the “post-Fujimori” era: high electoral volatility, the predominance of informal institutions, deinstitutionalized and highly personalistic political organizations – in general, weak democratic institutions.

After the passage of the transitional government under Valentín Paniagua, and Alejandro Toledo's election in May 2001, Peru returned to a proper democratic dynamic. Two major tasks emerged at

the beginning of the new century: shore up democratic institutions and the recovery of representation in the political system; and ensure the foundations for inclusive and sustainable economic development. However, the last two years of Toledo's term were not politically stable, leading to the surge of Ollanta Humala's leftist nationalist movement. Notwithstanding these limitations, Toledo began an important decentralization process by allowing the election of several subnational governments.

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 runoff 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. Starting in 1991, some 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. During the first years, the Humala administration made known its interest in consolidating rather than changing the economic course. However, Humala's election commitment to combat inequality materialized in the development of social assistance policies. If poverty reduction was possible

with sustained economic growth, this shows that an articulated social policy could also reduce inequality indices.

An overview shows that, since the beginning of the new century until the present, Peru should have made progress in strengthening of political institutions, and completed economic reforms to sustain growth. In retrospect, Peru had the necessary economic conditions. However, the current balance shows that it has made little progress in political and institutional terms. The Peruvian economy had exceptional indicators, but failed to complete the pending reforms. These tasks were not fulfilled. Both situations may be explained by the precarious representation system. Peru has not recovered from the political and social crisis of 1980s-1990s. In economic terms, Peru does not have the foundations for diversified growth in place. If the Peruvian economy has performed well in recent decades, this has been due to the efforts of a group of technocrats in key areas who, however, were unable to develop further reforms.

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 issue of illegitimate violence is one of the core problems hindering Peru's political and economic transformation. This violence also affects transformation management, and it highlights the contradictory nature of a society faced with profound change. The state's monopoly on the use of force showed some improvements without, however, undergoing any fundamental change. In principle, the state's monopoly on the use of force is in place, but is still challenged in some areas. The further weakening of the Maoist rebel movement Sendero Luminoso (Shining Path), the once powerful terrorist group now tied to coca production and trade, indicates an advance toward increased state sovereignty. Important political and military commanders from one faction in Huallaga were captured during the early years of this administration. However, the problem remains in the area known as Valley of the Apurimac, Ene and Mantaro Rivers (VRAEM), where drug trafficking and senderista groups still have a significant presence.

Monopoly on the
use of force

6

Peru continues to be one of the main producers of coca, the main ingredient of cocaine. Despite enhanced efforts by the government and the national police, security forces have been largely unsuccessful in their fight against drug-related crime, especially with regard to the drug mafia. In addition, organized crime and new challengers to the state apart from drug trafficking have also been revealed. Subnational elections in 2014 exposed cases where illegal activities, such as mining and illegal logging, were developing in connect to mafia networks and contract killing. These events are not isolated and they seem to have strong links with the national and subnational political system. There are several cases that illustrate these relationships. In 2014, for example, scandals involving regional governments and criminal networks became public. One significant case was the regional government of Ancash where Regional President César Alvarez and his political group were involved in networks of corruption and the murder of opposition leaders.

Despite being a multiethnic nation composed of whites, mestizos, indigenous people, blacks and Asians, and also a very heterogeneous country in regional terms, 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. The state does not deny citizenship rights to any group, although it has problems enforcing those rights for the entire population.

State identity
9

However, indigenous groups are gaining self-confidence and beginning to mobilize, particularly in opposition to resource extraction, as they learn from the experiences in these countries. Consultation rights over the extraction of natural resources and on behalf of indigenous peoples were implemented during Humala's term in office. As the country suffers from historically rooted discrimination practices directed most virulently against the indigenous population, the influence of ethnicism in Peruvian politics may again rise, presenting new challenges to the country's democratic institutions.

In recent years, the involvement of the Catholic Church in politics has attracted attention both for its strength and also its limitations. Therefore, it is more accurate to speak of the influence of the church in some public policies, rather than clear interference. This influence is certainly based on the majoritarian Catholic identity of the Peruvian population, which has relatively conservative values.

No interference of
religious dogmas
9

Two public initiatives illustrate this point: the regulation of therapeutic abortion and the introduction of civil unions between same sex persons. The first one was approved despite church opposition; a decision regarding the second issue has been postponed in Congress several times.

Both proposals have been harshly criticized by religious groups, in particular Catholic and Evangelical groups. Religious groups exercise their influence primarily through informal mechanisms, though some religious leaders are participating more directly in the political process as elected representatives and/or through their activities in mobilizing civil society. Although the state in Peru has historically had close relations with the Catholic Church, the expansion of other faiths and growing discussion about religious influence in the public sphere have moderated these relations. Increasingly, religious groups and organizations must advocate for their interests more transparently through institutional channels, in particular via representatives in parliament. In addition, they must now even work with other faiths to achieve their goals. However, the influence of religious interests is also contested by the active and growing mobilization of feminist and LGBT groups criticizing the interference of religious interests in the public sphere.

