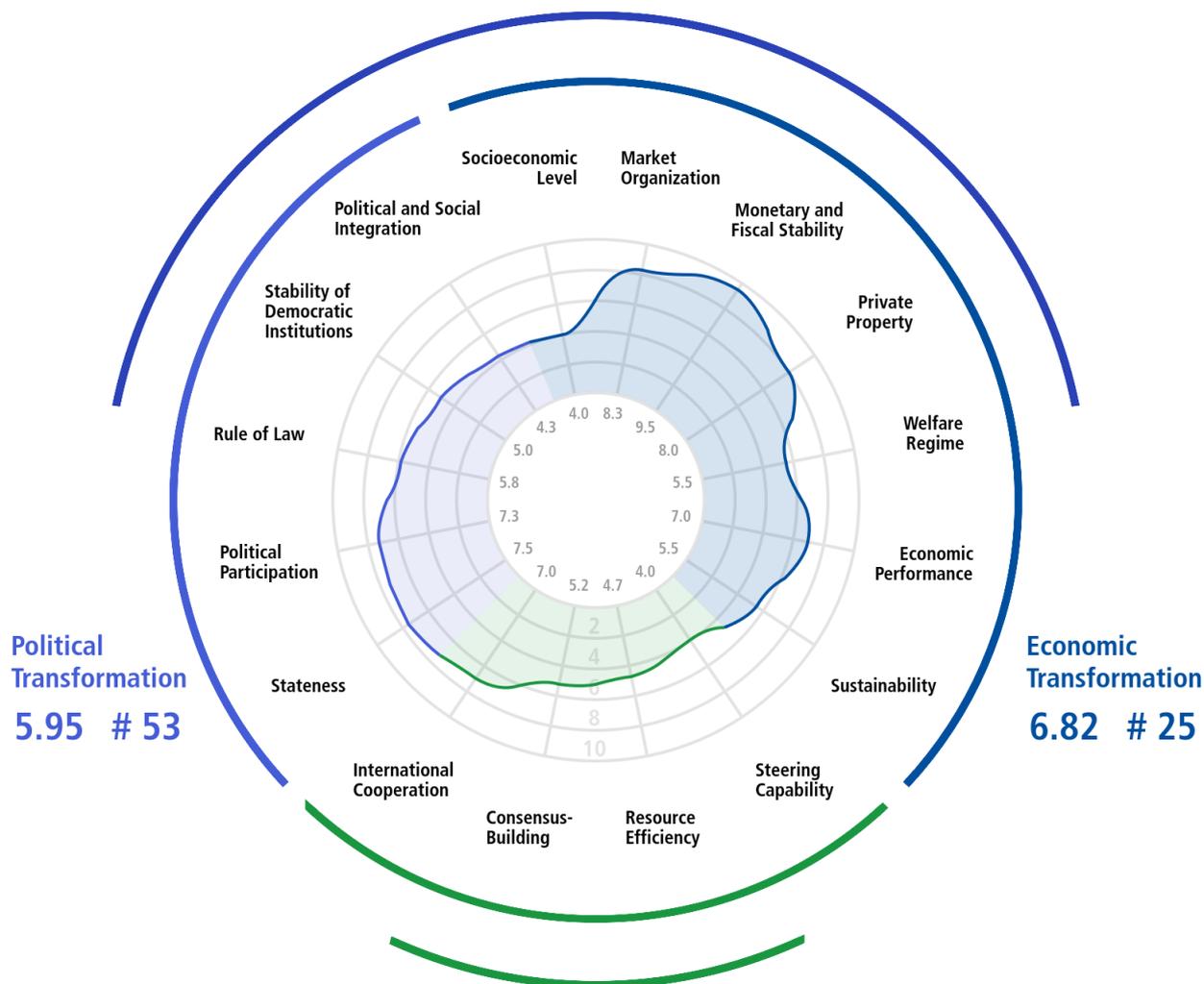


Peru

Status Index

6.39 # 36

on 1-10 scale out of 137



Political Transformation
5.95 # 53

Economic Transformation
6.82 # 25

Governance Index

4.61 # 72

on 1-10 scale out of 137

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2024. It covers the period from February 1, 2021 to January 31, 2023. 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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Key Indicators

Population	M	34.0	HDI	0.762	GDP p.c., PPP \$	15048
Pop. growth ¹	% p.a.	1.0	HDI rank of 189	84	Gini Index	40.2
Life expectancy	years	72.4	UN Education Index	0.757	Poverty ³	% 10.2
Urban population	%	78.7	Gender inequality ²	0.380	Aid per capita \$	9.0

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

Peru has undergone considerable political and social upheaval in recent years. The period under review witnessed the prolongation of the political conflict between the executive and the legislature, challenges in implementing public policies, government corruption and social conflicts that have resulted in the loss of numerous lives. Consequently, political rights and institutions have been weakened, and democracy is on a trajectory toward being hollowed out.

During the pandemic, the interim government of Francisco Sagasti (2020 – 2021) was able to achieve its core objectives: deploying the national vaccination process, promoting economic reactivation measures, and organizing the 2021 electoral process. Pedro Castillo (2021 – 2022), a candidate who led a radical leftist party (Perú Libre, PL), narrowly won the presidential election in a run-off marked by political fragmentation and polarization. The legitimacy of his victory was strongly questioned by right-wing sectors, particularly by supporters of the opposition candidate, Keiko Fujimori, who falsely alleged electoral fraud.

Multiple groups in Congress threatened Castillo with the possibility of impeachment practically from the beginning of his term. However, Castillo managed to solidify his position and build informal alliances with congressmen to prevent impeachment. However, on December 7, 2022, amidst a third impeachment motion and amid allegations of corruption and investigations, Castillo unexpectedly chose to carry out a coup d'état. In response, Congress voted to remove Castillo, and hours later, Vice President Dina Boluarte was proclaimed as the first female president in the country's republican history.

In her inauguration speech, Boluarte requested support from Congress to overcome the political conflict. However, her government quickly faced intense mobilization in the country, particularly in the southern Andean regions that had given overwhelming support to Castillo in 2021. There was an increase in the number and scale of the mobilizations, with their main demands being the resignation of Boluarte, the acceleration of general elections, and the calling of a constituent

assembly. Some of these mobilizations turned violent, with protesters destroying police stations and court buildings and attempting to take control of airports. Moreover, the police and military response to the demonstrations, which openly violated human rights, resulted in more than 50 deaths and thousands of injuries, thereby intensifying citizen protests.

Concerning the economic transformation, there has been a partial recovery after the devastating consequences in human and material costs caused by COVID-19. Although Peru was one of the countries to be most deeply affected by the pandemic, the rate of deaths and infections ultimately dropped drastically thanks to national vaccination campaigns. While economic institutions remained stable over time, the 2021 recovery remained insufficient to compensate for the previous slump, in part because of management failures by the disorganized Castillo government paired with the ongoing political instability. The consequences of Russia's war against Ukraine, including rising inflation rates and subsequent stability measures, have further clouded the outlook for 2022 and beyond and contributed to a persistent climate of social tension.

History and Characteristics of Transformation

Since the return to democracy in 1980, Peru's transformation has been marked by abrupt changes. 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, and 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. 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. The 1993 constitution and Fujimori's re-election in 1995 paved the way toward a “competitive authoritarian” regime, where regular infringements on political and civil rights occurred. After his irregular re-election in 2000, the discovery of an extensive network of corruption finally forced Fujimori to resign. During the 1990s, the Peruvian party system and democratic institutions collapsed, burdening the “post-Fujimori” era.

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 recovering representation in the political system; and establishing 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, Peru's economic development has been based on mineral exports and primary products. Revenues from this period translated into a significant reduction in poverty. However, despite the accelerated growth of the Peruvian middle class, its situation remained highly vulnerable.

Both nominally leftist Presidents Alan García (2006 – 2011) and Ollanta Humala (2011 – 2016) continued the orthodox economic policies. 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. In the 2011 run-off elections pitting Ollanta Humala against Keiko Fujimori, the ex-president's daughter, Humala pursued a more moderate political position. In so doing, he avoided outright rejection by Peru's elites and secured the presidency. Both governments demonstrated the strength of the Peruvian economic model and 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 has remained at the forefront of economic growth in Latin America. As a result, the economic and social consensus surrounding the merits of the “Peruvian model” has solidified. Against this backdrop, Pedro Pablo Kuczynski, a former banker and former economic minister, won the 2016 presidential election. However, his government quickly plunged into a profound political crisis, leading to his resignation. Despite the unfolding of the political crisis and the subsequent formation of President Martín Vizcarra's government, macroeconomic and social stability remained largely unchanged for several years.

The ongoing conflict between the executive and legislative branches of government led to the dissolution of Congress and the 2020 congressional elections, which were seen as a “watershed” moment in Peruvian politics. The effects of COVID-19 and the behavior of the parliament disrupted the previously stable relationship between politics and the economy that had been maintained for the past 20 years. Despite its fragility, the national political class had not previously jeopardized the macroeconomic stability and fiscal strength that the country had achieved in recent decades. However, the current political climate in Congress now prioritizes short-term interests over the previously established economic consensus. In late 2020, Congress successfully impeached Vizcarra, which resulted in a one-week interim government. However, this interim government was forced to resign due to widespread protests, clearing the path for another interim government under President Sagasti, who served until July 2021.

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 this is still challenged in some areas, recently by criminal activities. These challengers have implemented a strategy that differs from the traditional violent clash by funding political actors. The state's monopoly on the use of force has thus shown some improvements without undergoing any fundamental change.

The further weakening of the Shining Path (Sendero Luminoso, SL) insurgency movement indicates an advancement in state sovereignty. In recent years, the number of captures of SL's "emblematic" leaders has decreased, a fact more closely tied to the weak state of SL factions themselves rather than actions taken by the state. However, the once-powerful terrorist group is still involved in 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 remnants maintain a significant presence. In this region, there are still frequent attacks against military and police patrols, as well as on the surrounding community. On May 24, 2021, SL carried out a terrorist attack against the VRAEM community, resulting in the deaths of 16 people.

Peru remains one of the primary producers of coca. Despite increased efforts by the government and national police, security forces have faced significant setbacks in their battle against the drug mafias. In recent years, unlawful activities, including smuggling, land trafficking, illegal mining and illegal logging have escalated. These occurrences are not isolated; rather, they appear to have significant connections to the national and subnational political system. The prevalence of organized crime and criminal gangs, particularly in urban regions, is also increasing.

