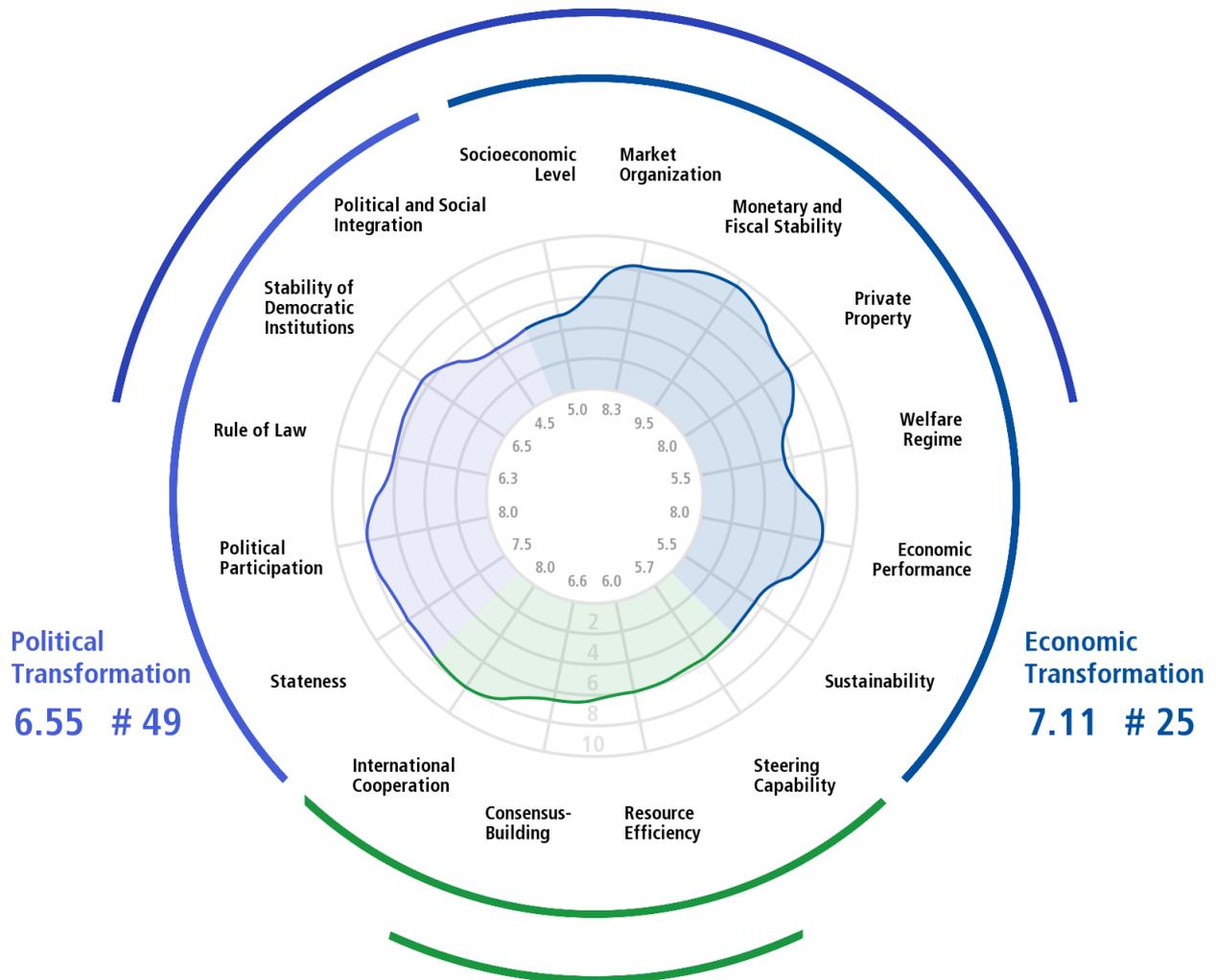


Peru

Status Index

6.83 # 29

on 1-10 scale out of 137



Political Transformation
6.55 # 49

Economic Transformation
7.11 # 25

Governance Index

5.82 # 37

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Robert Schwarz

Phone +49 5241 81 81402
robert.schwarz@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	32.0	HDI	0.759	GDP p.c., PPP \$	14393
Pop. growth ¹	% p.a.	1.7	HDI rank of 189	82	Gini Index	43.3
Life expectancy	years	76.3	UN Education Index	0.692	Poverty ³	% 9.8
Urban population	%	77.9	Gender inequality ²	0.381	Aid per capita \$	-0.2

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

In the 2016 to 2018 period, the political changes that have taken place in Peru have been as numerous as they have been substantial. Pedro Pablo Kuczynski was elected president (2016–2021), in a close election against Keiko Fujimori, the daughter of the former president. His narrow victory by less than half a percentage point was a record in Peruvian history. Kuczynski's government was as the fourth consecutive elected government since the fall of Alberto Fujimori in 2000. Kuczynski's administration lasted less than two years. In March 2018, he resigned as president before Congress could remove him from his position after impeaching him for a second time. Martín Vizcarra, his vice president, replaced him as president and will lead the country until 2021.

The distinctive political feature of 2016 to 2018 period was the tense relationship between the executive and the legislature. The opposition, led by the Fujimorista majority party, Popular Force (Fuerza Popular, FP), managed to impose repeatedly on the Kuczynski government. Gradually the relationship was degraded, even becoming belligerent. This resulted in questioning and censures of the main figures in Kuczynski's ministerial cabinet. Also, the government could not properly manage the destruction caused by the El Niño phenomenon, which revealed the limits and weaknesses of Kuczynski's administration. The congressional majority used this to actively criticize the executive for its incapacity. Thus, Kuczynski was extremely weakened toward the end of 2017. The coup de grâce was the revelation of Kuczynski's alleged links with the Brazilian construction company Odebrecht, particularly during his tenure as director of the Ministry of Economy in Alejandro Toledo's government. Faced with Congress's motions to remove him from office, Kuczynski was forced to resign.

Vice President Martín Vizcarra replaced Kuczynski and quickly formed a new government. Vizcarra seemed only to represent an extremely weak executive, subject to the interests and calculations of the Fujimorista opposition. The majority perception was that Vizcarra was fully cooperating with the Fujimoristas and their leader, Keiko Fujimori. Meanwhile, opinion polls

consistently showed he had little popular support. However, the revelation of the corruption scandal involving high-level judicial power and opposition politicians gave Vizcarra the chance to redirect his administration and prove his ability to govern. Since July 2018, Vizcarra has emerged as a leader in the fight against corruption in the public sector, which earned him the recognition of civil society actors and the public. However, it should be noted that the current executive is extremely fragile. It has lacked firm public policy initiatives on core issues, such as health, education, poverty reduction, economic reactivation and state reform. In this sense, Vizcarra's administration must demonstrate that it has the capacity to govern beyond fighting corruption, especially when the economic slowdown makes imperative initiatives that ensure sustainability in the long term.

History and Characteristics of Transformation

Since Peru's return to democracy in 1980, the country's transformation has been marked by abrupt changes. The transition to democracy 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. By the 1980s, the Peruvian state and political institutions were notoriously weak. Thus, after the 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). The process was accompanied by economic crisis, hyperinflation and terrorism. According to World Bank data, GDP per capita (at current prices) was \$738 in 1988, while the Latin American average was close to \$2,150.

This deterioration culminated first in the election of the “outsider” Alberto Fujimori as president 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 Fujimori's re-election in 1995. However, Fujimori's second term can be characterized as a “competitive authoritarian” regime. Despite the formal existence of democratic institutions, power was highly concentrated, regular infringements on press freedoms, selective violations of individual civil liberties and ultimately electoral manipulation occurred, which secured Fujimori a third presidential term in July 2000. It was only the discovery of an extensive network of corruption in 2000 that finally forced Fujimori to resign and seek immunity in Japan. During the 1990s, 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 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: shoring up democratic institutions and recovery of representation in the political system; and ensuring the foundations for inclusive and sustainable economic development. In terms of economic development, Peru maintained a remarkable growth rate

stimulated by the commodities boom in the 2000s. Like most Latin American countries, Peruvian economic development was based on mineral exports and primary products. Along with Bolivia's and Panama's, the Peruvian economy grew well above the regional average. Revenues from this period translated into a significant reduction in poverty. However, despite the accelerated growth of the Peruvian middle class, its situation is still considered highly vulnerable.

Both the election of Alan García (2006) and Ollanta Humala (2011) made it seem that the Peruvian state could join the “pink tide” making its way through the region. However, in the long run, the economic management of both was markedly orthodox. While the economy's boom continued, García – formally a social democrat – increasingly adopted right-of-center (fiscally liberal) positions and introduced several legal measures aimed at strengthening the institutional framework of Peru's market economy. At the same time, in the 2011 runoff elections pitting Ollanta Humala against Keiko Fujimori, the ex-president's daughter, Ollanta Humala pursued a more moderate political position. In so doing, he avoided an outright rejection from Peru's elites and secured the presidency. During its first years, the Humala administration made known its interest in consolidating rather than changing the economic course. Both governments demonstrate the strength of the Peruvian economic model, and of the social and political actors that support it.