The state's basic administrative infrastructure extends throughout most of the country's territory, but its operation remains deficient. Particular problems include widespread corruption, bureaucrats' limited technical skills and the system's inaccessibility for most of the poor. The weak presence of the central state's administration outside Lima and the coastal areas 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 process of decentralization of the state has become a source of political instability, as this process has fragmented the political landscape and exposed unskilled politicians without parties to increasingly strong popular demands. Apart from law enforcement, deficiencies in transportation and basic infrastructure are a major concern. However, some state offices seem to perform better than others, so they are seen as "islands of efficiency." This is mainly because of their degree of political importance and the existence of relatively autonomous technocratic groups (basically, agencies related to the economy). These areas have developed stable civil service careers without political interference. Furthermore, the present government has introduced some reforms to improve the quality of public administration. The Civil Service Law, for example, seeks to solve the problems concerning the lack of professionalism, training and stability in public administration.

Basic
administration
7

2 | Political Participation

There are almost no constraints on free and fair elections. 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 execution and monitoring of all electoral processes, are widely regarded as reliable and as some of the best-performing state institutions. During the period under review, elections for subnational authorities (regional presidents and mayors) were held (October 2014). The results were accepted by the contending parties and disputes about irregularities were of minor importance. There are episodes of electoral violence, but they are related to corruption scandals and the presence of mafia interests among the candidates, rather than citizens questioning the fairness of elections. Other electoral disputes are triggered by recall elections, which are very common at the local, mayoral level. At the same time, media coverage in Lima is debated because of the concentration of the media in the hands of a few companies. In addition, discontent among local journalists has grown due to the ease with which local politicians have had in pressuring or bribing the media to work in their favor. Finally, there is some progress in the implementation of the electronic vote to protect anonymity in the counting of ballots.

Free and fair
elections
8

In principle, elected political representatives have mostly exercised effective power to govern as far as the classical veto powers (e.g., armed forces, landowners, business groups) are concerned. However, individual societal groups in Peru are occasionally able to successfully push for their interests even against the will of the elected government. Business represents a strong pressure group, and reportedly influenced the Humala government not to change economic policies. This government is also susceptible to pressure from other interest groups able to mobilize specific social interests. Peru faces not necessarily the strength of veto groups, but the political weakness of the government. Ollanta Humala started his term in office with a precarious majority in Congress. After three years, his congressional group decreased from 47 to 34 seats (Congress in Peru has one chamber of 130 members). This favors the opposition, led by Popular Forces (Fujimorism), the biggest group in Congress. This instability has been evident at various times in the government, seen in the frequent cabinet changes, as well as difficulties in the adoption and implementation of new laws and reforms.

Effective power to govern

7

The constitution establishes the right to political organization, especially for independent political and civic groups to associate and assemble freely. The state generally respects this right and numerous civil society groups operate without disturbance by the state authorities. However, governance problems and the relatively frequent conflicts, which occasionally turn violent, especially at the local level, have made politicians and the police inclined toward certain restrictions.

Association / assembly rights

8

Peru has ratified all eight of the International Labor Organization's (ILO) fundamental conventions. Union activity is still hampered by regulations that dilute certain labor rights, and is also weakened by the large informal sector. It is also important to mention that anti-terrorist legislation is still in place to prevent the resurgence of the Shining Path and similar organizations. Based on that legislation, the Jurado Nacional de Elecciones denied a request to a Shining Path-related organization, Movadef, to register as a political party.

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 in practice 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. 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. García, in particular, sought to repress political mobilizations more than Toledo or Humala.

The same decree also provides for military courts to handle cases of alleged human rights violations by members of the military, which human rights organizations have criticized because of a higher probability of impunity. In addition, human rights organizations report that the Peruvian police have repeatedly arrested participants in demonstrations without a valid reason. 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. In summary, the right to association is fairly respected, even when there are conflicting scenarios and protests which are controlled and repressed.

There are a few problems regarding freedom of expression, but these are not related to political intervention or state censorship, but more to the failure of the state to protect the media from threats and attacks from illegal organizations. 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 in the latter. The media generally provide for a full range of opinions, though in certain instances political polarization undermines plurality. Both public and private media – the latter of which clearly dominates the media landscape – are mostly free of government influence. 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.

In the period under review, some concerns have been expressed regarding changes in ownership of the main media outlets that have led to the formation of a big corporation that concentrates the ownership of the most important media enterprises, which may limit freedom of speech. This is under revision by the judiciary.