These challengers to the state's monopoly on the use of force have penetrated the political system by funding political candidates and governmental actors. This relationship is illustrated by the case of the current regional governor of Madre de Dios, Luis Otsuka, who has accumulated nine formal complaints for alleged

Question
Score

Monopoly on the
use of force

7

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1

environmental crimes, links with illegal mining groups, human trafficking and money laundering. In some local and regional cases, examples like these show that the territory supposedly controlled by the state is actually governed by authorities who collude with state challengers.

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 such as Bolivia and Ecuador. Seeking to develop public policies in favor of marginalized ethnic groups, the national census of 2017 incorporated – for the first time ever – 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. Indigenous groups have also gained political representation in Congress, as well as in other political institutions.

In recent years, opposition to mining and extractive industry activities has been at the center of mobilization by Indigenous groups, who have demanded that they be consulted by the state on the extraction of natural resources. The right to consultation was implemented during Humala’s term in office (2011 – 2016) under ILO Convention 169. However, the previous conflict has now been overshadowed by the strained relationship between the capital city Lima and the rest of the country. The 2021 presidential election revealed differing political preferences between Lima and the hinterland. IPSOS data shows that Lima favored Keiko Fujimori (67.2%), the right-wing candidate, while the southern region (76.4%), eastern region (62.4%), and central region (65.8%) of Peru leaned toward Pedro Castillo, the leftist candidate. The significant divide between Lima and the hinterland has been further exacerbated by the deaths of over 50 southern citizens who protested against the Boluarte government in December 2022 and January 2023. Given Peru’s historical legacy of discriminatory practices and exclusionary discourses, primarily targeting the Indigenous population, the role of ethnicity in Peruvian politics may well intensify.

The state and its legal order are largely secular. The Catholic Church has a certain influence on some political issues, such as abortion and same-sex marriage, but there is no clear and widespread interference. This influence is certainly based on the Catholic identity of the majority of the Peruvian population, which holds relatively conservative values.

Religious groups primarily exert their influence through informal mechanisms, although some religious leaders are increasingly participating directly in the political process as elected representatives and by mobilizing civil society. Throughout history, the state in Peru has maintained close relations with the Catholic Church;

State identity

9



1

No interference of religious dogmas

8



1

however, the expansion of other faiths and concerns over the extent of religious influence in the public sphere have tempered these relations. It is becoming more common for religious groups and organizations to transparently advocate for their interests through institutional channels, particularly by engaging with representatives in Congress. Moreover, they must now collaborate with other faiths to achieve their goals. Nonetheless, the influence of religious interests faces challenges from the active and expanding mobilization of feminist and LGBTQ+ groups, among others.

Previous reports indicated that conservative groups linked to evangelical churches have achieved some success in pursuing their objectives. In the current review period, the conservative sector has gained even more allies. Traditionally, religious conservatism has been associated with the extreme right-wing sector; however, the Congress elected in 2021 demonstrates that there are factions from the leftist sector that also support conservative values. The alliance between right-wing and left-wing factions in Congress resulted in the passage of Law 31489, which allows parents to supervise textbooks in order to prevent the implementation of gender mainstreaming in education. The leftist government of Pedro Castillo did not veto the law, so it is currently in effect. Similarly, in January 2023, the Justice and Human Rights Commission of the Congress rejected a same-sex marriage bill on religious grounds.

The state's basic administrative infrastructure covers most of the country's territory, but its functioning remains marked by shortcomings. Problems include widespread corruption, limited capacities within the bureaucracy and the system's inability to reach out to the poor. The weak presence of the central government administration outside Lima and beyond the coastal areas has historically been a core problem for Peru's political and economic development. One example of the expanded but simultaneously weak scope of the state was the process of decentralization initiated in 2002, which aimed to transfer some decision-making functions to regional and local authorities. In fact, decentralization has become a source of political instability, as this process has fragmented the political landscape, exposing unskilled politicians lacking the backing of a party to ever-increasing public demands. Some government sectors seem to perform much better than others, mainly due to their level of political importance and the existence of relatively autonomous technocratic groups. These sectors are known as "islands of efficiency," such as the Ministry of Economy and Finance. In turn, the COVID pandemic revealed the precariousness of basic services such as health (public hospitals, availability of oxygen, etc.) and education.

Seventy-nine percent of the population has access to sanitation facilities (the second-lowest percentage in South America, behind Bolivia with only 66%), while 93% has access to a water source (the lowest percentage in South America). About one-half of the population has access to a safely managed water source (51.3%) and sanitation (52.8%), while access to electricity is almost complete (99.3%).

Although the García and Humala governments implemented some administrative reforms, momentum has slowed since then. In contrast, since the beginning of the Castillo government, patronage logic has prevailed over meritocracy and professionalism, leading to severe setbacks. The situation has become so worrisome

Basic
administration

6

'06 _____ '24 10

7 ————— 6

_____ 1

that Congress passed Law 31419, which imposes minimum requirements for applying to public offices. Despite these political efforts, clientelistic management of the civil service has continued, as evidenced by the unsuccessful purchase of fertilizers and inefficiency in the issuance of passports. Similarly, corruption has deeply infiltrated the state to the point that former President Castillo (2021 – 2022) was accused of being involved in influence peddling and fraudulent promotions in the national police. Corruption and clientelism have contributed to the decline in the quality of public services, such as the lack of water connections in 213 public schools due to outstanding problems, or the leak and subsequent cancellation of the teaching appointment evaluation in 2021.

2 | Political Participation

In general, multiparty elections are regularly held, conducted properly and accepted as the means of filling political positions. The National Office for Electoral Processes (ONPE), the National Jury of Elections (JNE), and the National Registry of Identification and Civil Status (RENIEC) are responsible for executing and monitoring all electoral processes. These institutions have been widely regarded as reliable and among the best-performing state organizations. For its part, the National Board of Justice (Junta Nacional de Justicia, JNJ) elected Piero Corvetto as the head of the ONPE after a transparent public contest. Corvetto is a career civil servant with extensive experience and recognition in the field of electoral administration.

The 2021 general elections and 2022 regional elections were held transparently and efficiently. However, the 2021 ballot was surrounded by accusations of electoral fraud. Initially, Fujimori and her political allies denounced an allegedly systematic fraud at the national level; for that reason, they did not recognize the electoral results that proclaimed Castillo to be the next Peruvian president. Though it was proven that ONPE and JNE organized fair and impartial elections, the extreme right-wing sector has adopted the claim of electoral fraud as a political banner to question the electoral results that do not favor them. In line with this, the dominant media were clearly biased against Castillo during and after the elections.

Overall, the electoral process could improve, especially the tasks carried out by the JNE. In recent years, candidates have been excluded from electoral processes due to legal and rectifiable issues – even weeks before the election – and the application of the law has not always been impartial.

Free and fair elections

8



1

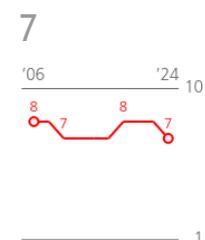
In principle, elected political representatives have generally exercised effective power to govern as far as traditional veto powers (e.g., armed forces, landowners, business groups) are concerned. However, individual societal groups in Peru occasionally succeed in pushing for their own interests, even against the will of the elected government. The business sector constitutes a strong pressure group and reportedly influenced previous governments not to change the overall market-oriented direction of economic policies. Furthermore, the state is also vulnerable to pressure from other interest groups that are able to mobilize for specific social interests, such as the Indigenous population, socio-environmental organizations and peasant organizations, among others. In Peru, the strength of veto groups themselves is not necessarily the key issue, but rather the political weakness of the government.

On June 28, 2021, Pedro Castillo assumed the presidency of Peru with an obstructive opposition in Congress. On one hand, Castillo's supporters complained that actions taken in Congress, such as the frequent interpellation and censure of his ministers, limited President Castillo's ability to govern. Additionally, opposition congressmen sought to use the extreme constitutional tool of presidential impeachment multiple times. On the other hand, the weak exercise of governing power during Castillo's administration could be attributed to political mismanagement. Over the course of a year and a half, there were at least five prime ministers and approximately 80 ministers appointed under Castillo's government. Despite gaining the support of a significant number of congressmen, Castillo resorted to an extreme decision in response to a third attempt to impeach him: staging a coup d'état.

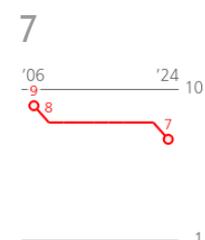
The constitution establishes the right to political organization, particularly giving independent political and civic groups the right to freely associate and assemble. The state generally respects this right, and numerous civil society groups operate without disturbance by state authorities. However, governance problems and the frequency of social conflicts, which occasionally turn violent particularly at the local level, have led politicians and the police to lean toward implementing certain restrictions, excessive use of force and instances of abuse.

While ethnic cleavages are not a fundamental obstacle to associational dynamics, the combination of geographic and social marginalization still creates barriers for segments of the Indigenous population. In addition to this, constitutional political rights are restricted in some parts of the country, such as the drug-production areas of Alto Huallaga and VRAEM. The declaration of states of emergency in some regions is a common practice that legally restricts the local population's rights of association. Additionally, human rights organizations report that the police have repeatedly arrested participants in demonstrations without just cause. Although not supported by the constitution, 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 disrupting public order.

Effective power to govern



Association / assembly rights



The frequency of social conflicts in Peru has been increasing since 2021, particularly in the southern part of the country. The Ombudsman’s Office reported 202 protests in 2021 and 221 in 2022 – the highest figure since 2013. Castillo’s removal from office has fueled protests in southern and central Peru, and mobilized citizens are questioning the legitimacy of the current Boluarte government and Congress. Protests have not always been peaceful. Concurrently, problems with police training and organization, along with a lack of clear political leadership, have resulted in excessive repression against protesters. More than 50 deaths and hundreds of injured individuals have been reported from different regions of Peru.

Freedom of expression is almost unrestricted. Problems are not primarily related to political interference or state censorship but rather to the legitimacy of the media.

This is somewhat limited by the bias of the media and the dissemination of false and sensationalized news, which negatively impacts individuals’ capacity to understand reality through the presentation of objective and truthful perspectives. The 2021 electoral process demonstrated the bias of the “big media” in favor of right-wing candidate Keiko Fujimori over leftist Pedro Castillo. During the election campaign, journalistic teams were fired for demanding impartiality in political news reports.