Although the favorable economic cycle has ended for the region as a whole and growth rates have decelerated significantly, Peru remains at the forefront of economic growth in Latin America. For this reason, the economic and social consensus generated around the virtues of the “Peruvian model” has solidified. In this context, Pedro Pablo Kuczynski, a former banker and former economic minister, won the presidential election of 2016. However, his government quickly fell into a deep political crisis, which forced him to resign. Even with the unfolding of the political crisis, and the subsequent formation of President Martín Vizcarra's government, macroeconomic and social stability have remained without major alterations.

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

In principle, the state has a monopoly on the use of force, but is still challenged in some areas. Violence remains one of the core problems hindering Peru's political and economic transformation. This violence highlights the contradictory nature of a society faced by profound change. The state's monopoly on the use of force showed some improvements without, however, undergoing any fundamental change.

The further weakening of the Maoist insurgency movement, Shining Path (Sendero Luminoso, SL) indicates an advance in increasing state sovereignty. In the last few years, captures of SL's "emblematic" leaders have diminished in number, a fact more related to the weakening of SL factions than to the ineffective action by the state. However, the once-powerful terrorist group is still linked to coca production and trade, particularly in the area known as the Valle de los Rios Apurimac, Ene y Mantaro (VRAEM), a river valley where drug-trafficking and SL groups have a significant presence. In this area, there are still frequent attacks against military and police patrols, which shows the difficulties that the state has imposing its authority in the face of the narco-insurgency threat.

Peru continues to be one of the main producers of coca, the main ingredient in cocaine. Despite enhanced efforts by the government and the national police, security forces have been largely unsuccessful in their fight against the drug mafia. In the past few years, illegal activities, such as smuggling, land trafficking, illegal mining and illegal logging, have increased. In many cases, these were developed in connection to mafia networks and contract killings. 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. For instance, the former regional governor of Tacna, Omar Jiménez Flores, was captured by the police in November 2018, and has been accused of being part of a criminal organization dedicated to land trafficking.

Question
Score

Monopoly on the
use of force

6

'06 '20 10

7 6

1

Despite being a multiethnic nation composed of a majority of “mestizos,” people of indigenous, white, black and Asian descent, 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. Seeking to develop public policies in favor of marginalized ethnic groups, the national census of 2017 incorporated – for the first time – a question on ethnic self-identification. The results showed that Peruvians identified themselves as “mestizos” (60.2%), “original population” (Quechua and Aimara) (around 25%), “white” (5.9%), and “black” (3.6%). The state does not deny citizenship rights to any group, but there is widespread variation in the enforcement of these rights, particularly among the indigenous population.

However, in recent years indigenous groups are beginning to mobilize, particularly in opposition to mining and extractive industries activities, invoking the right to be consulted as indigenous populations in the context of the International Labour Organization (ILO) Convention 169. Consultation rights over the extraction of natural resources for indigenous peoples were implemented during Humala’s term in office (2011–2016). As the country suffers from historically rooted discrimination practices directed most virulently against the indigenous population, the influence of ethnicity in Peruvian politics may again increase. Indigenous groups have also gained political representation in Congress, as well as in other political 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.

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 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 Congress. 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 LGBTI groups criticizing the interference of religious interests in the public sphere.

One of the particularities of the period under review is the strengthening of groups close to evangelical churches, which have been able to organize to pursue their objectives more effectively. Their strength and ability to influence are manifest in the

State identity

9



1

No interference of religious dogmas

8

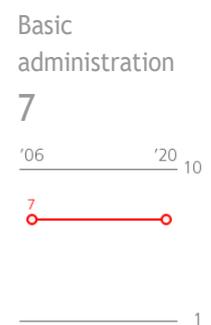


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media, legally and politically. For example, these groups managed to partially halt the implementation of a new school curriculum through a precautionary measure, when they stated that the Ministry of Education was incorporating content on what they call “gender ideology.” In addition, evangelical religious groups, using their representatives in Congress, managed to block legislative initiatives that encouraged greater parity between men and women. Thus, “gender quotas” were ruled out of some bills, such as that of the National Board of Justice (Junta Nacional de Justicia, JNJ), the entity in charge of naming judges and prosecutors). Evangelical groups have developed a more aggressive campaign against the government.

The state’s basic administrative infrastructure extends throughout most of the country’s territory, but its operation remains deficient. Problems include widespread corruption, the bureaucracy’s limited capacity and the system’s inability to reach the poor. The weak presence of the central state’s administration outside Lima and the coastal areas of the country has historically 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 administration, 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. The World Bank reported that 76% of the population has access to improved sanitation facilities (the second lowest percentage in South America behind Bolivia with only 50%), while 87% have access to an improved water source (the lowest percentage in South America and the third lowest in the region). However, some state offices seem to perform better than others, so they are considered 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 economic management). These areas have developed stable civil service careers without major political interference. Furthermore, the García and Humala administrations had previously introduced some reforms to improve the quality of public administration. The Civil Service Law, for example, seeks to address problems concerning the lack of professionalism, training and stability in public administration.



2 | Political Participation

General, multiparty elections are held regularly, conducted properly and accepted as the means of filling political posts. The last national elections were conducted in 2016. During the review period, there were some complains about the fairness of the subnational elections in 2018 with regard to the registration of political organizations. The National Office for Electoral Processes (ONPE) and the Electoral Court (JNE), which together with the National Registry of Identification and Civil Status (RENIEC), are responsible for the execution and monitoring of all electoral processes, have been widely regarded as reliable and some of the best-performing state institutions. However, Adolfo Castillo Meza, director of the ONPE, was vigorously questioned when he was accused of having given preferential treatment to a minority political group during the signature verification stage of the electoral process. In the wake of this scandal, he was suspended and later dismissed from his duties. It should be noted that this incident did not call into question the legitimacy of the regional and municipal elections.

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 previous governments not to change the overall direction of economic policies. The current administration favors economic liberalization. Thus, the core interests of business are aligned with most of the government's economic policies. Nevertheless, this government is also vulnerable to pressure from other interest groups able to mobilize specific social interests (for example, socio-environmental justice organizations through political protests). Peru faces not necessarily the strength of veto groups, but rather the political weakness of the government. The political events that led to the resignation of Pedro Pablo Kuczynski made the executive's weakness quite pronounced.

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 frequency of social conflicts, which occasionally turn violent, especially at the local level, have made politicians and the police inclined toward certain restrictions.

Peru has ratified all eight of the ILO's 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-terrorism legislation is still in place to prevent the resurgence of the Shining Path and similar organizations. Based on that legislation, the JNE denied a request from several

Free and fair elections

8



1

Effective power to govern

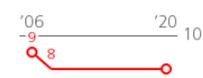
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1

Association / assembly rights

8



1

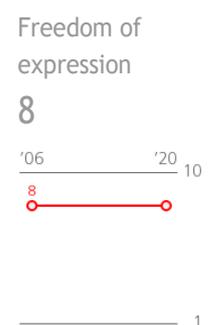
Shining Path-related organizations to register as a political party. Since then, several of members of these organizations have been brought to trial by the Peruvian state, being accused of “apologists for terrorism.” In 2017, within the framework of the national teacher strike, Kuczynski’s administration denounced the presence of the Movement for Amnesty and Basic Rights (Movimiento por Amnistía y Derechos Fundamentales, Movadef) in the leadership of the teachers’ union, seeking to delegitimize the strike. Even so, this did not prevent the government from finally deciding to negotiate with the teachers’ representatives, in pursuit of ending the strike.

Despite Peru’s ethnic diversity, ethnic cleavages 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, constitutional political rights are limited.

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 that are controlled and repressed.

There are some problems regarding freedom of expression, but these are not related primarily 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 – varies at the national and the local levels, with radio being the most used medium in the latter. 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 act against their critics, including verbal and even physical attacks.

During the review period, problems with freedom of expression had less to do with the government and more to do with the opposition forces, mainly Fujimori supporters and the American Parliamentary Revolutionary Alliance. The congressional majority perceived that the media are biased against them. Therefore,



they enacted a law that prohibited state advertising in private media, implementing a presumed conditioning of journalistic editorial lines. Months later, the Constitutional Court declared the prohibition illegal, as it is a mechanism that violates constitutional rights such as freedom of information. Therefore, it is perceived that the bills aimed at undermining freedom of expression and information have been mainly pressure mechanisms promoted by the opposition in Congress.

3 | Rule of Law

The separation of powers (executive, legislative and judicial) in Peru is set by the constitution and includes the existence of a Constitutional Court as well as several 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.

During the review period, the concern was not about the separation of powers, but about extreme separation and conflict between the executive and the legislature. The weakness of Kuczynski's congressional force operated against the stability of the government. The Fujimorista opposition, which had a super majority in Congress, ended up imposing itself upon an increasingly weakened executive. The Fujimorista opposition threatened and censured ministers from different key sectors. The opposition denied a "vote of confidence" to the president of the Council of Ministers, Fernando Zavala, forcing the entire cabinet to resign. Finally, President Pedro Pablo Kuczynski had to resign after facing two congressional impeachments.