3 | Rule of Law

The separation of powers (executive, legislative and judiciary) in Peru is set by the constitution, and includes the existence of constitutional and electoral autonomous agencies. However, the functional level of the balance of power is determined by administrative and political factors due to the weak institutionalization of the Peruvian political system. As shown by several studies, the degree of balance between these powers varies according to the political group in power. In the case of government of Ollanta Humala, the weakening of his congressional coalition and the lack of political cadres in government has generated a slight imbalance against the

Freedom of
expression

8

Separation of
powers

7

executive branch. Although the government had a congressional majority in the early years, its parliamentary group has divided and become the leading minority in Congress. The effect of this dynamic can be observed in the elusive vote of investiture that Congress has granted to the last two cabinets. In the same way, some reforms proposed by the executive have been modified or blocked by Congress.

The judiciary functions as a distinct branch of government and operates relatively independently, though its decisions have occasionally been circumvented or even ignored. Problems with judicial independence are not due to government interference or pressure on judges. The independence of the judiciary can be seen in the appointment of judges such as César San Martín, who presided over the trial that found former President Alberto Fujimori guilty. Judiciary operations are severely undermined by corruption, inefficiency and insufficient territorial and functional penetration. This weakness has itself fostered corruption, illegal action and impunity. As a result, the citizenship has very low confidence levels in the judiciary. Most people try to avoid the judiciary, which is seen as expensive, inaccessible, not trustworthy and corrupt, and try to solve their disputes through informal means. Once into judiciary proceedings, things get very complicated and uncertain, given the level of corruption and other problems. Arbitration outside the judicial system has emerged as a substitute mechanism to address contractual disputes, particularly in the private sector and with the intervention of several chambers of commerce.

Independent
judiciary

6

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. The system does not work to prevent corruption, though the most outrageous cases that receive media coverage are pursued. In recent years, a significant number of regional presidents have been prosecuted and sentenced for corruption. Even so, the institutions responsible for supervising and prosecuting these cases are severely delegitimized. High-level officials in these agencies, including the National Prosecutor, are also investigated and prosecuted for being involved in corruption cases or for favoring the impunity of elected officials. The system is very sensitive to small acts of corruption, as many cases involving low-ranking officials are pursued. Furthermore, many high-ranking officials who commit great acts of corruption go unpunished, despite the fact that the most scandalous and mediatized cases are prosecuted.

Prosecution of
office abuse

6

The state respects civil liberties in principle, but fails to strengthen them further and occasionally does not protect them adequately. As a consequence of the state's weak authority, and especially a weak and corrupt judiciary, civil rights are violated in some parts of the country, or citizens are discouraged from claiming 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.

Civil rights
6

According to a report by Human Rights Watch, from the time President Ollanta Humala took office in July 2011 until September 2014, 34 civilians were killed during social protests. There has only been minor progress in clarifying the circumstances under which these deaths occurred, and prosecution of the police or military who employed illegitimate use of force has been sluggish. In this sense, a major setback is the passage of a law that protects police from crimes committed during service.

However, the main problem regarding civil rights comes from the inability of the state to protect citizens from attacks by criminal groups, and to address the consequences in cases of violation of these rights. The murder of anti-illegal-logging activist Edwin Chota Valera clearly illustrates this point. Chota Valera, an indigenous leader, had received death threats on several occasions from illegal logging related groups, but did not receive state protection. 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 remains difficult, and represent a source of continuous conflict among different 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 and corruption continue to seriously undermine judicial independence. Likewise, the process of decentralization, which began in 2002, was performed hastily and has led to mixed results. The main problem is the operational capacity of subnational governments, which are flooded with amateur politicians and weak parties. The poor bureaucratic capacity of subnational governments and the Ministry of Economy's weak leverage in monitoring their spending has resulted in serious public spending problems.

Performance of
democratic
institutions
6

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 short-term, particularist 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.

Commitment to democratic institutions

7

5 | Political and Social Integration

Peru's party system suffers from a low level of institutionalization. Fragmentation and volatility are high, and the system is not thoroughly rooted in society. The electoral landscape is somewhat polarized, as recent national elections have reinforced the divide between Lima and the interior provinces of the country, particularly the highland regions. Political parties are unstable organizations with little legitimacy and low membership numbers. Recent subnational elections have confirmed these characteristics. Most existing national parties are political groups without an organized apparatus or a defined, structured program or ideological principles. These parties revolve around individuals, who are not interested in promoting party organizations. In the October 2014 subnational elections, while some opposition parties presented candidatures in most of the territory, the ruling party (Nationalist Party) presented only a small number of candidates at local levels. At the same time, despite the electoral divisions between the Lima and rest of the country, a certain key programmatic consensus on the political system and economic model is maintained among the main political actors.