The structure of the media system – both electronic and print – varies at the national and local levels, with radio being the most widely consumed medium at the local level. Both public and private media, the latter of which dominate the media landscape, are largely free of government influence. In recent years, the media sector in Peru has become increasingly concentrated, with a few powerful media conglomerates able to dominate and exert substantial influence through agenda-setting, while supporting their economic interests. Nonetheless, there has been some “alternative media” in the form of social media sites that have tried to report the news with impartiality and professionalism. The right of access to public information has been enshrined in law since 2003; in 2020, the government standardized the procedure for all state institutions. However, according to the Peruvian Press Council (CPP), a “culture of secrecy” still exists in state institutions.

The media have contributed to the political polarization over the last two years. The proliferation of sensationalist news, defamatory allegations and fake news has been a feature of the review period. Both the big media conglomerates and the regional media have adopted an extremist and biased stance. Political groups, both from the government and opposition, have promoted a series of fake news reports against their political opponents. Therefore, the public sphere faces a problematic situation in which there is increasing difficulty in establishing a space for dialogue and understanding.

Freedom of expression

7



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 and several autonomous electoral agencies. However, the functional level of the separation of powers is determined by administrative and political factors due to the weak institutionalization of the Peruvian political system. During the period under review, it was not the separation of powers per se that generated concern, but the extreme conflict between the executive and legislative branches. This conflict began in 2016 and has already led to the resignation of Pedro Pablo Kuczynski (2018), the presidential impeachment of Martín Vizcarra (2020) and the coup d'état of Pedro Castillo (2022).

The Castillo government began with an extremely hostile relationship between the executive and legislative branches due to irreconcilable political differences. The more radical factions prevailed over the moderate ones. Despite this, the system of checks and balances functioned relatively well. The legislature challenged the executive by entering motions for impeachment, while President Castillo and his ministers threatened the legislature with the possibility that he might dissolve parliament. Despite facing organized and strong opposition from Congress, the president successfully negotiated with parliamentarians through clientelistic networks to form an informal coalition and prevent the approval of impeachment motions. The main challenge for the Castillo administration was its lack of experience or a well-defined government plan. It was not just a matter of the government's inability to formulate and execute public policies but also the rampant spread of corruption. The balance of power could not be sustained if confrontation prevailed and there were no programmatic plans in place to safeguard the independence of each branch of government.

The Constitutional Court (TC) has previously served as a safety valve in resolving conflicts between the executive and legislative branches. However, in February 2022, the TC recognized the constitutionality of Law 31355, which regulates the government's use of the confidence motion. The TC clarified that the government can exercise the confidence motion in matters within its jurisdiction that do not affect the exclusive and exclusionary competence of the legislative branch. Several months later, in May 2022, Congress selected new TC members with a conservative profile, aligning with the conservative values of the majority of parliamentarians from both the leftist and right-wing sectors.

During the period under review, the recently elected Constitutional Court issued opinions on two significant matters. First, in November 2022, the TC declared the indictment for treason against President Castillo, as presented by Congress, to be unconstitutional. Secondly, on December 27, 2022, the Constitutional Court

Separation of powers

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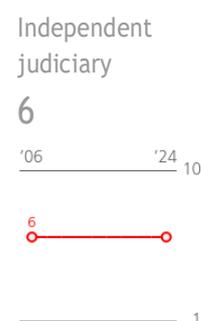


recognized the constitutionality of Law 31520, also known as the “University Counter-Reform Law.” This law advocated for the “autonomy and freedom” of universities that offered neither a quality educational offering nor appropriate facilities for students. In other words, this TC resolution jeopardized the continued role of the National Superintendency of Higher University Education (SUNEDU). Despite issuing controversial resolutions on important matters, the Constitutional Court maintained its independence and impartiality.

The judiciary functions as a separate branch of government and operates relatively independently. However, citizens do not trust the judiciary, and the judiciary’s approval ratings are among the lowest of those received by any of Peru’s democratic institutions. Under the leadership of Elvia Barrios (2021 – 2022), the judicial branch showed no significant improvement in its management and procedures, or in its approach to handling people’s claims fairly and efficiently. The judiciary is severely undermined by corruption, inefficiency, insufficient territorial and functional scope, limited resources, weak management, a hierarchical and conservative culture, and arbitrary recruitment and promotion procedures. As most people are not able to access the judicial system, which is seen as expensive, unreliable and corrupt, they try to solve their disputes informally. Arbitration outside the judicial system has emerged as a substitute mechanism for resolving contractual disputes, especially in the private sector and in cases involving chambers of commerce, with mixed results.

The networks of corruption uncovered within the National Judicial Council (CNM), the organization in charge of appointing judges and prosecutors, led to its replacement by the new National Board of Justice (JNJ) in January 2020. For its part, the Public Prosecutor’s Office was led by Zoraida Ávalos until July 1, 2022, when Patricia Benavides took office. The new public prosecutor began actively investigating corruption within the Castillo administration. Her predecessor, Zoraida Ávalos, believed that the president could not be under investigation, in accordance with the constitution. In contrast, Benavides believed that investigations should proceed; she opened six cases against the president and filed a constitutional accusation before Congress to suspend Castillo from office for alleged influence peddling and corruption.

Since the Fujimori era, corruption has become a highly sensitive issue for the Peruvian public. However, impartial prosecution and strict penalties for misconduct in public office are not common in Peruvian politics. Although corrupt officials are increasingly being prosecuted under existing laws, they often find ways to evade accountability through political, legal or procedural loopholes. These issues are especially evident at the subnational levels of government, where corruption cases are frequently uncovered. The current system fails to prevent corruption effectively, although it does allow for the prosecution of the most egregious cases. Furthermore, the institutions responsible for monitoring and prosecuting these cases have faced a significant loss of legitimacy. In recent years, even high-ranking officials in these agencies have been subject to investigations and prosecutions.



Nowadays, there is a public perception that many high-ranking officials who have committed serious acts of corruption go unpunished. Regarding the Lava Jato scandal, former presidents Toledo, García, Humala and Kuczynski, as well as other important political leaders like Keiko Fujimori, have been investigated for allegedly receiving kickbacks and illegal funding for their election campaigns from Odebrecht. However, their investigations have remained stagnant for years. Conversely, in 2020/2021, the Congress politically disqualified former President Martín Vizcarra from holding public office for 10 years. Vizcarra has been accused of committing corruption acts when he was the regional governor of Moquegua (2011 – 2014). During the Castillo administration, the Public Prosecutor’s Office accused some of his former government ministers of corruption and influence peddling. In this regard, several high-ranking officials have either been arrested or have an arrest warrant issued against them. On July 26, 2022, Bruno Pacheco, the former secretary-general of the government palace, was arrested for alleged acts of corruption. Meanwhile, Juan Silva, the former minister of transport and communications and a close friend of Castillo, is currently a fugitive from justice.

Civil rights and nondiscrimination are enshrined in the constitution. The state respects civil rights in principle, but has failed to strengthen them further, and occasionally does not adequately protect them. Due to the state’s weak capacity, and particularly the weak judiciary, civil rights are violated in some parts of the country, or citizens are discouraged from asserting their rights. In Peru, this results in what is known as “low intensity citizenship.” Discrimination against Indigenous communities, ethnic minorities such as Afro-Peruvians, and LGBTQ+ individuals remains widespread. However, civil society organizations and the Ombudsman Office have launched campaigns to raise awareness about this issue. Despite efforts to enhance access and exempt impoverished individuals from court fees, obtaining equal access to justice remains a significant challenge for the poor. Nearly one-third of the population is unable to access judicial services.

Marriage between same-sex couples is not recognized by Peruvian law. According to the National Aurora Program, Peru ended 2021 with 136 femicides, 293 attempted femicides and 10,251 cases of sexual rape. From January to November 2022, there have been 113 femicides, 199 attempted femicides and 10,833 cases of sexual rape reported. In comparative terms, there was a 5% increase in sexual rape cases in 2022 compared to the previous year, even though data from December was not counted. Despite viewing the issue of violence against women as a structural and social problem, the state has not successfully implemented initiatives to remedy it.

Peru is among the 20 most dangerous countries for land and environmental defenders, according to Global Witness. By the end of 2021, seven environmental leaders were killed, and 2022 finished with eight deaths. Land and environmental defenders have been killed by illegal groups linked to land trafficking, illegal mining, drug-trafficking and illegal logging. In 2020, Congress rejected the ratification of the Escazú agreement, which contains legal instruments to protect environmental

Civil rights

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defenders. Additionally, civil rights are not fully guaranteed due to excessive repression against protesters and the escalation of violence during social mobilizations. Violent protests against the Boluarte government have resulted in more than 50 deaths and hundreds of injured people from different regions of Peru, according to the Ombudsman's Office. The confrontational discourse from the government, the training and organizational problems in the police, the lack of political leadership, and the violence in these mobilizations have led to this tragic outcome.

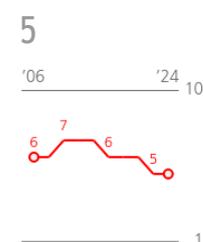
4 | Stability of Democratic Institutions

Democratic institutions fulfill their functions in principle but are inefficient due to frictions, the lack of professionalization in the bureaucracy, and the weakness of state institutions and political actors. In addition, a decentralization drive since 2002 has been hastily implemented and has led to inconsistent results. The period under review was marked by the prolongation of the acute conflict between the executive and legislative branches. Democracy in Peru had a turning point in which some democratic institutions have sought to prevail over others through the use of constitutional mechanisms, such as the confidence motion, ministerial questioning, ministerial censures, impeachments, the dissolution of Congress and the coup d'état. The country is experiencing a cycle of political instability that started in 2016, with six different presidents having served in approximately seven years. This tension has been exacerbated since the 2021 elections, leading to a belligerent relationship between the government and opposition forces during Castillo's term in office. On December 7, 2022, President Castillo faced his third impeachment motion. Although there were not enough votes to approve the motion, Castillo staged a coup d'état, but this failed because of broad opposition from Congress, the judiciary and the military.