The judiciary functions as a distinct branch of government and operates relatively independently. However, the citizenry does not trust the judiciary, and the judiciary's approval ratings are among the lowest of Peru's democratic institutions. Judicial operations are severely undermined by corruption, inefficiency, insufficient territorial and functional reach, limited resources, weak management, a hierarchical culture, and entry and promotion procedures determined by a contested National Judicial Council (Consejo Nacional de la Magistratura, CNM). In 2015, of the 2,700 judges, 727 were punished for corruption. This weakness has itself fostered corruption, illegal action and impunity. Most people try to avoid the judiciary, which is expensive, inaccessible, not trustworthy and corrupt, and try to solve their disputes through informal means. 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.

In July 2018, an independent journalist portal (IDL-Reporteros) brought to light the existence of an illegal network in which judges and members of the CNM participated. Through this network, judges and attorneys exchanged and negotiated favors, especially related to reductions of sentences and to job promotions, in the

Separation of powers

7



1

Independent judiciary

6



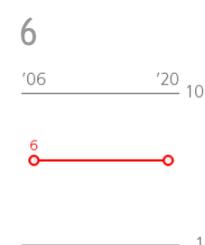
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administration of justice. Given the magnitude of the scandal, some senior officials were arrested, such as Walter Ríos, former head of the Superior Court of El Callao, while César Hinostroza, a justice in the Supreme Court of Justice, left the country clandestinely. The head of judiciary, Duberlí Rodríguez, resigned to avoid escalation of the institutional crisis. Congress dismissed the seven CNM attorneys. The government created the JNJ, which will replace the CNM in its task of appointing and ratifying the country's judges and prosecutors. This scandal also involved the director of the Prosecutor's Office (Fiscalía de la Nación), Pedro Chávarry. On January 7, 2019, Chávarry resigned from his position.

Since the Fujimori and Montesinos years, political society, civil society actors and the public have become highly sensitized to corruption in politics. However, impartial prosecution and strong penalties for wrongdoings in public 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 Governors 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, have also been investigated and prosecuted in recent years 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. Public perception is that many high-ranking officials who commit serious acts of corruption go unpunished. This perception was reinforced by Pedro Pablo Kuczynski's – failed - attempt to pardon Alberto Fujimori. However, the political class is now seriously threatened by foreign judicial investigations. In the context of the Lava Jato money-laundering scandal, revelations from Brazil triggered a series of investigations and prosecutions of former authorities and some of the country's most important politicians. This is novel in the administration of justice in Peru. Former presidents – Alejandro Toledo, Alan García, Pedro Pablo Kuczynski – were investigated for allegedly receiving bribes from Odebrecht in exchange for public works during their respective governments. Ollanta Humala had to await trial from prison, while under investigation for campaign contributions coming from Odebrecht. Keiko Fujimori also allegedly received campaign contributions for Odebrecht. Fujimori was sentenced to 36 months of pre-trial detention in October 2018. Several former regional governors have also been accused, investigated and even imprisoned for receiving bribes and illegal contributions from Odebrecht. However, as long as the interrogations in Brazil continue, the Prosecutor's Office cannot make firm accusations against Peruvian politicians involved in the Lava Jato scandal.

Prosecution of
office abuse



The state respects civil liberties in principle, but fails to strengthen them further and occasionally does not protect them adequately. Because of the state's weak capacity, and especially a weak judiciary, civil rights are violated in some parts of the country, or citizens are discouraged from claiming their rights. In Peru, this translates into "low intensity citizenship." Discrimination against indigenous communities, ethnic minorities like Afro-Peruvians, and LGBTI people is still widespread, though civil society organizations and the Ombudsman Office have engaged in campaigns to publicize this issue. 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.

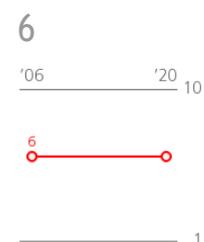
During the review period, public discussions of civil rights have included violence against women as one of their main axes. Femicide cases have gained special notoriety. According to a report by the Ministry of Women and Vulnerable Populations, in 2018 there were 132 cases of femicide, which represents an increase of 21% over the previous year. In the first 10 days of 2019, five femicides were committed. Although the state views the issue of violence against women as a structural and social problem, it has not managed to advance successful initiatives to remedy it.

4 | Stability of Democratic Institutions

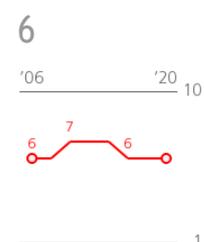
Democratic institutions perform their functions, but are often inefficient due to friction between institutions, a lack of professionalization of the bureaucracy and corruption. Because state institutions virtually collapsed in the 1980s, and were subsequently dismantled and reconstituted in the 1990s, 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 state capacity of subnational governments, which are flooded with amateur politicians and weak parties. Furthermore, 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.

During the review period, democratic institutions performed optimally in situations of political crisis. The resignation of Pedro Pablo Kuczynski left the government without direction for a few days; however, Vice President Martin Vizcarra assumed the presidential mandate almost immediately. During his first months in office, Vizcarra seemed unable to map the executive's new priorities, while being threatened by the Fujimorista majority in Congress. However, the problems in the judiciary and the CNM scandal allowed Vizcarra to take the lead in the fight against corruption, while indirectly attacking the Fujimorista party. The celebrated call for a referendum,

Civil rights



Performance of democratic institutions



as well as the massive popular support the executive's proposals received, legitimized President Vizcarra as head of the government. Recent changes at the highest level of political power can be understood as an expression of the weakness of Peruvian state, but also as the state comprising a democratic institution that responds to political crises.

Nearly all influential political actors accept Peru's democratic institutions and regard them as legitimate. However, commitment to these institutions needs strengthening. In 2016 to 2018, the political arena was characterized by extreme conflict between the executive and the legislature. On the one hand, it was speculated that Congress could vacate the presidency. On the other hand, it was argued that the government could dissolve the Congress if it continued blocking its core policies. In either case, it would have been necessary to force constitutional mechanisms to achieve the respective goal. However, no constitutional mechanism was activated.

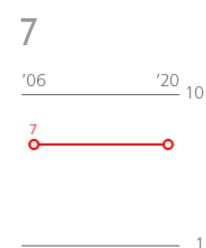
In another vein, decentralized political institutions are often manipulated for short-term particularistic interests and rewards. Political actors also see the judiciary and the media more as obstacles to their decision-making than as necessary counterweights able to guarantee sound democratic procedures.

5 | Political and Social Integration

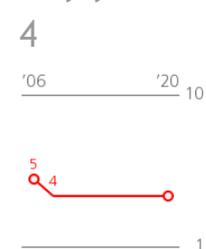
Peru's party system suffers from a very low level of institutionalization, noteworthy even in the context of Latin American countries. Political fragmentation and volatility are high, and the system is not thoroughly rooted in society. The current electoral landscape is somewhat polarized, as 2016 national elections have reinforced the cleavage between Lima and the interior provinces of the country, particularly the highland regions. Political parties are unstable and personalistic organizations with little legitimacy and low membership numbers. 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.

The weak institutionalization of the party system was confirmed and even grew weaker during these years. At the beginning of the legislative period, six parties were formed; as of this writing, Congress is composed of ten parties. Also, the executive lost several of its main allies in parliament; Fujimorista opposition suffered a schism led by Kenji Fujimori; the left front was divided into two groups; several independent groups were created. At the subnational level, the recent regional and municipal elections confirmed the trend in recent years – regional movements displaced national political parties in competition for local offices. While some political parties had acceptable performances at the regional and local levels, such as Acción Popular, several politicians who won on behalf of regional movements do not come from their bases. Several of them have participated in previous elections as representatives of other political factions.

Commitment to democratic institutions



Party system



Peru's landscape regarding associations and interest groups continues to be highly differentiated and heterogeneous. In general terms, however, it is highly fragmented and almost completely unable to aggregate and articulate broad societal interests. The 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 in previous governments, and the new administration is also close to business interests due to its own economic policies.

Unions were severely weakened by economic liberalization and have lost 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. Social protests are certainly important in Peru, but their main actors in recent years are mostly local communities affected by the extractive industries.

At the same time, business organizations have better administrative resources, but their level of representation is limited by their heterogeneity. 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.

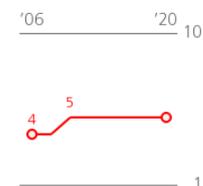
Approval of democratic norms and procedures is low, even by Latin American standards. Dissatisfaction among Peruvians with the functioning of the democratic system has affected their support for democracy. There is a huge gap between citizens' high expectations – nourished by populist and non-populist 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.

According to Latinobarómetro 2018, the share of respondents that prefer democracy to any other form of government was 43%, slightly below the Latin American average (48%) and in steady decline since 2010 (61%). Support for an authoritarian regime under some circumstances reached 27% in 2018 (Latin American average: 28%), while the degree of satisfaction with democracy was 11% in 2018, only ahead of Brazil at 9% (Latin American average: 24%).

In recent years, national surveys show a certain disappointment in democratic procedures after elections, above all at the local level. Democratic institutions, such

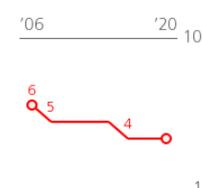
Interest groups

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Approval of democracy

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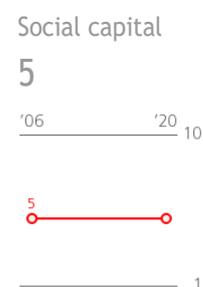


as Congress or the judiciary, are distrusted by most Peruvians. Policy decisions taken by democratic procedures are to some extent contested and criticized due to public distrust.