Party system

4

Peru's landscape of interest groups continues to be relatively well-differentiated and rather dynamic, but it is highly fragmented and almost completely 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. Business groups are by far better organized and politically represented compared to labor unions or other civic organizations. They have had strong influence on politics since Toledo's administration, and through Garcia's to Humala's. Unions were severely weakened by neoliberal reforms, such as layoffs due to privatization and the spread of contractual work, as well as massive impoverishment since the end of the 1970s. They have lost almost all of their political weight, a trend exacerbated by the very large share of workers employed in the informal sector. Strikes affecting the private sector are less common than strikes in the public 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. At the same time,

Interest groups

5

business organizations have better administrative resources, but their level of representation is limited by the heterogeneity of its members. Entrepreneurs do not need to invest in organizations, and the relations between business and government are largely informal. Business groups can be very successful in advancing their demands because they maintain direct relationships with high-level officials in government, and some business leaders have been appointed to key government positions. For most Peruvians, given the presence of weak labor organizations, the best way to present demands is not through organized civil society groups or representative institutions, but through direct mobilization in the streets.

Approval of democratic norms and procedures is fairly low in regional comparison. 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 2013 show similar results. Support for democracy reached 59% in 2011 but declined to 53% in 2013, lower than in Fujimori's last five years (1996-2000). In recent years, national surveys show a certain disappointment in democratic procedures after elections, above all at the local level. Democratic institutions, such as Congress or the judiciary, are distrusted by the majority of Peruvians. But in the last two years, the executive has also lost popular support, having an important effect on the whole political system. Policy decisions taken by democratic procedures are to some extent contested and criticized due to the population's distrust.

Approval of
democracy
4

There is a fairly low level of trust among the population. Self-organized groups, associations and organizations are unevenly distributed in the country and often spontaneous and temporary. Partly because of the long-lasting spiral of impoverishment and the growth of the informal sector inherited from the crises in the 1980s-1990s, the ability of Peruvian society to organize itself has significantly increased over the past two decades in terms of economic networks that do not involve political activity. 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. In the last decade, the presence of extractive industries has had an important effect on the mobilization of social actors because of the adverse effects of mining on agricultural lands and livelihoods. But the problem of aggregation and fragmentation still remains and has a significant effect in the construction of social capital. According to the 2012 LAPOP survey, the level of interpersonal trust in Peru is rather

Social capital
5

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 significantly higher than 2010, this is still among the lowest levels among 25 countries.

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 \$5,075.50 in 2010 to \$6,661.60 in 2013. The Human Development Index 2014 ranked Peru 82th out of 187 states, with an index value of 0.737 (compared to an average of 0.646 for the world). Two years previously, Peru was ranked 85th. 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 23.9% in 2013. 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 compared to urban centers. Extreme poverty declined from 11.2% in 2007, to 7.6% in 2010, to 6.3% in 2011, to 4.7% in 2013. 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 the legacy of political violence, 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 45.5 in 2011 and 44.7 in 2013. In addition, Peru’s Gender Inequality Index worsened somewhat from 0.384 in 2010 to 0.387 in 2013 (lower value indicates less inequality).

Question
Score

Socioeconomic
barriers
5

Economic indicators		2005	2010	2013	2014
GDP	\$ M	74948.1	148522.8	202362.6	202902.8
GDP growth	%	6.3	8.5	5.8	2.4
Inflation (CPI)	%	1.6	1.5	2.8	3.2
Unemployment	%	5.2	4.0	3.9	-
Foreign direct investment	% of GDP	3.4	5.7	4.6	-
Export growth	%	15.2	1.3	-2.3	-0.3
Import growth	%	10.9	26.1	3.6	-1.4
Current account balance	\$ M	1147.6	-3782.1	-9125.9	-
Public debt	% of GDP	40.0	25.4	20.3	20.7
External debt	\$ M	29508.5	42153.9	56661.4	-
Total debt service	\$ M	6070.9	6685.1	6806.4	-
Cash surplus or deficit	% of GDP	-0.9	0.5	-	-
Tax revenue	% of GDP	14.3	15.4	-	-
Government consumption	% of GDP	11.6	10.6	11.2	11.8
Public expnd. on education	% of GDP	2.9	2.8	3.3	-
Public expnd. on health	% of GDP	2.7	2.8	3.1	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.5	1.3	1.5	1.4

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

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; and some experts even speak of a dual economy, split between the dynamic coastal regions and the economies in the Andes and Amazon regions where low productivity and high levels of poverty still prevail. The competition framework was strengthened in the aftermath of the free trade agreement with United States, which began in 2009, leading to successive, smaller reforms concerning state capabilities, infrastructure, and the structural imbalances caused by the large informal sector. The World Economic Forum's Global Competitiveness

Market-based
competition

7

Index 2012-2013 ranked Peru 61st out of 144 countries, a further significant improvement compared to previous years, though stagnating since then (ranked 61st in 2013-2014 and 65th in 2014-2015 with an almost identical score).

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 energy 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. Corruption in the bureaucracy still takes a serious toll, and the desired market

Anti-monopoly
policy
8

dynamics continue to have priority. The Global Competitiveness Index 2012 –2013 ranked Peru only 58th out of 144 countries with respect to the effectiveness of the government’s anti-monopoly policy, falling slightly to 63rd in 2014-2015. Though improving notably compared to 2010 – 2011, this still indicates a certain gap between legal provisions and actual practice. Recently, a legal dispute over the ownership concentration of media in a few companies occurred. In 2013, the El Comercio Group bought a significant percentage of shares of Grupo Epensa, thereby coming into control of 78% of the newspaper market.