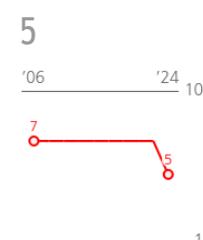
At the regional level of government, the 2022 regional elections were held efficiently. The recurrent political confrontation at the national level diverted attention from the performance of local and regional institutions. In recent years, the Public Ministry has been investigating local and regional authorities for influence peddling, corruption, criminal organization and offenses against public administration.

Nearly all influential political actors accept Peru's democratic institutions and regard them as legitimate. However, commitment to these institutions needs strengthening, as irresponsible behavior and an excessive level of short-term political calculation have put democratic governance at risk. These are byproducts of weak political parties and a dysfunctional political class with populist, demagogic and extremist trends. Parliament and the executive branch have repeatedly stretched the provisions of the constitution in order to prevail over the other. The extreme polarization of the political arena has spread and taken root in both the leftist and right-wing sectors. On the one hand, the right-wing sector asserted without foundation that electoral fraud had taken place, with the goal of disqualifying and delegitimizing the elected government of Pedro Castillo (and the electoral authorities). On the other hand, the

Performance of democratic institutions



Commitment to democratic institutions



extreme leftist faction promotes the establishment of a constituent assembly and the closure of Congress, though these proposals are not constitutionally feasible. The left-wing sector also downplayed Castillo's coup d'état, while in this case, the leaderships of the armed forces and the judiciary immediately declared their support for constitutional order.

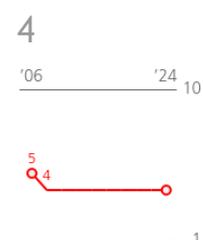
5 | Political and Social Integration

Peru's party system exhibits a remarkably low level of institutionalization, even by Latin American standards. The country experiences high levels of political fragmentation and volatility, and the system lacks a strong foundation within society. The 2021 general elections further intensified the divide between Lima and the hinterland, particularly the southern regions, resulting in an extremely polarized electoral landscape. Political parties in Peru are characterized by weakness and a focus on individual personalities, lacking both legitimacy and broad membership bases. The majority of national parties in Peru are informal alliances without organized structures, formal programs or clear ideological principles. These parties center around individuals who have little interest in cultivating party organizations.

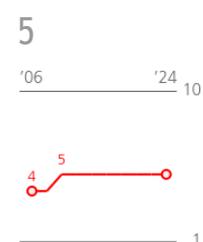
The 2021 general elections further exacerbated party fragmentation, as 10 parties and party alliances won seats. However, weak party identification was seen to its fullest extent months later when the national parliament fragmented into 14 political parties. Moreover, extreme political polarization has led to the replacement of traditional parties by new political actors with more extreme stances, leaving the political center out of the electoral contest. In the right-wing sector, the Christian People's Party (PPC) has been replaced by Renovación Popular (RP) led by Rafael Lopez Aliaga, the current mayor of Lima. On the other hand, in the leftist sector, Juntos por el Peru (JP) headed by Veronika Mendoza, has been overshadowed by Peru Libre. Additionally, the 2021 national elections showed that political parties achieved extremely low percentages of the electoral vote, with this sum decreasing year by year. The belligerence, fragmentation, indiscipline and personalism that characterized the political parties during the review period have weakened their ability to establish political ties with the Peruvian population, even under clientelistic schemes.

Peru's landscape regarding associations and interest groups is characterized by institutional weakness and a high level of heterogeneity. Consequently, it is extremely difficult to aggregate and articulate broad societal interests, and different interest groups find it difficult to cooperate. The spectrum of interest groups ranges from business and professional associations to unions, social movements and community organizations. Business groups are far better organized, well-represented in Lima, and more influential than labor unions and other civic organizations. During the period under review, the National Confederation of Private Business Institutions

Party system



Interest groups



(CONFIEP), the Peruvian Institute for Business Management (IPAE), the Private Anti-Corruption Council and the Entrepreneurs for Integrity Group actively participated in the political sphere. Additionally, civil society organizations such as Transparency International have successfully organized spaces for citizen participation and coalition building.

Unions have been severely weakened by economic liberalization and have lost their political influence; a trend that has been exacerbated by the large share of workers employed in the informal sector. Strikes in the private sector are less common than in the public sector. Additionally, informal organizations have positioned themselves as significant societal actors that are relatively well-organized and have a better reach than other interest groups. For example, associations of informal bus drivers and non-accredited universities, among others, have successfully lobbied for specific public policies that could benefit them. However, in recent years, social protests have predominantly been organized by local communities affected by the extractive industry. For most Peruvians, the preferred method of expressing demands is not through political 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 significant gap between citizens' high expectations – nourished by both populist and non-populist politicians – and the subsequent disappointment created by the often inadequate or unsatisfactory political outcomes, such as insecurity, corruption, discrimination and unchanged levels of inequality.

According to the Latin American Public Opinion Project (LAPOP), 50% of survey respondents in 2021 favored democracy over any other form of government, a figure that was significantly lower than the Latin American average of 62%. The same survey found that support for an authoritarian regime under certain circumstances reached 52% in 2021, surpassing the Latin American average of 40%. Additionally, only 21% of respondents expressed satisfaction with democracy in 2021, placing Peru ahead of Haiti at 11% but still well below the Latin American average of 43%. The share expressing trust in elections stood at 33% in 2021, which was measured in the context of the general elections held during that year and was below the regional average of 43%.

According to Latinobarómetro 2021, the level of popular trust in specific institutions is generally low and mostly below the average of the Latin American countries surveyed. However, some exceptions exist. For example, the share of people expressing trust in the election authority stands at 32% (Latin American average: 31%). The share expressing trust in the government was 16% (Latin American average: 27%), while the share for parliament was 7% (Latin American average: 20%), for the judiciary 16% (Latin American average: 25%) and for political parties

Approval of
democracy

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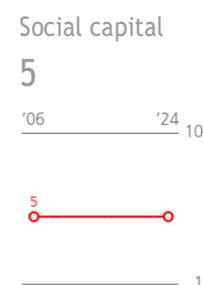


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7% (Latin American average: 13%). These figures represent some of the lowest levels of trust in Latin America. On the other hand, the church, which 63% of the public trusts (Latin American average: 61%), and the military, which 47% trust (Latin American average: 44%), are the most trusted institutions.

There is a very low level of mutual trust in 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 across the country, and most of them are temporary and spontaneously formed. Partly because of the long-lasting spiral of impoverishment and the growth of the informal sector inherited from the crises in the 1980s and 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.

According to Latinobarómetro 2021, the level of interpersonal trust in Peru is extremely low (10%; Latin American Average: 12%). LAPOP 2021 reported that 66% of Peruvians considered others in their own community to be “very/somewhat trustworthy.” In this sense, the lack of trust between individuals and the pursuit of short-term goals undermine the construction of long-lasting social capital.



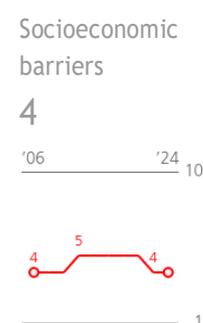
II. Economic Transformation

6 | Level of Socioeconomic Development

Persistent state weakness jeopardizes socioeconomic development. In addition to poverty-driven disparities, issues like social exclusion and marginalization remain prevalent, particularly in the highlands and the Amazon basin, where the majority of the Indigenous population resides. These problems primarily stem from historical socioeconomic disparities, gender gaps and cultural discrimination. Peru was ranked 84th out of 189 countries in the Human Development Index (HDI) 2021, with a score of 0.762 (compared to a global average of 0.732). The country's Gini index score stood at 43.8 in 2020. Furthermore, Peru's Gender Inequality Index score improved modestly from 0.409 in 2020 to 0.380 in 2021 (a lower value indicates reduced inequality). Despite its economic recovery from the COVID-19 pandemic, Peru has not made significant strides in closing inequality gaps.

Macroeconomic soundness and proper management of public finances allowed, in part, for a significant reduction in poverty rates in the 2000s, according to the National Institute of Statistics (INEI). The overall poverty rate declined from 54.7% in 2001 to 20.7% in 2016. Poverty also decreased at a higher rate in the rural regions of the highlands (Sierra) and the lowlands (Selva); however, it remains significantly more prevalent in rural areas than in urban centers.

Question
Score



Nevertheless, the slowdown in growth rates, caused by the decline in commodity prices and the limitations of the Peruvian development model, has resulted in a deceleration and even a reversal of the trend toward poverty reduction. As a result, the poverty level increased to 25.9% in 2021, with increases observed in both urban (22.3%) and rural areas (39.7%).

Economic indicators		2019	2020	2021	2022
GDP	\$ M	228325.9	201947.6	223717.8	242631.5
GDP growth	%	2.2	-10.9	13.4	2.7
Inflation (CPI)	%	2.3	2.0	4.3	8.3
Unemployment	%	3.4	7.2	5.1	3.7
Foreign direct investment	% of GDP	2.1	0.4	3.3	4.5
Export growth	%	0.3	-16.4	19.2	5.9
Import growth	%	1.7	-15.4	26.3	4.2
Current account balance	\$ M	-1282.0	2235.1	-5063.8	-9908.2
Public debt	% of GDP	26.9	35.0	36.4	34.3
External debt	\$ M	64247.3	73549.2	87464.5	-
Total debt service	\$ M	6590.3	6436.0	5247.4	-
Net lending/borrowing	% of GDP	-2.1	-9.6	-3.3	-
Tax revenue	% of GDP	14.5	13.2	16.1	-
Government consumption	% of GDP	13.2	16.1	13.9	13.5
Public education spending	% of GDP	3.8	4.2	4.0	3.9
Public health spending	% of GDP	3.3	4.3	-	-
R&D expenditure	% of GDP	0.2	0.2	-	-
Military expenditure	% of GDP	1.2	1.3	1.2	1.2

Sources (as of December 2023): 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. Labor and capital are free to move across borders. However, the informal sector is quite large and has remained stable in size over the years. 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. About 70% of the Peruvian labor force is still working in the informal sector, accounting for approximately 30% of GDP. According to the International Labor Organization (ILO), 68.4% of all jobs are generated within the informal economy. The informal employment rate in Peru increased from 75.2% in 2020 to 76.1% in 2022, according to INEI, reaching its highest peak in nine years.