According to Latinobarómetro 2018, trust in specific institutions is rather low, and mostly situated below the average of the Latin American countries surveyed. The only exception is the election authority at 33% (Latin American average: 28%). Trust in government (13%; Latin American average: 22%), parliament (8%; Latin American average: 21%), the judiciary (6%; Latin American average: 24%) and political parties (7%; Latin American average: 13%) are among the very lowest in Latin America. The most-trusted institution is the church at 60% (Latin American average: 63%), followed by the military (46%) and the media (44%).

There is a low level of trust among the population. In principle, a wide range of autonomous, self-organized groups, associations and organizations exist in the country, despite political, cultural and socioeconomic barriers. However, these groups 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 to 1990s, the ability of Peruvian society to organize itself has been extremely weakened. The number of economic networks over the past two decades has significantly increased, but the same has not happened regarding political activity.

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 remains and has a significant effect in the construction of social capital. According to the 2017 National Survey of Proética, the level of interpersonal trust in Peru is extremely low. When asked “how trustworthy they think people are,” 41% of those interviewed answered that “nobody can be trusted,” and 53% that “few people can be trusted.” About 95% of respondents cannot fully trust the majority of people in their community.



II. Economic Transformation

6 | Level of Socioeconomic Development

Peru's level of socioeconomic development improved considerably over the last decade, but not much in the last few years, as the economic growth rate declined. The Human Development Index (HDI) 2017 ranked Peru 89 out of 188 countries, with an index value of 0.750 (compared to a global average of 0.577).

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 20.7% in 2016. In the same period, poverty declined above average in the rural regions of the highlands (Sierra) and the lowlands (Selva), though it is still very pronounced in the rural regions compared to urban centers. However, the decrease slowed and even reversed in 2017, showing a slight increase to 21.7%. In urban areas, poverty increased from 13.9% in 2016 to 15.1% in 2017, and in rural areas, poverty increased from 43.8% to 44.6%. Extreme poverty declined from 11.2% in 2007 to 3.8% in 2017.

The INEI revealed a considerable increase in childhood anemia, which went up from 33.2% in 2017 to 41% in 2018. This figure makes anemia as a public health issue, which the government has yet to address. Besides 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, historical socioeconomic differences and gender discrimination. According to World Bank data, the country's Gini Index value was 45.5 in 2011 and 43.8 in 2016. In addition, Peru's Gender Inequality Index improved somewhat from 0.385 in 2015 to 0.368 in 2017 (lower value indicates less inequality).

Economic indicators		2015	2016	2017	2018
GDP	\$ M	189759.1	191907.5	210702.3	222237.6
GDP growth	%	3.3	4.0	2.5	4.0
Inflation (CPI)	%	3.5	3.6	2.8	1.3
Unemployment	%	3.0	3.5	3.5	2.8

Question
Score

Socioeconomic
barriers

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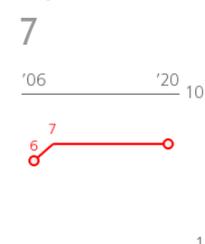
Economic indicators		2015	2016	2017	2018
Foreign direct investment	% of GDP	4.4	3.5	3.3	2.9
Export growth	%	4.3	11.8	8.1	4.1
Import growth	%	1.0	1.6	7.0	4.5
Current account balance	\$ M	-9525.9	-5064.4	-2668.6	-3593.6
Public debt	% of GDP	24.1	24.5	25.4	26.2
External debt	\$ M	67184.7	69611.3	67558.4	66697.4
Total debt service	\$ M	5517.3	7795.2	11084.4	7083.4
Net lending/borrowing	% of GDP	-2.9	-2.9	-4.5	-
Tax revenue	% of GDP	14.9	13.8	13.2	-
Government consumption	% of GDP	13.2	13.4	13.6	13.5
Public education spending	% of GDP	4.0	3.8	3.9	-
Public health spending	% of GDP	3.2	3.3	-	-
R&D expenditure	% of GDP	0.1	0.1	0.1	-
Military expenditure	% of GDP	1.7	1.3	1.2	1.2

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Market competition in Peru has a relatively strong institutional framework, with generally equal opportunities for all market participants, at least in the formal market. The informal sector, however, is quite large. Some experts even speak of a dual economy, split between the 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 the 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 Index 2018 ranked Peru 63 out of 140 countries. According to Doing Business 2019, Peru ranked 68 out of 190 economies on ease of doing business, down from 58th in the previous report. Starting a business became slightly more difficult

Market organization



(from 114 to 125 out of 190 countries) requiring 24.5 days (down from 26.5), eight procedures (up from seven), at a cost of 10% of income per capita.

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 regulated 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 during all economic activities.

Official data (INEI) and data from the International Labour 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 Ministry 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 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. The Kuczynski administration aimed to integrate the informal sector into the formal market and created a special commission of Social Protection to achieve this aim.

Finally, the weakness of state institutions also undermines the promotion of a competitive market-oriented economy. Public opinion is constantly shaken by the interference of lobby groups with privileged access to power in the decision-making process. Some authors even talk of a “crony capitalism,” with privileged relationships between private interests and state officials.

Though the regulation of monopolies and oligopolies is still weak, the institutional framework has improved slightly due to the growing awareness of the dangers of market distortions. During the economic reforms of 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.

Peru has two competition agencies: the Supervisory Agency for Private Investment in Telecommunications (Osiptel), which is responsible for all matters concerning the telecommunications sector, and the Institute for the Defense of Competition and

Competition policy

8



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Intellectual Property (Indecopi) for all other sectors of the economy. Government authorities follow up on mergers, especially in sensitive economic sectors. In the last 15 years, the government strengthened Indecopi, giving it the power to sanction abusive acts associated with a dominant market positions or restrictive market practices. Indecopi oversees the Free Competition Commission, the Consumer Protection Commission, the Unfair Competition Commission and the Market Access Commission. However, these government commissions apply the law only sporadically. Corruption in the bureaucracy takes a serious toll, and the desired market dynamics continue to have priority. Recently, parliament presented a bill to monitor future business mergers and acquisitions, with Indecopi as the authority in charge of monitoring and evaluations. The Global Competitiveness Index 2018 ranked Peru 63 out of 140 countries with respect to the effectiveness of the government's anti-monopoly policy. In its last review in 2018, the OECD concluded that Peru has an active competition regime in line with internationally recognized standards and practices. However, a merger regulation is missing.

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. Previous governments had 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 February 1, 2009, represented a considerable step forward in this area.

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. 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; the country's most favored nation applied tariff rate averaged 2.4% in 2017. 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 and was the organizer of the Asian-Pacific Economic Cooperation (APEC) meeting in 2016. President Kuczynski visited China as one of his first meetings in office in order to consolidate economic links between China and Peru.

Liberalization of
foreign trade

9

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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. This is confirmed by the most recent World Bank figures for non-performing loans (albeit slightly but steadily increasing from 2.9% in 2011 to 4.7% in 2017) and bank capital to assets ratio (2017: 12.1%).

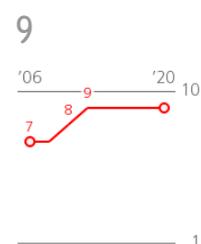
The high level of dollarization of the economy, an important concern until 2014, has improved somewhat, down to 38% of deposits and about 28% of credits in the banking system in U.S. dollars, as of October 2018.

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 2018 ranked Peru 42 out of 140 countries about the soundness of its banks.

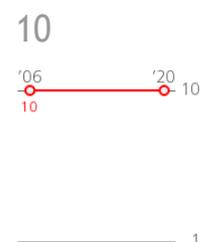
8 | Monetary and fiscal stability

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 current administration 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 political crisis that took place during Kuczynski's administration did not have a negative impact on monetary stability, and the overall annual inflation rate fell from 3.6% in 2016 to 2.8% in 2017. The exchange rate regime is in principle a floating system, although the BCRP intervenes in the currency market by buying and selling dollars to curtail exchange rate volatility.

Banking system

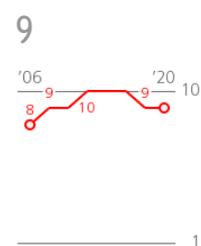


Monetary stability



Fiscal stability was largely achieved under the previous administrations. While public debt as a percentage of GDP stood at 40% in 2005, it was successively reduced to levels of about 20%, reaching 25.5% in 2017. The largest part of it is long-term debt, which is of lower risk, though almost 70% 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. According to data from the Economic Commission for Latin America and the Caribbean (Comisión Económica para América Latina y el Caribe), the fiscal balance remained controlled in recent years (-1.2% of GDP in 2016, -1.8% in 2017 and -1.4% in 2018).

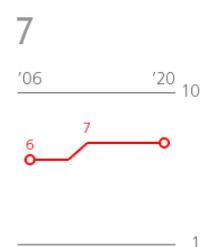
Fiscal stability



9 | Private Property

Regulations and rights regarding 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 weak and inefficient, hampering the ability of individuals and businesses to enforce contracts. Though registering property is easy in Peru (it lasts seven days and requires five procedures, according to the World Bank), the Global Competitiveness Index 2018 ranked Peru only 117 out of 140 countries with respect to protection of property rights, and 121st with regard to intellectual property protection. The Heritage Foundation's Index of Economic Freedom 2018 gives Peru a rather low score of 57 out of 100 points resulting in a rank of 70 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 cultural norms. Furthermore, in recent years some cases of land trafficking have involved political personalities and public officials at different levels of government. The enforcement of property rights is an ongoing challenge.