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 free-trade agreements (FTA) 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 Superintendence 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

Banking system

9

are in U.S. dollars) exposing the Peruvian banking system disproportionately to external risks.

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 2014 – 2015 ranked Peru 29th out of 144 countries with regard to the soundness of its banks. BCRP is one of the few stable and capable Peruvian state agencies and has developed a very professional civil service career work culture. In 2014, the Congress designed a new directory for this agency. In January 2015, Julio Velarde, president of BCRP, received the Central Banker of the Year Worldwide Award from The Banker, a publication of The Financial Times.

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. In 2014, the annual inflation target range (1%-3%) was not met, closing the year at 3.22%. 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. During the last months of 2014, the strength of the dollar was monitored and moderate, demonstrating the efficiency of Peruvian monetary policy even in hard times.

Anti-inflation /
forex policy

10

Against some fears voiced before elections as a consequence of campaign promises, 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 14.2% in 2013. The largest part of it is long-term debt, which is of lower risk, though almost 50% is exposed to foreign exchange risks. In recent years, despite the slowdown in economic investment, Peru has managed to make use of accumulated reserves to restrain the impact of these external cycles. Measures have been developed to stimulate consumption and spending, as well as to increase public investment. Peru's fiscal policy has proven to be very effective in applying countercyclical policies, independent of the government in power at the time.

Macrostability
10

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 (it lasts seven days and requires five procedures, according to the World Bank), the Global Competitiveness Index 2014 – 2015 ranks Peru only 106th of 144 countries with respect to protection of property rights, and 119th with regard to intellectual property protection, revealing stagnation compared to the 2012 – 2013 index. The Heritage Foundation's Index of Economic Freedom 2015 gives Peru a rather low score of 40 out of a possible 100 points resulting in a rank of 70th out of 178 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. Furthermore, in recent years some cases of land trafficking have involved political personalities and public officials at different levels of government.

Property rights
7

Since the market reforms of the 1990s, private companies are viewed as the primary engines of economic production, and are given appropriate legal safeguards. 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

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 2014 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 Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado (FONAFE), 34 public enterprises are operating in sectors as diverse as banking, electricity, fuel (Petroperu), water supply and transportation.

10 | Welfare Regime

Social safety nets are limited and cover only few risks for a limited number of beneficiaries. The Humala administration has made a significant effort to address the problems of inequality and poverty resulting from structural conditions of the country and the rapid economic growth of the last decade. The creation of the Ministry of Development and Social Inclusion (MIDIS) is one of the major advances in shaping comprehensive policies to combat these problems. In a country with clientelistic practices, the MIDIS has not generated mistrust outside the government due to the high level of professionalism of its staff, as well as the institutional design of its programs. However, the main problem is the limited coverage of those programs, which are focused on members of the population living in extreme poverty. During the last decade, there has been some progress in expanding coverage of existing services such as integrated health insurance, as well as promoting and developing education through scholarship programs.

Social safety nets

5

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

Equal opportunity
5

One key area to observe the problem of inequality of opportunities is in education. According to the National Household Survey (ENAHU) of 2012, only 74.6% of children have access to early education, while 92.9% have access to primary education, and only 80.7% to secondary education. Problems such as high dropout rates, gaps in education access or attainment across different socioeconomic groups are associated with social inequality, which both drives and is driven by these problems. The highest percentage of children not involved in the school system belongs to indigenous groups. According to UNICEF, the chances of success are more elusive for rural students, even more elusive if they are indigenous and especially elusive for those who speak languages of Amazonian origin.

In general terms, the most disadvantaged groups in the country are the rural poor; and within the rural poor, women and indigenous people. Other relevant policies are the quotas and positive discrimination policies in the political sphere that try to increase female, youth and indigenous representation. The problem is that its implementation is problematic, often with limited effects.

11 | Economic Performance

In recent years, the Peruvian economy has felt the weight of the retraction of foreign investment, especially as a result of the decline in mineral prices. The year 2013 left the Peruvian economy within the framework established over the previous decade, but the 2014 outlook has been cooled by international cycles. However, despite this external context, Peruvian economic policy appears to show a solid foundation. Under the Humala government, GDP growth reached still impressive 6.5% in 2011 and 6.0% in 2012, but declined to 5.8% in 2013 and 2.35% in 2014. The inflation rate decreased from 3.7% in 2012 to 2.8% in 2013, but rose again to 3.2% in 2014. 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 14.2% in 2013. Tax revenues, which had fallen to 14.4% of GDP in 2009, went up again to 15.4% in 2010, 16.1% in 2011 and 16.5% 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 as a percent of GDP decreased

Output strength
8

from 6.2% in 2012 to 4.6% in 2013. According to the World Bank, the unemployment rate showed a slight decrease from 4.0% in 2010 to 3.9% in 2011 and 3.6% in 2012. The exchange rate is a major concern, as the Nuevo Sol has depreciated against the dollar.