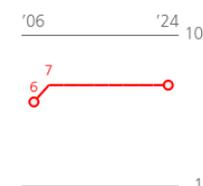
On the other hand, Peru implemented the majority of structural market-oriented reforms in the 1990s and has maintained them since the turn of the new century. The competition framework was strengthened following the free-trade agreement with the United States, which began in 2009. This has led to successive smaller reforms regarding state capabilities, infrastructure and the structural imbalances caused by the large informal sector. While there are still a few goods and services with regulated prices, such as public tariffs for electricity and water services, currency convertibility is guaranteed. Additionally, both domestic and foreign investors are afforded equal treatment before the law in all economic activities. Even under left-leaning presidents Humala and Castillo, who were elected based on political platforms that were relatively critical of neoliberal reforms, the market-oriented national policy has prevailed.

Nonetheless, there have been some policy initiatives that challenge the market consensus. For instance, withdrawals have been made from the workers' compensation fund for length of service (CTS) and from pension savings (AFP). Additionally, some political parties that previously supported market-oriented policies are now adopting populist positions and calling for market interventions, such as price controls.

On November 4, 2022, the Constitutional Court determined that Law 31125 is constitutional. This means that Congress has the authority to initiate spending for specific purposes. This resolution poses a threat to budgetary stability and establishes a dangerous precedent for market-oriented policy.

Market
organization

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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 collusive practices and abuses of dominant market positions. The Institute for the Defense of Competition and Intellectual Property (Indecopi) is the competition agency responsible for all sectors of the economy except telecommunications, and it has the power to sanction abusive acts associated with dominant market positions or restrictive market practices. Indecopi, which represents Peru in the International Competition Network, has endured through many administrations over the last 20 years, experiencing periods of greater autonomy and strength as well as periods of relative decline. For example, in 2021, the Castillo government appointed Julián Palacín Gutiérrez, a contributor to his electoral campaign and a figure with possible conflicts of interest, as the head of Indecopi.

The OECD concluded that Peru has an active competition regime in line with internationally recognized standards and practices but lacks regulation on mergers. However, in December 2019, under the Vizcarra administration, Congress approved the Law on Prior Control of Business Mergers and Acquisitions, an initiative that sparked extensive debates among political leaders, economic actors and regulatory agencies. The new regulation associated with this law was published and took effect in March 2021. Additionally, in the same month, the regulation for the antitrust law was published and implemented. This initiative grants Indecopi and the Superintendency of Banks and Insurances (SBS) the authority to conduct prior control of business concentration operations, among other measures.

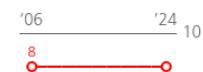
The Congress elected in 2020 has also implemented several initiatives that jeopardize the free market and free competition, adopting populist measures in an alleged effort to protect citizens and consumers during the COVID-19 pandemic. For example, the legislature passed a law that penalizes the hoarding and speculation practices of companies that exploit their dominant position in the market. Furthermore, Congress approved legislation that establishes limits on bank interest rates, granting the central bank the authority to determine the minimum and maximum rates that banks may impose on their clients.

Peru has extensively deregulated foreign trade since the 1990s. There are no fundamental state constraints on free trade. This particularly applies to the treatment of foreign investments and securities holdings. Previous governments had eliminated all restrictions and controls on payments, transactions, transfers and the repatriation of profits. The free-trade agreement with the United States, which went into effect on February 1, 2009, represented a significant step forward in this area.

Peru has also signed bilateral free-trade agreements with Chile, Canada, Singapore, China, Cuba, Mexico, Panama, Japan, Korea, the United Kingdom and Thailand, as well as regional free-trade agreements with the European Free Trade Association (EFTA), the Andean Community, the Comprehensive and Progressive Agreement for

Competition policy

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Liberalization of foreign trade

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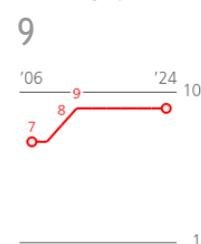
Transpacific Partnership (CPTPP), Mercosur and the European Union. These agreements approximate 100% of Peru's international trade. Peru's average tariff has been reduced steadily from almost 70% at the end of the 1980s to 2.5% in 2012; the country's simple average MFN applied tariff was 2.4% in 2021. 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 Asia-Pacific Economic Cooperation (APEC) meeting in 2016. The Global Competitiveness Index 2019 ranked Peru 16th out of 141 countries in terms of its trade openness. Furthermore, in 2021, Peru received a formal invitation from the OECD to join the organization as a permanent member.

Peru's banking system is strong and adheres to international standards, with effective supervision and minimum capital requirements. Both domestic and foreign capital have access to open capital markets, which have demonstrated resilience in handling sudden stops and reversals in capital flow. The government has implemented measures to enhance bank supervision in accordance with the principles of the Basel II accord. While these measures have not yet reached the highest international standards, the Superintendency of Banks and Insurances (SBS) diligently follows existing international standards. Capital requirements for all types of risk, including credit, market and operational risk, have been introduced in alignment with Basel II guidelines. The latest World Bank data confirms the introduction of these measures, with non-performing loans accounting for 4.1% of all loans in 2020 and a bank capital-to-assets ratio of 9.1% in 2020. The extent of dollarization in the economy, a significant concern until 2014, has somewhat improved, with U.S. dollar deposits accounting for 36.9% and dollar liquidity in the banking system standing at approximately 31.0% of the whole as of November 2022.

Peru's banking system proved remarkably resilient in the face of the global financial crisis, not only due to weak ties with fragile elements of the international financial system but also as a result of successful coordination between the Ministry of Economy, the central bank (BCRP) and the SBS. At the start of President Castillo's left-leaning administration, as a means of reassuring national and foreign investors and economic actors, Economy Minister Pedro Francke asked Socorro Heysen and Julio Velarde to continue serving as the respective heads of the SBS and BCRP for another term. Both agreed, ensuring continuity in Peru's markets. Together, the BCRP and SBS effectively ensured liquidity for the financial sector and capital markets while minimizing systemic risks. Over the past decades, substantial levels of official reserves, strong indicators of financial stability within the banking system, and limited reliance on external capital by banks have helped maintain conditions of stable liquidity.

Banking system



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8 | Monetary and fiscal stability

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%. Despite the country's repeated periods of sociopolitical crisis, this trend has been largely stable. Over the last two years, the inflation rate increased from 2.0% in 2020 to 4.3% in 2022. Additionally, inflation and foreign exchange policies are pursued in concert with other economic policy goals and are institutionalized by the largely independent central bank (BCRP). In contrast to the clientelistic practices and populist rhetoric that characterized Castillo's term in office, the BCRP has maintained its soundness and prestige under the leadership of well-known career bureaucrat Julio Velarde, who has headed the bank for 16 years. Additionally, both the executive and legislative branches have chosen some of the most respected and highly skilled economic experts from Peru to serve as members of the executive board of BCRP.

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. During the review period, the exchange rate did not change substantially. According to ECLAC, the real effective exchange rate index (2015 = 100) has remained fairly stable throughout the past decade, though a slight decline in the sol's value has been evident recently (2020: 98.8; 2021: 110.6; 2022: 106.6).

The strength of the Peruvian monetary policy, as well as the country's macroeconomic stability, was on display during the COVID-19 pandemic. The government was able to sell \$3 billion in sovereign bonds on the international market to finance a broad economic stimulus equivalent to 12% of GDP. The bonds were well received by buyers, and Peru received proposals for \$25 billion at low interest rates. This example demonstrated that Peru has not lost international confidence in its financial stability. However, in October 2022, the rating agency Fitch Ratings lowered Peru's long-term issuer rating in local currency to BBB- with a stable outlook, compared to the previous rating of BBB+ in 2020, due to the impact of the coronavirus pandemic and continuous political turmoil. In its report, Fitch points out that "private investment has fallen, a fiscal liability has materialized, and policy implementation has slowed as a result of the political volatility."

Fiscal stability was largely maintained under the previous administrations. While public debt amounted to 20% of GDP in 2013, it has successively increased to levels above 30%, reaching 35.9% in 2021. In recent years, despite the slowdown in economic investment, Peru has managed to use accumulated reserves to mitigate the impact of external economic 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, regardless of the government in office. According to ECLAC, the fiscal balance experienced fluctuations in recent years due to the COVID-19 pandemic (deficits of 1.4% of GDP

Monetary stability

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Fiscal stability

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in 2019, 8.4% in 2020 and 2.5% in 2021). Except for 2020, government consumption has remained relatively low at around 13% of GDP (2020: 16.1%; 2021: 14.0%). Standard & Poor's estimates that the fiscal deficit will decrease over the period from 2022 to 2025, with an average deficit of 1.9% of GDP.

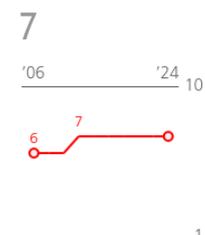
During the pandemic, the government had the ability to increase public spending to counteract the effects of COVID-19 without being unduly concerned about fiscal imbalance. The perception is that the Ministry of Economy and Finance (MEF) effectively managed the issue of fiscal solvency and successfully avoided seriously compromising the country's fiscal resources. In fact, the fiscal orthodoxy of the MEF has endured, as is illustrated by the decline in perceived country risk. In 2022, the Register of Operative Risk and Corruption reported that most of the country's ratings on risk indexes have been downgraded from "high" to "low" (where "low" means less risk for economic operations). Additionally, the Fiscal Council, established in 2013, is still functioning, providing academic support for economic decisions made by the MEF and characterized by notable appointments, which are relevant for fiscal stability.

9 | Private Property

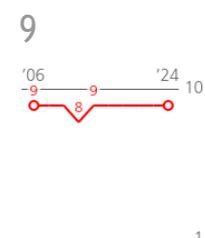
Former President Castillo made campaign promises that threatened current private property regulation, including expropriation threats. While some capital left the country after Castillo's election, ultimately there was no significant change. Property rights have greatly improved since the 1990s, supporting the new dynamics of the market economy. Regulations and rights related to the acquisition, use and sale of property are well defined in law, but there are occasional issues with implementation and enforcement. The judicial and administrative systems remain weak and inefficient, hindering individuals and businesses' ability to enforce contracts. Property registration is relatively easy, but according to the Global Competitiveness Index 2019, Peru was ranked only 121st out of 141 countries in terms of the protection of property rights and 124th in terms of intellectual property protection. Additionally, in certain areas of the country, few landowners possess formal titles to their land, or those titles are unclear. In areas inhabited by Indigenous populations, land titles are often undefined, ambiguously defined or incompatible with Indigenous cultural norms. Moreover, in recent years, some instances of land trafficking have involved political figures and public officials at various levels of government.