Property rights



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 second García administration (2006-2011) 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 fiscal revenues. The Humala government (2011-2016), while promising a different strategy during the election campaign, has followed this path by and large, responding to pressure from private sector organizations. The new administration is committed to private business interests, privileging anti-bureaucratic policies. According to the World Bank's Doing Business 2019 report, starting a business suffers not so much from the number of procedures, of which there are relatively few (eight), but instead from the time involved in launching a commercial or industrial firm (24.5 days). However, Peru performs above the regional average in that category, outperforming Argentina and Brazil.

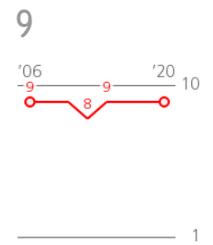
Some Peruvian business groups have been strongly discredited as a result of revelations stemming from the Lava Jato scandal. The illegal actions of Peruvian construction companies have raised questions about the role of business sector, undermining its credibility locally and internationally.

10 | Welfare Regime

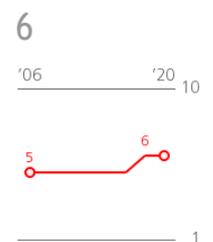
Welfare institutions designed to avert social risks connected to a capitalist economy exist, but vary substantially according to regional and social groups. Peru's hybrid welfare regime is comprehensive by design, but de facto limited, and does not reach all parts of the population. Deficiencies are pronounced especially in rural areas, reflecting Peru's geographical division into Costa-Sierra-Selva (i.e., the Pacific Coast, the Andes and the Amazon regions). The system of social safety nets is also marked by a distinction between formal and informal sectors. The social security system is based on three pillars: a mandatory social insurance system, an alternative private system based on individual capital and a state-sponsored relief system to cover all those not covered by the two other systems. In principle, the insurance system provides payments in instances of illness, pregnancy, disability, old age and death.

The health system is composed primarily of the noncontributory comprehensive health insurance system (SIS), which covers more than half of the population; the contributory EsSalud social health insurance system (about 25%–30%); and private insurance plans, with an additional health insurance system for the armed forces and the national police (the latter three adding up to about 10% of the population). The García administration reformed the health insurance system by introducing the Universal Health Insurance (AUS) and the Essential Plan of Health Insurance (PEAS) in 2009, making insurance obligatory and access to health care free. However, certain

Private enterprise



Social safety nets



income groups fall through the holes in this comprehensive but segmented net. According to the OECD's 2017 review of Peru's health system, significant progress has been made toward universal health coverage. Insurance coverage increased from 37% in 2004 to 83% in April 2017, mostly due to the expansion of SIS. The current government's goal is to reach universal coverage by 2021, though critics maintain that the comparatively low public expenditure (about 2.4% of GDP in 2018, according to *El Comercio*) is not sufficient to deliver on this promise.

More worrying and in need of urgent reform is the pension system, which is comprised of the public pension system and a private system for administering pension funds. The public system is under the responsibility of the Government Pension Fund Office (ONP), while the private system is managed by Pension Fund Administrators (AFP), with monthly contributions deposited into individual accounts. Employees are entitled to choose the system to which they will contribute. According to the Lima Chamber of Commerce (CCL), about half of Peru's economically active population is not affiliated with any pension system, meaning that around 8.5 million workers – when they turn 65 – will have no way to finance their old age, disability or survival. In 2018, the number of affiliates in the pension system was 8.64 million, representing 50.2% of the economically active population (PEA), with the private pension system (SPP) – made up of four pension fund administrators (AFP) – having the largest number of contributors with 7.06 million. Meanwhile, in the National Pension System (SNP), administered by the Office of Pension Normalization (ONP), the figure was 1.58 million members. According to the CCL, the Peruvian pension system in both the private and public sectors offers its members low pensions that are far below those of other developed economies. For example, the maximum pension in the public pension system is PEN 857 (\$258) and the minimum is PEN 415 (\$125), which requires a minimum of 20 years of contributions, in addition to having reached 65 years of age.

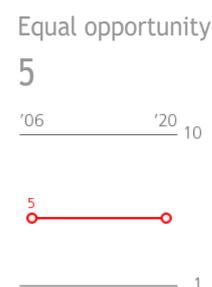
A third pillar called Pension 65 was introduced by Humala's administration. It aims to provide protection to adults aged 65 and older who lack basic subsistence. The program is attached to the Ministry of Development and Social Inclusion (MIDIS), the governing body of the country's Development and Social Inclusion System, and also part of the "Include to Grow" National Development and Social Inclusion Strategy, a tool that serves as a binding guide for all sectors and levels of government to guide interventions in the area of development and social inclusion. Pension 65 closed in 2018 with more than 544,000 beneficiaries, representing 80% of older adults living in poverty. Beneficiaries receive PEN 250 (about \$75) every two months.

In addition, since the Fujimori era, there have been several social programs targeting the most vulnerable segments of Peruvian society. The current government continues the – more or less – successful programs, such as the National Fund for Compensation and Social Development (FONCODES) and the conditional cash transfer program,

Juntos, which were “state policies” implemented in spite of a lack of short-term political benefits, due to their medium- and even long-term impact. FONCODES began in 1991 and aims to reduce poverty by investing in economic and social infrastructures, particularly in the poorest rural areas. Juntos (meaning “together”) is a conditional cash transfer program (CCT) initiated in 2005. By the end of 2018, the program covered about 700,000 households.

Peru has institutions designed to compensate for large 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, and an important reduction in poverty rates, about 21.7% of the population still lives in poverty (2017); in rural areas, this rate is 44.4%. Income inequality in Peru remains severe, although it is more moderate than in Brazil or Chile. Equal opportunity is limited in Peru and access to public services is uneven. This inequality is often combined with discrimination against indigenous people. 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 the political representation of women, and young and indigenous people. However, the implementation of quotas and positive discrimination policies remains problematic, and the policies often have limited effect. For example, in the recent subnational elections (2018), less than 5% of public offices were won by women. No woman managed to win at the level of regional government, and only 13 women (out of 196 candidates) were elected provincial mayors.

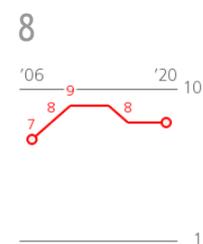
Equality of opportunity is particularly poor in the education system. Problems such as high dropout rates, gaps in education access or attainment across different socioeconomic groups are associated with social inequality, which both drives and is driven by these problems. The highest percentage of children 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. While the literacy rate of women (91.2%) lags behind that of men (97.2%), the enrollment ratio is almost on par. During the Humala administration, MIDIS and the Ministry of Education made important efforts to guarantee equality of opportunity in education. Furthermore, the intercultural and gender equality is now incorporated into government policy-making, although its effects are not yet observable. During the Kuczynski – Vizcarra administrations, the importance of the MIDIS and the Ministry of Education has decreased. They no longer seem to be priority sectors. Tellingly, Kuczynski’s first minister of education (Saavedra) was censured by the Fujimorista majority in Congress.



11 | Economic Performance

In recent years, the Peruvian economy has felt the weight of the retraction of foreign investment, especially because of the decline in mineral prices. However, despite this external context, Peruvian economic policy appears to show a solid foundation. Although the Peruvian economy is growing at a slower rate than before, it remains above the Latin American average. GDP per capita (PPP) was \$13,434 in 2017, having significantly and persistently increased over the last decade. Under the current government, GDP per capita growth reached 2.7% in 2016, declining to 1.3% in 2017. The inflation rate decreased from 3.6% in 2016 to 2.8% in 2017. The government's overall balance, negative in 2015 (-3.1% of GDP), improved slightly in 2016 (-2.5%). Public debt as a percentage of GDP, which had reached 24.0% in 2015, increased to 24.4% in 2016 and to 25.5% in 2017. Tax revenues, which had fallen to 14.9% of GDP in 2015, fell further to 13.8% in 2016, below world average. Foreign Direct Investment as a percent of GDP decreased from 3.6% in 2016 to 3.2% in 2017. According to the World Bank, unemployment showed a slight increase from 3.5% in 2016 to 3.6% in 2017.

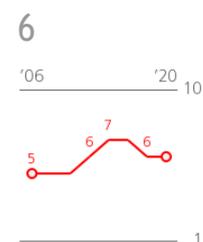
Output strength



12 | Sustainability

At the beginning of his administration, Ollanta Humala started to refine the institutional arrangements 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. 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.

Environmental policy



Although the newly created Ministry of Environment (MINAM) has been consolidated, 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. During the period under review, the government has had serious difficulties containing the advance of illegal extractive activities, mainly logging and illegal mining. Nevertheless, in December 2018, the executive enjoyed an important environmental achievement when Congress approved a bill that regulates the use and manufacture of non-recyclable plastics.