12 | Sustainability

At the beginning of his administration, Ollanta Humala expressed his commitment to further developing a sound environmental policy and 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. Humala's government 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 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, the government approved the National Environmental Education Policy in December 2012. However, as the government itself 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.

However, three years later and with a moderately adverse economic context, Humala's government had to redefine the priorities of its policies of economic investment and environmental protection. While the Ministry of Environment (MINAM) has been consolidated and has had greater visibility as the host of the COP 20 meeting, the pressures for economic growth have favored the interests of investors in extractive industries. This is accompanied by a policy of greater permissiveness and ease in gaining approval for such projects, even when they contravene the minimum environmental standards. SENACE's functions, for example, were limited as part of a package of measures for the "reactivation of the economy."

Education is one of the most problematic areas with regards to the sustainability of the Peruvian model. Even when access to education is fairly high, the quality of these services and the prevalence of socially differentiated levels of school dropout require much more attention than they currently receive. In 2012, 74.6% of children had access to early education, 92.9% to primary education, and 80.7% to secondary education, according to the National Household Survey. Regarding school dropout, there are qualitative gaps between different social sectors: the chances of success are more elusive for rural or indigenous students. Tests of acquired capacities presented

Environmental
policy
7

Education policy /
R&D
5

by the MINEDU show that only 37.5% of students in urban areas understand what they read when completing the second grade; and in rural areas 7.0%. In mathematics, these numbers fall to 15.2% in urban areas and 4.1% in rural areas. However, under the current government, new policies are being implemented that try to improve this situation. The Humala government has also raised education spending from an average of about 2.8% during the 2000s to about 3.3% of GDP in 2013, and announced an increase to 3.5% of GDP for 2015.

With regard to university education, the government has introduced a new University Law in order to improve conditions that adversely affect performance indicators at this level. But, state weakness and lack of capacity to supervise the law's progress make such reforms difficult to implement. The government has tried to remedy the pitiful situation of R&D. The Consejo Nacional de Ciencia y Tecnología (CONCYTEC) has been reactivated and has appointed a recognized person to lead it. For some years now, it has developed calls for funding research with a priority in technological development issues.

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 (notwithstanding, Peru recently achieved the category of a medium-income country); 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. In addition, there is a significant political consensus around the consolidation of democracy and a market economy. Furthermore, most necessary structural economic reforms were achieved in the 1990s, with relatively broad consensus.

However, in recent years, the shortcomings of the state have become more obvious. Highlighted are the poor quality of public administration and the problems bureaucracy has in implementing the political reforms needed to sustain the progress that the country is experiencing. Moreover, the state is challenged by the extension of criminal activities that defy the rule of law in significant parts of Peru's territory and that have begun to influence the political sphere. The precarious political leadership and the lack of legitimacy of institutions suggest that it will be very difficult for Peru's political elite to deal with all those problems. The capacity of subnational governments remains weak and the political groups leading those governments are very fragmented.

Structural
constraints

6

The current situation is marked by the crises in the 1980s and 1990s that have not been resolved. Hyperinflation, terrorism, the collapse of the party system and the authoritarian government of Alberto Fujimori undid Peru's social fabric, which to date has not recovered. Despite frequent 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 fragmentation of civil society. In other words, Peru suffers from the absence of strong actors able to channel the diversity of social demands, such as stable parties or large secondary societal organizations. 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 watchdog work, monitoring human rights issues, extractive activities, 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.

Civil society traditions

6

Various mobilized groups and protest movements have become stronger in recent years, and occasionally they have voiced their claims violently. 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. These scenarios indicate some level of social and political tension; Peru remains somewhat polarized. Social unrest was fueled by the expansion of mining activities, in the context of the commodity prices boom, over territories with little previous experience with extractive industries.

Conflict intensity

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In recent years (2013-2014), the level of conflicts have slightly diminished, due to the paralysis of important mining projects, explained in part because of the decline in commodities prices, and in part to avoid social opposition to those projects.

II. Management Performance

14 | Steering Capability

In recent years, the government of Ollanta Humala has lacked a clear program and strategic objectives. It started with an ambitious reform program to transform the economic model and solve the core problems of inequality. However, in the first months of government, a significant schism within Humala's coalition occurred and the objectives of his administration were reconsidered, especially regarding the development and promotion of investments in sectors previously criticized by Ollanta Humala (e.g., mining and hydrocarbons). From this moment onward, the administration focused on highlighting social and educational policies, clearly relying on the newly created Ministry of Social Inclusion. During this period, Premier Juan Jiménez played an important role, as he stabilized the tense situation with former allies of the government and tried to transmit an image of the government's new direction, although the image of an improvised government, rather than programmatically aligned one, prevailed. Subsequently, a series of political crises led to the resignation of Jiménez in 2013 and the succession of three cabinets in less than a year. This situation not only generated instability and constant ministerial changes in different portfolios, but also deepened the image of a government directionless and without political operators. In this political vacuum, some independent ministers, who have a technocratic style, have shown some initiative, but have failed to provide a direction for the government, precisely because of its political limitations. The government has proposed a series of reforms and disjointed projects under the umbrella of the "revitalization of the economy." Arguably, they seem ad hoc measures with short-term interests rather than substantial reform proposals.