Since the market reforms of the 1990s, state-owned enterprises (SOEs) have been privatized. Private companies are seen as the primary drivers of economic production and are given appropriate legal protections. The second García administration (2006 – 2011) placed significant emphasis on the private sector as a growth engine and sought to attract private investment across various sectors, particularly within the thriving mining industry, which generates substantial fiscal revenues. The Humala government (2011 – 2016) largely continued down this path, responding to pressure from private sector organizations. The Kuczynski (2016 – 2018) and Vizcarra (2018

Property rights



Private enterprise



– 2020) administrations were committed to advancing private business interests and prioritizing anti-bureaucratic policies. In the context of the pandemic, the ambitious “Reactiva Peru” program was launched to provide liquidity to companies that were harmed by the effects of COVID-19.

In the case of the Castillo government (2021 – 2022), there was no clearly defined plan designed for private enterprise. The same is true of the Boluarte government, which, by the close of the review period, was embroiled in a troubling political crisis that was impacting the business environment. Despite these developments, a few publicly owned enterprises still remain, such as Petro Perú. This has invested significant resources in questionable projects, but privatization is not currently being considered. According to the Allianz Risk Barometer 2023, Peru presents a moderate country risk for enterprises, as it has “still solid fundamentals but the ongoing political crisis poses a major risk.”

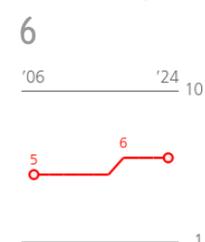
10 | Welfare Regime

Welfare institutions intended to mitigate social risks associated with a neoliberal economy exist, but they vary significantly based on regional and social groups. Peru’s hybrid welfare regime is designed to be comprehensive, although it is de facto limited and does not reach all segments of the population. This situation is worsened by the presence of a large informal sector. The deficiencies are particularly pronounced in rural areas, reflecting Peru’s geographical division into the Pacific Coast, the Andes and the Amazon regions. The social security system in Peru operates on three main pillars: a mandatory social insurance system, an alternative private system based on individual capital, and a state-sponsored assistance system that covers the remaining individuals. The insurance system provides payments in cases of illness, pregnancy, disability, old age and death.

The health care system is primarily composed of the noncontributory comprehensive health insurance system (SIS), which covers more than half of the population; the contributory health insurance system EsSalud (about 25% to 30%); and private insurance plans, with an additional health insurance system for the armed forces and the national police. Insurance coverage increased from 37% in 2004 to 94% in 2020, mostly due to the expansion of SIS.

The pension system consists of a public pension system and a private system for managing pension funds. The public system is managed by the State Office of Pension Funds (ONP), while the private system is managed by pension fund administrators (AFP), with monthly contributions paid into individual accounts. Employees are allowed to choose the system to which they will contribute. All aspects of the system provide pension amounts that are far below those of developed economies. According to the Lima Chamber of Commerce (CCL), about half of Peru’s economically active population (8.5 million workers) are not affiliated with any pension system.

Social safety nets



Since the Humala government (2011 – 2016), the Ministry of Development and Social Inclusion (MIDIS) has been responsible for promoting inclusion and social equity, as well as protecting vulnerable populations. MIDIS has implemented social programs such as “Juntos” (a conditional cash transfer program) and “Pensión 65” (a grant for adults over 65 living in extreme poverty). The impact of these social programs, among others, was celebrated during their initial phase of implementation, but their effect has weakened over time. MIDIS has lost importance and political influence in comparison to other key actors. Meanwhile, critics have argued that the MIDIS programs have eased the country’s poverty somewhat but have failed to address the underlying structural problems. Since the COVID-19 pandemic, MIDIS has regained some visibility and importance, as it was tasked with distributing economic benefits to the most vulnerable population and to self-employed individuals. The administrations of Vizcarra (2018 – 2020), Sagasti (2020 – 2021) and Castillo (2021 – 2022) all introduced modest monetary benefits to mitigate the adverse effects of the pandemic.

Mechanisms to compensate for inequalities exist but are limited in scope and quality given the extent of disparities, especially poverty and income inequality. Equal opportunity is limited, and access to public services is uneven. This inequality is often linked to discrimination against the Indigenous population. In general terms, the most disadvantaged groups in the country are the rural poor – and within the rural poor, women and Indigenous people in particular. To promote the empowerment of discriminated groups, Peru has introduced quotas and affirmative action policies in the political sphere that seek to increase the political representation of women, young people and Indigenous people. However, the implementation of quotas and anti-discrimination policies remains problematic, with policies often having limited impact.

The main social policies that promote equal opportunity are those related to education. In 2020, the literacy rate in Peru was 94.5%, one of the highest such scores in Latin America and a significant achievement for the Peruvian education system. However, high dropout rates, unequal access to education and disparities in educational attainment between different socioeconomic groups lead to social inequalities. The highest percentage of children who do not participate in the school system is associated with Indigenous groups. According to UNICEF, success is even more elusive for rural students, especially if they are Indigenous and speak languages of Amazonian origin. Additionally, COVID-19 has exacerbated educational inequalities. The Ministry of Education (MINEDU) introduced the “Aprendo en casa” (“I learn at home”) program, an initiative to promote remote teaching. In practice, this strategy has discriminated against thousands of poor children and young people, particularly in rural areas with limited or no access to the internet.

Equal opportunity

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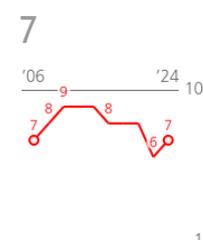
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11 | Economic Performance

In recent years, the Peruvian economy has felt the impact of declining mineral prices, leading to a decline in foreign investment. However, despite this external context, Peru's economic policy demonstrates a solid foundation. While the Peruvian economy is experiencing slower growth than in previous years, it still surpassed the Latin American average until the onset of COVID-19. In 2021, the GDP per capita (PPP) was \$13,895, representing a significant and persistent increase over the past decade. The growth in GDP per capita reached 12.1% that year, the second-highest rate recorded in Latin America, but slowed to 1.5% in 2022. The inflation rate rose from 2.0% in 2020 to 4.3% in 2021. Furthermore, public debt as a percentage of GDP, which had reached 26.9% in 2019, increased to 35% in 2020 and 36.4% in 2021. Tax revenues, which amounted to 14.5% of GDP in 2019, declined to 13.2% in 2020. Foreign direct investment as a percentage of GDP decreased from 2.1% in 2019 to 0.4% in 2020. According to the World Bank, the unemployment rate experienced a significant decrease from 7.2% in 2020 to 4.8% in 2021. The IMF forecast a 2.6% increase in GDP for 2023.

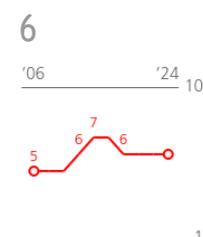
Output strength



12 | Sustainability

All recent governments have been torn between Peru's seemingly successful resource extraction model and demands for greater sustainability. To date, administrations have given preference to the former. However, environmental concerns and regulations have gained ground, though they have at times been half-heartedly followed or implemented. During the first half of Humala's administration (2011 – 2016), environmental policy was one focus of government initiatives. Institutional arrangements were refined to comply with the country's 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. Additionally, the government approved the National Environmental Education Policy in December 2012. The Ministry of Environment (MINAM) was strengthened with the intention of reducing its responsiveness to extractive industry pressures. And the COP20 Conference was held in Lima in 2014. Nevertheless, successive governments have had serious difficulties containing the growth of informal extractive activities, mainly logging and illegal mining.

Environmental policy



The Climate Change Strategy to 2050 (Estrategia Nacional ante el Cambio Climático al 2050, ENCC) – is currently in force, empowering the state to take actions to counteract the detrimental effects of climate change on the Peruvian territory. Since 2018, Peru has had a framework law on climate change that aligns with the

commitments of the Paris Agreement, with implementing regulations for this law adopted in January 2020. However, environmental policy lost support among political actors and stakeholders following the outbreak of social projects in 2019 over the Tía María (Arequipa) and Las Bambas (Apurímac) mining projects. The Vizcarra administration created the Commission for Sustainable Mining Development, which proposed regulatory and management measures, as well as policies to make the mining industry more sustainable. In contrast, during the Castillo government, which was characterized by a high level of cabinet turnover, environmental policy appeared not to be a high government priority. In fact, the former president opted not to attend the COP21 and COP22 meetings. Additionally, the parliament did not ratify the Escazú Agreement, an international treaty that promotes the protection of natural resources and the accountability of the state with regard to extractive projects.

Education is one of the most problematic areas with regard to the sustainability of the Peruvian model. Public spending on education increased from 3.8% of GDP in 2019 to 4.2% in 2020. Access to education is fairly broad, but attention is needed to address the quality of education and the prevalence of socially differentiated dropout rates. According to the INEI, in 2022, 90.1% of children had access to early education, 97.6% had access to primary education and 85.7% had access to secondary education. Qualitative gaps exist between different social sectors in terms of school dropout rates, with rural and Indigenous students being particularly disadvantaged. While Peru has seen the largest improvement in PISA evaluation scores among Latin American countries, its scores still remain at very low levels. In the 2021 UN Education Index, Peru was ranked at 79th out of 182 countries with a score of 0.757.

Efforts to modernize basic education, initiated under the García government (2006 – 2011), lost momentum amid political conflicts and the COVID-19 pandemic. The continuity of reform in education now faces resistance from conservative sectors that are mobilizing against “gender ideology.” In addition, the National Superintendency of Higher University Education (SUNEDU) has been challenged by initiatives from the parliament, such as Law 31520, that have aimed to weaken its oversight role and its task of providing operating licenses to public and private universities. Before the COVID-19 pandemic, public spending on R&D was 0.12% of GDP, which is extremely low compared to the Latin American average. In 2020, Peru’s overall R&D expenditure was 0.2% of GDP, an increase from previous years. In the 2022 public budget, the government proposed to allocate about PEN 127 million to CONCYTEC, although this amount is less than one-third of the R&D expenditure of countries such as Chile and Colombia.