Education is one of the most problematic areas with regard to the sustainability of the Peruvian model. Under Kuczynski's administration, public spending on education (as a percent of GDP) decreased from 4.0% to 3.8%.

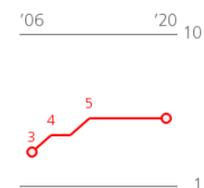
Access to education is fairly broad, but its quality and the prevalence of socially differentiated levels of school dropout require attention. In 2017, 90.2% of children had access to early education, 92.7% to primary education, and 83.9% to secondary education, according to the National Household Survey. Regarding school dropout, there are qualitative gaps between different social sectors: the chances of success are more elusive for rural or indigenous students. On the other hand, Peru's PISA evaluation scores have improved by the largest margin of any Latin American country, although Peru's scores are still at very low levels. In the U.N. Education Index, Peru is ranked 51 (out of 179 countries) with a score of 0.689, similar to neighboring Brazil and Bolivia, but showing only slight improvements over the last decade.

During the first year of Kuczynski's administration, the political elite's consensus on the necessary modernization of education was interrupted by the confrontation between the government and the Fujimorista majority in Congress. Substantial political tension resulted in censures and threats of censures against education ministers. For example, Jaime Saavedra was censured for "administrative problems." Then, Marilu Martens faced a teacher strike that sought to weaken the new system of teacher evaluations, one of the pillars of educational reform. However, the Fujimorista congressional majority supported the protesters and threatened to censure the minister. The opposition acted in a politically calculated way, collaborating to dismantle some of the advances of educational reform.

Regarding university education, the National Superintendence of Higher University Education (SUNEDU), has begun to grant (and deny) operating licenses to public and private universities that lack of the standards demanded by the state. During the review period, the SUNEDU licensed almost 60 universities, both private and public. Public spending on R&D (as percent of GDP) is 0.12%, which is extremely low compared to the Latin American average. Although the National Council of Science and Technology (CONCYTEC) has continued to operate, making special efforts to fund research that prioritizes technological development issues, the government has not granted greater importance to this area. The Global Competitiveness Index 2018 ranked Peru only 106 out of 140 countries with regard to R&D expenditures. President Vizcarra has considered increasing the CONCYTEC budget in 2019.

Education policy /
R&D

5



Governance

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 led to 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 the 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. Peru risks falling into the "middle-income" country trap.

The state's shortcomings surfaced particularly in the context of natural disasters. Kuczynski's administration had to face the effects of the El Niño climate phenomenon, which dumped rain and created landslides and floods, mainly on Peru's northern coast. The National Institute of Civil Defense (INDECI) reported that El Niño affected at least 300,000 people. The government created an ad hoc authority

Structural
constraints

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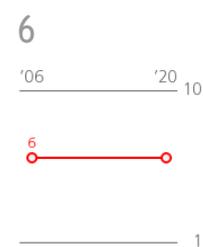
responsible for the reconstruction in the north, responsible for coordinating the initiatives and projects of the executive and subnational governments. However, the work of this special authority has been inefficient, and has caused relations between the state and regional and municipal authorities to deteriorate. One of Kuczynski's ministers stated regarding the reconstruction, "We [the state] are the disaster."

The current situation is marked by the legacy of the 1980s and 1990s crises. Hyperinflation, terrorism, the collapse of the party system, economic liberalization and the authoritarian government of Alberto Fujimori undid to a great extent 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 very weak.

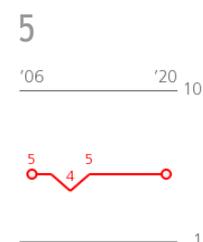
NGO activity has increased, but the landscape of voluntary organizations is not robust, and is plagued by scarce organizational resources (see "political participation"). Moreover, one of the most important obstacles to democratic governance is the fragmentation of civil society. In other words, Peru suffers from the absence of strong actors able to channel the diversity of social demands, such as stable parties or large secondary societal organizations. Some 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. Second, participation in civil society has grown, leading to a diverse landscape of activist groups and a major increase in voicing demands at the national, regional, provincial, local and communal levels. At some specific junctures, civil society has had significant influence, although individual organizations have not been able to maintain their thrust for a long time. Beyond this, during the review period, at least two expressions of civil society have acquired higher levels of organicity and visibility. The first is represented by "Ni Una Menos" (Not One [Woman] Less), a women's movement that denounces gender violence. The second is observable in the growth of conservative evangelical groups, particularly "Con Mis Hijos No Te Metas" (Do not mess with my children), which criticizes what it calls "gender ideology."

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, on occasion, 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.

Civil society traditions



Conflict intensity



The intensity of ethnic or social conflicts has slightly diminished, due to a slowdown in important mining projects, explained in part by the decline in commodities prices, and in part by efforts to avoid social opposition to these projects. However, the intensity of political conflict between groups supporting and those opposing the Fujimorista has increased markedly in recent years. Growing tensions between the government and the majority in parliament have fueled the polarization. Both groups mobilized and clashed over sensitive issues, such as motions to remove Pedro Pablo Kuczynski from office or the pardon Kuczynski granted to Alberto Fujimori.

II. Governance Performance

14 | Steering Capability

The last stage of the Humala administration lacked a clear government program and strategic objectives. The government started its mandate with an ambitious reform program that aimed to transform the economic model and solve the core problems of inequality. However, during its last year in office, the government proposed a series of reforms and disjointed projects under the umbrella of the “revitalization of the economy.” Arguably, these projects could be seen as ad hoc measures with short-term interests rather than substantial reform proposals. The various reasons for this transformation can be found in previous BTI reports.

During Kuczynski’s administration, the policy direction has not changed much, but the reasoning did. President Kuczynski’s main goal was to “revitalize the economy” through specific reforms that concentrated on reducing bureaucratic red tape and aimed to “unlock” investment projects. The lack of a consolidated and coherent political party expressed the weakness of the government’s congressional coalition and the configuration of the ministerial cabinet. Most ministers were independents with no major experience in the political arena or public administration. They operated within a weak state administration that had serious problems in implementing public policies.

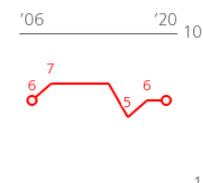
During Kuczynski’s tenure, the weakness of his electoral platform, as well as his ambiguity toward Fujimorista majority in Congress, impeded adequate prioritization of the right-wing economic policy agenda he had proposed during the presidential electoral campaign.

His resignation generated a short period of instability that was resolved with the assumption of Vice President Martín Vizcarra of the presidency. Vizcarra appointed César Villanueva as president of the Council of Ministers, who seemed to have affinities with the Fujimori-led congressional opposition. During the first months of Vizcarra’s administration, the executive had serious difficulties elaborating its

Question
Score

Prioritization

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priorities, while seeking to maintain cooperative relations with the Fujimorista party. However, cooperation between the government and the congressional opposition gradually deteriorated. Then, the corruption scandal regarding the judges and members of the Consejo Nacional de la Magistratura was uncovered, an event that allowed President Vizcarra to reorient the executive's priorities toward fighting corruption. While taking concrete initiatives to fight corruption, the executive has ignored other, equally urgent priorities.

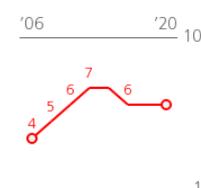
Though its reform agenda has been somewhat unclear, the Humala government had partial success in implementing some of its announced reforms during the first years of its administration. The economic agenda, including the strengthening of the macro-fiscal framework, social policy programs and reforms in education and environmental policy were implemented, albeit with some difficulties and with mixed results. In the last years of the government, the reformist impetus deteriorated because of increasing isolation of the government, and the limits of a technocratic style of conducting politics without proper negotiation processes.

During the period under review, there were initial expectations that a broad rightist pro-market coalition, joining Kuczynski's government and the Fujimorista majority in Congress, might be established. However, the government had to face an intransigent opposition in Congress, which revealed the limits of Kuczynski's leadership. The result was an extremely weak government, with little political capacity to establish priorities, and even less technical expertise to implement the few initiatives the executive had. The lack of technical expertise revealed precarious political management. Several of Kuczynski's cabinet members had strong business backgrounds, but limited political expertise. The executive failed to fully implement its fragmented economic reforms or the reconstruction of the Peruvian northern coast. Some government officials stated that these shortcomings were mainly due to inherited bureaucratic procedures and the socially and politically disloyal opposition. The lack of support in Congress exacerbated the government's inability to implement policy changes. In addition, the Fujimorista party, which managed to advance 1990s neoliberal reforms, opposed some reform initiatives in a context of strong polarization between the executive and the legislative branches during the Kuczynski administration.

Both the Kuczynski and Vizcarra administrations have demonstrated limited policy learning. The executive tried to advance initiatives by reacting to political events, rather than formulating a long-term policy agenda. Several crises in the cabinets – because of the crossfire between the executive and parliament – halted government initiatives. The capacity of the cabinet for policy learning was limited, given the high instability of ministerial positions. When continuity was possible, the lack of political aptitude among cabinet members (mostly independent experts or practitioners) put important reforms at risk.

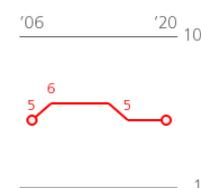
Implementation

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Policy learning

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In the Peruvian executive branch, since 2000, the average stay of a minister barely exceeds 12 months. In numerous occasions, the replacement of a minister implies significant shifts in policy orientations. This all occurs within the general pro-market orientation that Peru has followed since the 1990s.