Though its reform agenda has been somewhat unclear, the Humala government had partial success in implementing some of its announced reforms during the first years of its administration. 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, for example, 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 subordinating the indigenous organizations to a corrupt judiciary far away in Lima. In the same fashion, Humala's government has proposed and approved reforms in important economic

Question
Score

Prioritization
5

Implementation
6

activities such as hydrocarbons, and of the pension system, public service regulations and the public health service.

However, the administration has not been able to successfully implement those reforms because of social and political opposition, and because of its own limitations. In the last two years, the reformist impetus seems to have deteriorated because of increasing isolation of the government, and the limits of a technocratic style of conducting politics without proper negotiation processes.

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 its 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. Other areas of government, however, suffered from the weaknesses of Peru's state administration (a situation even more dire in regional and local bureaucracies). The core of this problem in the past two years has been in the political dimension of the administration. The political management of reforms is fairly ineffective and the government has not learned from its mistakes. In 2014, young ministers with a technocratic approach to politics were appointed due to several crises in the cabinet. This situation opened the opportunity for policy innovation because of the technical abilities of these cadres. However, they still lacked the political expertise needed to solve the core problems of the administration.

Policy learning
5

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. However, due to the inefficient bureaucratic apparatus, policies and measures that went beyond core areas (macroeconomic management, management of state resources) were not implemented.

Efficient use of
assets
5

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 successively forming and implementing policies to promote a meritocracy. In recent years, SERVIR proposed a law to oversee civil service, which was approved in 2013. 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 the beginning, Humala failed to establish a clear orientation in his government, first a center-left, then a center-right, and finally an ambiguous centrist orientation. In that context, there were conflicts between some sectors: for example, Energy and Mining with Environment and Culture, which is in charge of indigenous issues.

As a consequence, Humala has made several ministerial changes since 2012. To date, the Humala administration registers one of the highest levels of cabinet instability since the previous decade (except the Ministry of Economy and Finance). The lack of political leadership and well-defined objectives in the government have caused the Ministry of Economics have an important role in the decision of conflicting objectives. The last cabinet presided over by Humala's congresswoman Ana Jara is an extreme example of this situation. The high level of instability in the cabinet and the absence of party cadres not only makes for the presence of ministers without previous experience in their portfolios or with low experience in public affairs, but also without any political experience and extremely different trajectories and political backgrounds.

Though essential integrity mechanisms and a legal framework to combat corruption exist – such as the Comptroller General to audit state spending, the Party Law to regulate political parties, or legislation that requires public officials in senior positions to provide declarations of their assets – 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 main progress in the fight against corruption is in the prosecution of subnational authorities. These cases have demonstrated the penetration of illicit interests at different levels of the political

Policy
coordination
5

Anti-corruption
policy
5

system. The Congress, the Prosecutor Office (Fiscalía de la Nación) and the judiciary are the principal institutions involved in these cases. However, there have been clear problems in the national anti-corruption policy. In December 2014, problems in the Fiscalía de la Nación motivated a number of partners in civil society, including the NGO Proética, to distance themselves from the National Anti-Corruption Commission. The Contraloría General de la República has proven incapable of detecting corruption cases before they become a scandal in the media.

At the same time, during the last two years, the government has been involved in corruption networks that could reach the president himself. The case of the network run by Martin Belaúnde Lossio, Humala's former campaign financier, has raised serious questions among the population. Similarly, Congress has developed ad hoc investigations for cases involving former Presidents Alan García and Alejandro Toledo. However, there have been no clear results yet.

16 | Consensus-Building

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, or strategies for improving the rule of law. One problem lies in the fact that the significant political actors who agree on democracy and a market economy as strategic, long-term goals do not include a broad spectrum of stakeholders in their decision-making processes. This situation lends a lack of certitude to their decisions and engenders distrust from society.

While many initially doubted Humala's commitment to 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, beginning with Humala's party coalition, and the often particularistic nature of demands.

Consensus on goals

7

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. Regarding the business sector, the continuity of neoliberal policies has secured the support or at least the neutrality of this sector.

Anti-democratic
actors

8

Otherwise, there are severe problems with illegal actors such as the Shining Path and the coca mafia. 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. 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. The rise of Movadef and the cocalero movement indicate a freer political society compared to previous decades, though government officials lack a clear strategy to deal with these changes. In recent subnational elections, most of the "anti-democratic" candidates with links in these illegal activities were marginal rather than popular.