Education policy /
R&D

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Governance

I. Level of Difficulty

Structural constraints indicate a medium level of difficulty, with both positive and negative factors to be considered. Negative factors include Peru's relatively modest level of economic and social development (although Peru is categorized as an upper middle-income country); its structurally ingrained poverty and inequality; its inefficient state administrative and legal institutions; significant ethnic, regional and social heterogeneity; severe infrastructural deficiencies in the Andes and the Amazon; its weak civil society; its large informal sector; vulnerability to changes in the world economy; recurring natural disasters such as earthquakes and phenomena associated with El Niño; and the emerging effects of climate change.

Yet there are also positive factors that brighten the picture somewhat. In the 1990s, the state re-established its monopoly on the use of force, although recently it has been challenged across the country by criminal activities that defy the rule of law and have begun to influence the political sphere. Heterogeneity has not led to severe ethnic or religious conflict, and social tensions have not escalated dramatically despite social segmentation. Despite the educational system's problems, most Peruvians are able to access basic levels of education (90.1% of Peruvians have access to early education, 97.6% to primary education, and 85.7% to secondary education).

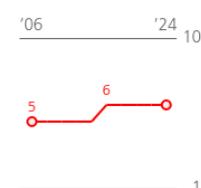
In addition, international events had a detrimental effect on Peru's efforts to recover from the COVID-19 pandemic. The conflict between Russia and Ukraine has raised the price of fertilizers worldwide.

Peruvian civil society is still feeling the impact of the crises in the 1980s and 1990s. Hyperinflation, terrorism, the collapse of the party system, economic liberalization and the authoritarian government led by Alberto Fujimori significantly eroded social trust and Peru's social fabric, which have yet to fully recover. Despite frequent mobilizations and active engagement by pressure groups, the civil society traditions that emerged during the final years of the reformist military regime (1968 – 1980) continue to be quite feeble today.

Overall, civil society in Peru is not robust. It is plagued by scarce organizational resources and is highly fragmented. The absence of strong actors capable of channeling the diversity of social demands, such as stable parties or large societal organizations, further contributes to this problem. Furthermore, most common

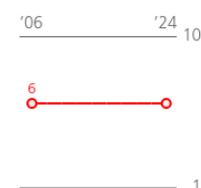
Structural
constraints

6



Civil society
traditions

6



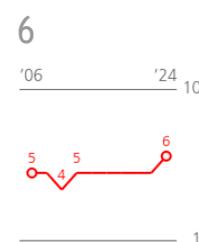
expressions of civil society are not organized but are instead rather spontaneous and episodic. An example of this is the mobilization against the Merino government in 2020. However, there have been some significant developments in recent years. First, a more liberal wing within civil society has intensified its watchdog work, monitoring human rights issues, extractive activities and the government's reform agenda. Second, participation in civil society has grown, resulting in a diverse landscape of activist groups and a significant increase in demands being voiced at various levels, including the national, regional, provincial, local and communal. For instance, the women's movement "Ni Una Menos" (Not One [Woman] Less) denounces gender violence, while the ultraconservative group "Con Mis Hijos No Te Metas" (Do not mess with my children) criticizes "gender ideology." Both of these activist groups have acquired a certain degree of visibility and political influence.

Various mobilized groups and protest movements have grown stronger in recent years and have occasionally resorted to violence to express their claims. The police and the military – the latter empowered by state-of-emergency decrees to intervene in instances of public unrest – have also occasionally contributed to the escalation of conflicts. Additionally, radical political actors have shown a growing interest in mobilizing ethnic or social groups. These situations point to some degree of social and political tension, indicating that Peru remains somewhat divided. Social unrest has been fueled by the expansion of mining activities in areas that previously had little experience with extractive industries, driven by a boom in commodity prices. The level of ethnic and social conflicts has slightly decreased due to a slowdown in significant mining projects, which can be attributed to the decline in commodity prices and efforts to prevent social opposition to these projects.

In addition, the tense relationship between the legislative and executive branches has deepened political polarization. The conflict between the executive and legislature has strongly marked the political system in recent years, leading to the interruption of presidents' terms in office. The current instability has hindered the formulation and implementation of social policies, as well as the discussion of electoral and political reforms.

For several years, the political conflict in the country has revolved around the Fujimorista/anti-Fujimorista cleavage, a confrontation that has polarized Peruvian society. However, this cleavage has lost relevance, with the most intense aspects of the conflict now located on a new axis: the Lima vs. the periphery cleavage. The 2021 general elections exacerbated this extreme confrontation due to discriminatory and racist rhetoric. On one hand, the southern parts of Peru are calling for political and social change through the use of a constituent assembly. On the other hand, the capital city embodies the establishment's efforts to protect itself. Political polarization has escalated into social conflict. According to the Ombudsman's Office, in December 2022, 704 protests were reported across the country, with most of them being politically charged conflicts. In the last two years, this type of protest has proliferated

Conflict intensity



in Peru, including mobilizations against the Merino de Lama government, as well as recent protests, some of which have turned violent, calling for early elections and the resignation of Dina Boluarte. The Lima vs. the periphery cleavage is increasingly leading to an escalation in violence and has resulted in more than 50 deaths and hundreds of wounded people.

II. Governance Performance

14 | Steering Capability

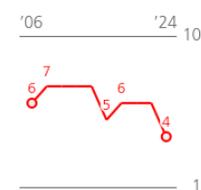
Under the Sagasti administration (2020 – 2021), three top priorities emerged: economic revival, continuity of the COVID-19 vaccination program, and the organization of transparent and fair elections. First, as a means of stimulating economic recovery, the government introduced business support funds and public programs such as Trabaja Perú, which generated over 120,000 temporary jobs for vulnerable individuals. Second, the continuity of the vaccination program initiated during the Vizcarra administration was ensured, with 258,000 people receiving vaccinations every weekend. However, President Sagasti also had to deal with the Vacunagate scandal, in which high-ranking officials, former ministers, former President Vizcarra and his relatives received irregular vaccinations. Lastly, on April 11, 2021, general elections were conducted with transparency and efficiency.

During the Castillo administration (2021 – 2022), the executive faced significant challenges in determining its priorities. The frequent turnover in the cabinet during Castillo's tenure suggests that he struggled to assemble the most suitable team. This turnover only heightened conflicts with the legislative branch. As an electoral candidate, Pedro Castillo made promises regarding the Segunda Reforma Agraria (Second Agrarian Reform), rural development and free access to public universities, among others. However, once in office, these campaign promises were neglected, and the executive failed to establish strategic objectives or formulate public policies to address the needs of the vulnerable population. There was a clear issue with the lack of prioritization. In contrast to Sagasti's administration, which demonstrated a strong ability to prioritize and organize policies, the Castillo administration's capacity in this regard was close to nonexistent. The Boluarte administration (2022 – 2023), spanning only two months during the review period, faced a similar situation. Initially, it aimed to prioritize the organization of transparent and fair elections in 2024, as well as economic revival. However, the administration has been marked by violent protests and increasing political polarization throughout the country.

Question
Score

Prioritization

4



Even before the COVID-19 pandemic, the state demonstrated weakness and a lack of technical expertise in implementing its priorities, including difficulties in allocating funding to various sectors. This resulted primarily from the political inexperience of government officials and the weakness of political parties. Additionally, the instability in high-level public positions has had a negative impact on the state's ability to carry out its plans. The political crisis and allegations of corruption against the executive resulted in the departure of experienced officials from the public sector, either through resignation or a withdrawal from government projects. Furthermore, Peru still lacks a formal civil service career track, which hinders the development of a competent bureaucracy capable of implementing public policies.

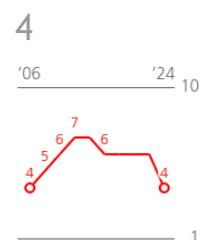
During the Sagasti administration, the president successfully assembled a technocratic cabinet and pursued political strategies involving negotiation with various actors. In fact, this government was noted for its prompt execution of public policies, including the continuation of the vaccination program initiated under the Vizcarra administration. In contrast, Castillo's presidency undermined the public administration with the appointment of ministers and high-ranking officials lacking technical expertise and political experience. The inefficient implementation of public policies was a prominent issue during Castillo's tenure. For instance, according to the transparency portal of the MEF, in the first semester of 2022, 14 out of 19 ministries were unable to reach the 35% benchmark for the execution of public investment, which is a very low mark compared to the 50% execution reported in previous years.

The Castillo government has demonstrated very limited policy learning. The executive has attempted to promote initiatives through reactive responses to political events rather than by formulating a long-term policy agenda. Government initiatives have been impeded by several crises within the cabinets, resulting from conflicts between the executive and parliament. The cabinet's capacity for policy learning has been hindered by the frequent turnover of ministerial positions. When continuity has been achievable, the absence of political acumen and technical expertise among cabinet members has endangered significant reforms.

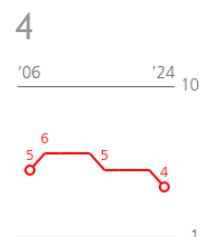
Since 2000, the average stay of a minister has barely exceeded 12 months. This trend has continued in recent years. Nevertheless, the Castillo government has established a new record. In 500 days, there were 73 ministers with an average duration of six days (less than a week). The high turnover of ministers was across the board and not concentrated in a specific sector. This extreme turnover shows the instability of the ministerial positions. On numerous occasions, the replacement of a minister implied a significant shift in policy orientation. Moreover, the Castillo administration was characterized by practices of political patronage and accusations of corruption, which further undermined any policy learning.

In addition, the health emergency produced by the COVID-19 pandemic again revealed the difficulties in shaking off institutional inertia within the Peruvian state. This is attributed to the limited capacity for innovation among authorities and officials. Successful strategies are often overlooked in favor of misguided ones.

Implementation



Policy learning



Consequently, there is a strong rigidity when it comes to policy learning, and entrenched interests maintain the status quo. This inflexibility partially accounts for the challenges faced by the country in containing the spread of COVID-19 among the population. Health measures that proved relatively successful in other countries could not be replicated in Peru, resulting in disastrous outcomes in managing the pandemic.

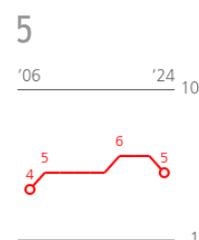
15 | Resource Efficiency

On average, the government mostly uses available human, financial and organizational resources efficiently, although not evenly. For more than two decades, Peruvian policymakers have shown concern for maintaining fiscal balance and macroeconomic soundness, resulting in comparatively low public deficits (2.5% of GDP in 2021) and debt (35.9% of GDP in 2021). However, the “second generation reforms” – related to state reform and efficient resource utilization – have not been fully implemented. Government expenditures are audited by the Comptroller General’s Office, but the labyrinth of Peru’s administration often prevents transparent auditing, especially of expenditures at the regional and local levels.