Since July 2018, the Vizcarra government has created a consensus around the need to fight corruption throughout the state. Intolerance of corruption is a long-term policy agenda priority, which all ministers without exception must adopt.

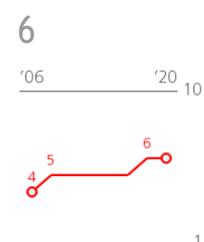
15 | Resource Efficiency

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. However, due to the inefficient bureaucratic apparatus, policies and measures that went beyond core areas (macroeconomic management, management of state resources) were not implemented. Also, 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. Government efficiency suffers from a state administration with a low level of professionalization, particularly at the regional and local levels. This is why the National Authority of the Civil Service (SERVIR) was created in 2008, to increase professionalism and enhance the transparency of Peru's civil service in the mid- to long term. SERVIR successively forms and implements policies aimed at promoting meritocracy, proposing a law to monitor the civil service, which was passed in 2013.

Although the Kuczynski and Vizcarra administrations reappointed senior functionaries from the previous governments, which was important for reducing learning and adaptation costs, there is notable stagnation in Peru's civil service. Despite SERVIR's efforts to promote meritocracy at both the national and subnational levels, there are still many areas where the problems are notorious. In this regard, El Niño has shown the state's weakness and shortcomings to direct reconstruction on Peru's northern coast. Despite the fact that the state, politicians, civil society actors and the public have defined reconstruction as a national priority, in almost two years, only 30% of the budget allocated for reconstruction has been used.

Even though President Kuczynski had had significant political and public sector experience and Vizcarra has important experience as governor of Moquegua and as transport minister, inefficiency persisted. This was revealed, for example, in difficulties spending resources assigned to important public projects on those projects. The reasons may lie in inadequate decentralization and the lack of professionalism of public servants.

Efficient use of assets



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. Therefore, the Humala administration's cabinet was one of the most unstable over the previous decade (except the Ministry of Economy and Finance). The high level of cabinet instability and the absence of party cadres led to the presence of ministers who not only lacked previous experience in their portfolios or held limited experience in public affairs, but who also lacked any political experience and held extremely different trajectories and political backgrounds.

The Kuczynski administration seemed to handle these problems efficiently. Despite facing the same political problems as its predecessor, the orientation of the government was rather clear and coherent as a center-right administration. Important decisions, such as economic policy, were discussed collaboratively between the president, the minister of economy and the head of the cabinet. However, the belligerent relationship between the executive and the opposition in Congress came to redefine the government's priorities. Kuczynski could not resolve the contradiction between negotiating with and confronting the Fujimorista party. His indecision affected the internal coherence of the executive, preventing optimal coordination of cross-sectorial policies. Some observers stated that Kuczynski had a weak response to the Fujimorista-led Congress.

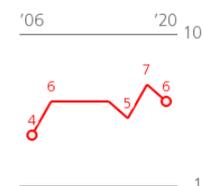
The Vizcarra government inherited some of the contradictions of Kuczynski's administration. But, since July 2018, Vizcarra has established a new orientation around fighting corruption, improving the judiciary and political reform. It is not a comprehensive agenda, but it is one that has given his government a distinct character.

In Peru, anti-corruption measures have historically been weakened by inefficiency, a lack of implementation and, in many cases, a lack of genuine political will. Corruption and impunity are two essential features that have characterized Peru's political class and the public administration. Although the state has undertaken numerous initiatives to slow the advance of corruption, both at the national and subnational levels, it has not been able to find efficient solutions to this problem. Even the main institutions responsible for promoting anti-corruption policies – Congress, the Prosecutor's Office (Fiscalía de la Nación) and the judiciary – have been involved in the most notorious cases of corruption in recent years.

Kuczynski's administration was involved in a corruption scandal in the health care sector at the very beginning of its term. While the government tried to solve this problem by creating the Presidential Commission for Integrity, it only partially implemented the commission's anti-corruption recommendations.

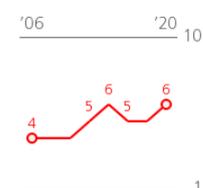
Policy coordination

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Anti-corruption policy

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During the review period, two corruption scandals erupted. The Lava Jato investigation showed that some large Brazilian companies (such as Odebrecht) and their Peruvian partners collaborated for several years to bribe the authorities and obtain favorable contracts for huge infrastructure projects. Although this case of corruption – which seems to be one of the most important political crises in Peru since the fall of Alberto Fujimori in 2000 –involved Peruvian officials, public authorities and the business sector, Kuczynski’s administration failed to bring anti-corruption charges against the main actors involved. The executive hesitated and, faced with the dilemma of leveraging effective collaboration or imposing sanctions for the crimes committed, lost an important opportunity for substantial civil reparations. Since the administration did not take the lead in the anti-corruption fight, the Lava Jato case has been handled by special teams in the Prosecutor’s Office.

By contrast, the corruption scandal in the judiciary ended in specific anti-corruption measures. Only a week after the revelation of numerous telephone conversations that proved corrupt practices among judges and members of the Consejo Nacional de la Magistratura (CNM), Martín Vizcarra convened the Commission for the Reform of the Justice System. In a few days, this working group proposed replacing the CNM with the Junta Nacional de Justicia. The executive endorsed this recommendation, defending it before Congress and later in a referendum. When asked “Do you approve of constitutional reform to the form and functions of the Junta Nacional de Justicia (formerly the Consejo Nacional de la Magistratura)?” 86.5% of Peruvians answered affirmatively. Although Vizcarra has been legitimized as the leader in fighting corruption, it will be necessary to wait to see what evidence emerges in the Lava Jato and the CNM investigations, to see if he maintains that status.

On December 2018, President Vizcarra formed a commission for political reform. The Commission for Integrity, Reform of the Judicial System and Political Reform issued proposals regarding party financing, citizen and media access to information, transparency initiatives to prevent conflicts of interest, and so on. But these are still pending approval by parliament.

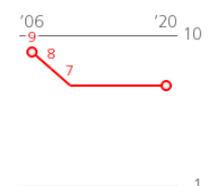
16 | Consensus-Building

Virtually all significant political and social actors agree in principle that establishing a stable democracy and market economy should be strategic, long-term goals.

Kuczynski’s administration faced a paradoxical situation with regard to the Fujimorista opposition. Both the government and the opposition largely agreed on economic policies, since both represent right-wing platforms. Accordingly, in the first months, Congress, controlled by Fujimorista supporters cooperated with the executive on economic policies. However, substantial political tensions remained and even began to escalate, which diverted the executive from developing long-term goals. The confrontation eroded the channels of coordination and cooperation

Consensus on goals

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between the government and the legislature. The extremely belligerent climate was not due to ideological differences, nor because of discrepancies in the implementation of public policies. The Fujimorista majority in Congress sought to prevail against the executive at all costs. The political confrontation resulted in interpellations and censures of ministers, and helped catalyze, in the long run, the resignation of a weakened Pedro Pablo Kuczynski.

The assumption by Martín Vizcarra of the presidency filled the political and economic arenas with uncertainty. The opposition majority in Congress seemed invincible. Some analysts considered that Vizcarra would be a president working in the interests of the Fujimorista party, Fuerza Popular. However, Vizcarra gradually showed some capacity for political leadership, and began to distance himself from Fujimori's opposition. Vizcarra took advantage of the context created by the crisis in the judiciary, undertaking a frontal anti-corruption battle. This decision greatly enhanced his popular approval, which was confirmed by the recent referendum.

However, the climate of political distrust continues. Although some of the population approve of Vizcarra for raising the anti-corruption flag, others state that the president is developing populist and even authoritarian tendencies. Suspicion now prevails over consensus. The opposition leader, Keiko Fujimori, has been imprisoned for alleged links with Odebrecht and her majority in Congress has begun to fragment. This could positively change the dynamics of the relationship between the government and parliament, although an even greater rearrangement of political (and congressional) forces is foreseen.

Since the 1990s, there has been a broad consensus among Peru's most relevant political, social, and economic elites about the need to promote a market economy. After Alberto Fujimori's resignation in 2000, the democratic process continued along market lines. President Toledo (2001–2006) promised to continue to develop a market economy. Alan García (2006–2011) won the elections with a discourse critical of neoliberalism. Given the performance of his first government, it was expected that Peru could follow the “pink tide” that was sweeping neighboring countries. However, García followed an orthodox economic path. President Humala (2006–2011) promised a “great transformation” and was surrounded by prominent leftist leaders and activists. A few months after assuming office, he decided to break his ties with that leftist coalition and follow an orthodox economic path.

During all these years, the Fujimori supporters in Congress have been a force seeking to preserve the economic model of the 1990s. They controlled Toledo, backed García and controlled Humala. However, since 2016, their opposition to Kuczynski and Vizcarra changed their nature. They endangered the model's continuity by weakening orthodox governments. However, despite Kuczynski resignation and Vizcarra's weakness, the economy continues to grow based on the consensus it still has among most relevant social, political and economic actors.