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, particularly in the area of resource extraction where protests are common. The low legitimacy levels of political leadership have a negative effect in these cases. When political leaders try to mediate these conflicts, the situation becomes more polarized due to the low credibility of representatives and the high personalization of Peruvian politics. 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 a mining conflict, as in the Conga case, made this a difficult endeavor.

Cleavage /
conflict
management

6

The Humala government has tried to provide channels for more civil society participation, especially for groups involved in social, environmental and indigenous peoples' issues. One major difficulty, however, has been the change of course concerning the economic model. 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, long-term national policies, not just particularistic, short-term 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

Civil society
participation

5

government still has the habit of reacting to the outburst of protests. Peru's political leaderships mistrust social actors because of their weak roots in society. The political culture of the Peruvian political elite despises civil society participation and is reluctant to accept the legitimacy of social leaders. There is a highly interiorized vision of these initiatives as politicized spaces which election losers use to advance their particular interests. Overall, the quality of civil society political representation remains poor, given that political parties are weak and fragmented institutions.

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 influence. The legacy of this conflict continues to shape the government's deliberations. The political elite and large parts of the public are not very eager to touch this issue, thus progress is very slow. 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. In 2014, Ollanta Humala designated a former military officer, Daniel Urresti, Minister of the Interior. Urresti is accused of being involved in the murder of a journalist during the conflict.

Reconciliation

6

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. 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,

Effective use of support

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and state efficiency and acknowledges the cooperation on the part of the Peruvian government.

In recent years, the weakness of political actors and organizations became more evident, especially in the lack of technical cadres and programmatic agendas in the executive. In this context, international cooperation fills this void by proposing government projects. The influence of international donors helps to explain the “pockets of efficiency” within the state, which have contributed to recent economic growth. But the absence of wider and more ambitious reforms in the central state apparatus explains the state’s overall institutional weakness.

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 in the early years of its mandate. While there were some doubts in regard to his commitment to democracy and market economy principles before and even shortly after his election 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. 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. However, during the last three years, the political instability in Humala’s administration and the absence of clear objectives regarding democratic, political and institutional reforms have generated some doubts among international partners.

Peru’s political leadership cooperates with most neighboring states and complies with the rules set by regional and international organizations. The Foreign Ministry is one of the few state agencies which works with efficiency and autonomy. Peruvian foreign policy could be characterized as pragmatic and friendly with other countries in the region. Humala has succeeded in maintaining friendly relations with Bolivia, Ecuador and Venezuela, but also with Colombia and Brazil. Occasionally tensions have arisen with Chile, due to territorial disputes, 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 was resolved by a decision on the part of the Court of The Hague, which was largely accepted by both countries, despite some minor discrepancies regarding secondary issues.

Credibility

8

Regional
cooperation

8

Strategic Outlook

At the end of his mandate, Ollanta Humala demonstrates a weak government without the necessary space or strength to develop reforms. This creates some uncertainty for the next administration. A look at the candidates competing for the electoral preferences of citizens for the 2016 elections reveals a difficult stage. First, Keiko Fujimori, daughter of former President Alberto Fujimori and second in the 2011 elections after a runoff against Ollanta Humala, invoked fears about the continuity of policies inherited from the authoritarian rule of her father. Second, Alan Garcia, APRA candidate and former president for two different terms, is a chameleonic character in Peruvian politics. After a disastrous first government between 1985 and 1990, characterized by the effects of a populist-driven economic policy, Garcia managed to be elected president for a second time for 2006-2011. But this time his administration had a center-right or conservative orientation, and concentrated on political outcomes in the short- and medium-term, but not on major political, institutional or economic reforms. Third, Pedro Pablo Kuczynski is an old political figure, who recently served in the government of Alejandro Toledo as economy minister and president of the Council of Ministers. In the 2011 elections, Kuczynski managed to obtain the support of the middle class, especially of young middle class people, but failed to extend his support base outside Lima. This scenario is complemented by the recent election of Luis Castañeda Lossio as mayor of Lima. This is a sign of a more conservative wave among voters in Lima, who are moving away from the unfulfilled promises of the moderate-left.

What looms on the horizon is a concern for the development of an orderly election process that does not increase the polarization among the different political groups, or create spaces of tension among different social groups. Likewise, from the government's perspective, it is important to face the change in administration so that the next government can maintain the reforms set in place in recent years. In the final period of his term, Ollanta Humala has the almost impossible task of introducing major reforms of political institutions in a climate of low trust in the political system. It has been recently suggested that the government take action on small changes relating to electoral legislation and prevent a slowdown of the economy. This may also mean that, during the rest of Humala's term, the big issues of political reform – strengthening the rule of law and the judiciary, improving stateness, and strengthening the system of political representation – will not be touched and these will be left to his successor. In any case, these necessary reforms will require a strong political consensus across the political spectrum – a challenge which Peruvian political elites have not been able to surmount during the past 15 years. Finally, insecurity and growing signs of illegal networks are two of the outstanding issues that future governments will need to address.