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

Otherwise, there are severe problems with illegal actors such as the Shining Path and organizations linked to drug-trafficking. The Shining Path seems eager to rebuild a political force via Movadef and the Front of the Peruvian People's Defense Unit (Frente de Unidad de Defensa del Pueblo Peruano, Fudepp), and thus to participate in democratic politics. During the review period, the state continued to encounter the further rise of Movadef with legal and political measures. The rise of Movadef indicates a freer political society compared to previous decades, though government officials lack a clear strategy for dealing with these changes. The recent subnational elections (December 2018) highlighted the incursion into the political arena of actors with anti-system and anti-democratic discourses, such as Walter Aduviri, the regional governor of Puno.

Given the potential for severe conflicts arising from unfulfilled demands, Peru's political leadership has been partially successful in managing social cleavages. However, it has failed to resolve some of the most emblematic conflicts, particularly in resource extraction where protests are common. The low legitimacy levels of political leadership have a negative effect in these cases. The state has also been interested in expanding extraction, not reducing it. 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. It is possible that the reason social cleavages have not created major conflicts has more to do with social fragmentation and less to do with the ability of political leaders. The victory of Pedro Pablo Kuczynski in the 2016 elections generated alarm regarding the possible reactivation of latent cleavage-based social conflicts, particularly in the areas of resource extraction. His previous voting pattern revealed Kuczynski as a representative of the urban and upper middle-class sectors. Social conflicts based on class, ethnic and territorial basis seemed possible. However, during the review period, cleavage and conflicts were mostly political, embodied by disputes between the executive and parliament, and between pro-Fujimorista and anti-Fujimorista social groups.

Anti-democratic actors

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Cleavage / conflict management

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The Humala government 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 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 disregards civil society participation and is reluctant to accept the legitimacy of social leaders. There is a highly-internalized vision of these initiatives as politicized spaces, which election losers use to advance their particular interests. Elections in Peru do not settle existing conflicts. Overall, the quality of civil society political representation remains poor, given that political parties are weak and fragmented institutions.

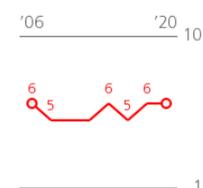
Both Kuczynski's and Vizcarra's administrations tried to confront this situation by opening direct channels for solving social demands. To face political crises, both governments appealed to dialog and to incorporating civil society actors as a strategy to yield resolutions. For example, President Kuczynski created a Presidential Commission for Integrity to face a corruption scandal in his government. President Vizcarra created the Reform Commission of the Justice System, in charge of proposing an integral reform of the judiciary, and installed the High-Level Commission for Political Reform, an autonomous working group that will propose to the executive various political reform initiatives. Vizcarra also called a referendum for citizens to vote on four reforms the executive proposed.

Reconciliation is still a contested issue in Peru given that the major perpetrators of human rights violations 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 of the 1980- to 2000-armed conflict had been identified and included into the victims' registry. Reparation payments coordinated by a special commission (High Level Multisector Commission, CMAN) have begun through the financing of projects in several communities identified as victimized by the armed conflict.

However, the political leadership has not actively addressed the conflict-laden past. During the review period, the executive – and the political elite – have shown no interest in the process of reconciliation. However, due to short-term issues, the government has been involved in political and legal discussions about the legacies of historical acts of injustice. On one hand, the pardon received by Alberto Fujimori sparked a debate about the scope of the constitutional presidential prerogative.

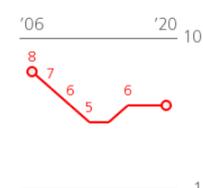
Civil society participation

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Reconciliation

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According to the nature of the crimes Fujimori committed, several analysts maintained that the pardon Kuczynski granted was illegal. In October 2018, a judge in the Supreme Court ruled in favor of annulling the measure and ordered the immediate arrest of former President Fujimori. On the other hand, this period coincided with the release – after having served their sentences – of some senderista and emerretista terrorists. Although much of the public (and the media) have criticized the release of terrorists, the government has not shown a very clear position on the subject.

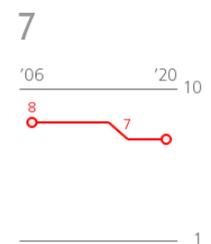
17 | International Cooperation

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 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. In recent years, the weakness of political actors and organizations has become more evident, especially in the lack of technical experts and the executive's lack of programmatic agendas. International cooperation fills this void by proposing government projects. The influence of international donors helps 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.

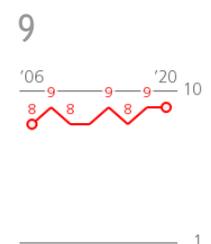
In the framework of the conflict between the executive and parliament, social groups opposed to the government – linked to the Fujimorista majority – have raised a conservative agenda that is adversarial to international assistance agencies. This conservative sector has denounced the supposed interference of ideas and values from international cooperation in the process of public policy formulation. Its members fear the state's development agenda could be replaced by biased views on gender (“gender ideology”) and human rights issues from international organizations, affecting areas such as education, population and public health.

The Humala government acted as a credible and reliable partner in its relations with the international community and won confidence in its reform policies in the early years of its mandate. In addition to the country's close relations with bilateral and multilateral donors, the web of free-trade agreements established with actors 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.

Effective use of support



Credibility



Peru's commitment to democracy and a market economy is quite firm in general terms, but there are some concerns regarding specific issues. The emphasis placed on promoting private investment occasionally conflicts with other international commitments. For example, ILO Convention 169 sometimes hinders the development of important mining and oil projects. As a result, implementation of Convention 169 is quite slow. There is also occasional opposition to Inter-American Court of Human Rights decisions from conservative sectors in Peru, but the government has so far resisted them.

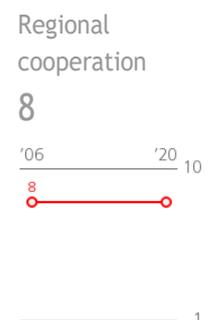
During the review period, Peruvian foreign policy was handled with its traditional solvency and seriousness. With Ricardo Luna Mendoza as director of the Ministry of Foreign Affairs, Peru played a role in regional leadership, denouncing the worsening political and social conditions in Venezuela. Peru has become a recipient country of the massive Venezuelan immigration. According to the National Migration Superintendence, to date, more than 600,000 Venezuelans have entered Peruvian territory. Local authorities have begun regularization of residence permits for immigrants.

President Kuczynski's pardoning of former President Fujimori (December 2017) – aside from being a violation of international law – proved to be politically counterproductive as it was annulled by the judiciary in October 2018.

Another illustration of Peru's commitment to follow international standards is the initiative to become a member of the OECD, following Chile and Mexico.

Peru's political leadership cooperates with most neighboring states and complies with the rules set by regional and international organizations (such as the Organization of American States). The Foreign Ministry is one of the few state agencies that works with efficiency and autonomy. Peruvian foreign policy could be characterized as pragmatic and friendly with other countries in the region. Both the Kuczynski and Vizcarra administrations succeeded in maintaining friendly relations with neighboring states in Latin America, participating in Binational Cabinets with Chile, Colombia, Ecuador and Bolivia. With Brazil, by contrast, cooperation has been mostly between the prosecutors in both countries, in the framework of Lava Jato's investigations.

It is relevant to mention the leading role the Peruvian state has recently taken through the Grupo de Lima regarding the Venezuelan crisis and its participation in the Pacific Alliance.



Strategic Outlook

During the period under review, the consensus dictating that Peru needs profound reforms has remained constant, beyond the changes and replacements in the executive branch. Despite differences – some demand a “second generation” of market-oriented reforms and others demand reforms to limit market excesses and promote a social-democratic model – the conflict between political actors has not modified the general (and accurate) perception that implementation of institutional reforms is key to raising and ensuring the progress and welfare of the country in coming years. The “first generation” reforms advanced during the 1990s – trade liberalization and privatizations – were successful, but they did not connect with “second-generation” reforms – administrative modernization, institutional reforms. Those are now urgently needed. There have been partial improvements. The last governments initiated and maintained educational reform, based on meritocracy. Reform of the civil service was also executed. Although implementing these reforms required the political will to sustain them over the long term, neither Kuczynski’s nor Vizcarra’s administrations have made considerable efforts to do so. The continuity of several of the reforms is currently in doubt. Worse yet, in core sectors, such as public health, advances have been practically null. Questions arise as to the future of the Peruvian model. Institutional reforms are necessary to strengthen Peru’s recent economic achievements and democratic institutions and to improve social and political conditions. However, weak state capacity could prevent this from happening.

However, in Martín Vizcarra’s administration, a “window of opportunity” unexpectedly opened for implementation of second-generation reforms aimed at strengthening institutions and social policies. Corruption scandals – involving the highest levels of the judiciary – have surfaced in recent months and made apparent the need to carry out profound reforms in the judiciary and the political system. Those reforms are now core to the national agenda. Looking ahead to 2021, Vizcarra’s administration could successfully lead an agenda for institutional reform, especially since Fujimori’s opposition in Congress has lost its blocking capacity. Despite this, resistance to and the difficulty of undertaking reforms in the judiciary, the Prosecutor’s Office and the state itself are multiple. President Vizcarra will need support from various fronts. In the government’s capacity to form alliances with political and civil society actors, the chances of success or failure in the coming years will be played out.