Substantial deficiencies persist in the area of human resources. Despite several attempts to reform the Peruvian bureaucracy, many observers perceive it to be an inefficient and corrupt institution, lacking in meritocracy. Government efficiency suffers due to a state administration with a low level of professionalization, particularly at the regional and local levels. Consequently, the National Civil Service Authority (SERVIR) was established in 2008 to enhance professionalism and transparency within the Peruvian civil service in the medium and long term. However, the significance of civil service reform has waned over the years, exacerbated by recent legislation enacted by the current parliament. In 2022, Congress passed a law permitting the indefinite and non-competitive incorporation of over 4,800 public employees into EsSalud. Some analysts estimate that this new bureaucratic layer will be exempt from performance obligations and cost more than PEN 117 million.

The public sector continues to face challenges with regard to spending capacities. While it has more financial resources than it did in previous decades, it lacks the ability to effectively utilize its allocated budget. During the first half of 2022, only 14 out of 19 ministries were able to execute as much as 35% of their budgeted public investment, which is significantly lower than the 50% execution rate reported in previous years. This demonstrated inability highlights significant budget spending problems within the state. Furthermore, the prevalence of clientelistic practices and corruption, both of which were characteristic of the Castillo government, has worsened implementation issues. Nevertheless, Congress’ populist tendencies have prevailed, resulting in the authorization of greater fiscal resources for regional governments and municipalities, despite their lack of capacity to effectively utilize these allocated budgets. Castillo’s government heightened the permeability of government institutions, as the cost of entry into the public sector was extremely low.

Efficient use of assets



Throughout the past decade, administrations in Peru have faced problems with conflicting objectives and incoherent policies. During the review period, the interim Sagasti government (2020 – 2021) had only a brief period of power but was characterized by its coherence and a highly technocratic cabinet. However, it inherited the confrontation between government and opposition from previous years. Nonetheless, President Sagasti managed to continue the vaccination program and launched new policies for economic revival. In contrast, the Castillo administration (2021 – 2022) could not find a way to establish a clear government orientation because it was surrounded by incompetent and incoherent high-ranking officials. There was a total disregard for existing practices as Castillo appointed ministers with very little executive experience. In fact, his term in office was characterized by clientelistic practices and corruption, as well as patronage, which worsened the government’s problems with policy orientation. For instance, in 2022, Katy Urgate was appointed as head of the Ministry of Women and Vulnerable Populations (MIMP). This public institution is in charge of overseeing gender issues in public policies. However, the new minister was an ultraconservative politician and a detractor of “gender ideology”; her appointment threatened the continuity of the implementation of gender equality policies.

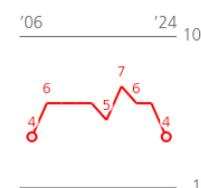
Corruption and impunity are two essential features that have characterized Peru’s political class and the public administration. Although the state has undertaken numerous initiatives to slow the advance of corruption, both at the national and subnational levels, it has been unable to find efficient solutions to this problem. Even the main institutions in charge of promoting anti-corruption policies – Congress, the Prosecutor’s Office (Fiscalía de la Nación) and the judiciary – have been involved in notorious cases of corruption in recent years.

There is no central institution responsible for investigating corruption, as elements of this task have been delegated to the Attorney General’s Office, the national police and government agencies such as the Ministry of Justice. Additionally, several specialized prosecutors have been installed to investigate cases of grand corruption. Furthermore, the Office of the Comptroller General has the power to issue provisions and regulate procedures against administrative corruption, and the High-Level Anti-Corruption Commission (CAN) was created in 2013 to oversee government anti-corruption efforts and strategies. However, CAN is nothing more than a space for articulation and coordination between public, private and civil society actors. Its objective is to propose short-, medium- and long-term policies aimed at preventing and combating corruption. Currently, it is an entity attached to the Presidency Council of Ministers (PCM).

Integrity mechanisms have been strengthened over time, at least on paper. Government expenditures are audited by the Comptroller General’s Office, although the labyrinth of Peru’s administration (there are about 1,500 public institutions) often prevents transparent auditing, especially of expenditures at the regional and local

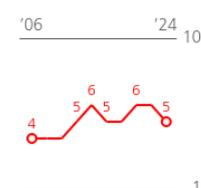
Policy coordination

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Anti-corruption policy

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levels. The Law on the Declaration of Interests requires high-ranking public officials to file asset declarations. In September 2020, Congress passed a law requiring political organizations to submit two financial reports on revenues and expenditures, one during the election campaign. It also stipulates that serious violations of the Political Party Financing Law will result in the suspension of the party's electoral registration. Additionally, political parties are required to provide the ONPE with access to their bank accounts so that it can verify the reports submitted. In public procurement, the law provides for criminal liability with regard to corrupt companies, and individuals who have been judged corrupt cannot enter into contracts with the state. Furthermore, access to information on state activities has improved for the public and media due to the Law on Access to Information and other regulations that aim to strengthen transparency.

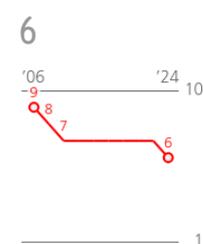
Nevertheless, despite these provisions, anti-corruption policy has faced problems due to political instability, delays in fiscal investigations and its use as a political weapon. It has become politicized in recent years, both in the justice system and in the media – a dynamic that has hampered the development of investigations. Moreover, the political crisis has created significant levels of instability, which has negatively affected investigations against former authorities and officials. Additionally, the Castillo government clearly demonstrated that serving administrations may not always enforce the anti-corruption policies that exist. By the end of 2022, the National Prosecutor had opened six fiscal files against former President Castillo and his close circle for corruption allegations. In addition, the CAN was not activated to oversee government anti-corruption efforts and strategies during that period. In fact, the Castillo administration was characterized by clientelistic practices and acts of corruption, which involved high-ranking officials, ministers and the former president himself.

16 | Consensus-Building

Until early 2021, during the Sagasti government, nearly all significant societal actors appeared to agree, at least in principle, on the importance of establishing a durable democracy and market economy as long-term strategic goals, even though they held diverging views on the priority of specific strategies. This consensus, which emerged in the 1990s, was notable considering Peru's historical instability, the fragility of its political system and the regional context. However, in the months that followed, the intense polarization between the Castillo government and the opposition in Congress eroded this consensus. In fact, the conflicts surrounding Kuczynski, Vizcarra and the Fujimorista majority in Congress since 2016 have significantly undermined efforts to build consensus.

Since the 1990s, there has been a broad consensus among Peru's most relevant political, social and economic elites regarding the need to promote a market economy. After Alberto Fujimori's resignation in 2000, the democratic process continued along orthodox market lines, despite some initial criticism from Alan García (2006 – 2011),

Consensus on goals



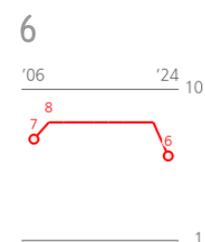
Ollanta Humala (2006 – 2011) and Pedro Castillo (2021 – 2022). During these years, Fujimori supporters and right-wing sectors in Congress sought to preserve the economic model of the 1990s. They backed García and controlled Humala, but after 2016, their opposition to Kuczynski, Vizcarra and Castillo endangered the model's continuity by weakening orthodox governments, which departed from the consensus that continued to prevail among the most relevant social, political and economic actors. Furthermore, in 2021, parliamentarians from the leftist and right-wing sectors began intensifying their populist rhetoric. In the economic sphere, the pro-market consensus has been endangered due to the weakening of the Ministry of Economy and Finance. Additionally, Congress has promulgated laws that undermine fiscal stability and worryingly increase public expenditure, such as a law that authorizes withdrawals from pension funds and the passage of a law that endows Congress with spending power, among others.

In general 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 – and indeed, 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.

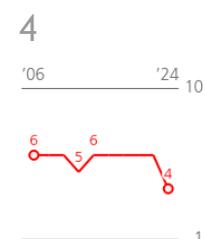
A growing concern is the rise of powerful interest groups associated with illicit and unofficial activities that are infiltrating political parties and gaining representation in Congress, exerting influence particularly at lower levels of government (for example, informal miners in Madre de Dios). Moreover, certain interest groups have secured parliamentary seats and are currently advocating for measures that would undermine the National Superintendency of Higher University Education, prolong permits for informal haulers and grant amnesty for fines. Additionally, highly conservative groups are gaining representation. These factions have garnered greater sway in recent years, possessing the ability to veto decisions and shape important political stances for influential political actors. Conversely, the weakening of political parties has facilitated the growing influence of special-interest groups, which can impede reform initiatives.

Given the potential for severe conflicts arising from unfulfilled demands and historical structural exclusions, Peru's political leadership has been partially successful in managing social-cleavage-based conflicts. However, it has failed to resolve some of the most salient conflicts, particularly in the area of resource extraction, which often generates protests. The low levels of legitimacy accorded to policymakers have had a negative effect in these cases. When political leaders try to mediate these conflicts, the situation becomes more polarized due to these representatives' limited credibility and the high degree of personalization within Peruvian politics. It is possible that social fragmentation is responsible for preventing major conflicts, rather than the ability of political leaders.

Anti-democratic actors



Cleavage / conflict management



In recent years, two kinds of political conflict have been seen: one centered around structural issues and another focused on more specifically political matters. The elections of 2011, 2016 and 2021 revealed a country fragmented along regional, urban-rural and social class lines. For example, in 2021, President Pedro Castillo gained his strongest backing in the southern and rural areas, as well as among the poor and extremely poor segments of the population. As a political outsider, he lacked ties to the social, political and economic networks of Lima. The second cleavage revolves around the levels of political support for or rejection of the Fujimorista legacy.

The 2021 general elections resulted in the emergence of relatively new divisions. First, within Congress, political parties have formed their own divisions. On one side is the division between right-wing parties and so-called communists, in which Renovación Popular, Avanza País, Fuerza Popular and others came together to denounce an alleged electoral fraud and oppose “communist” policies supposedly advocated by former President Castillo and his allies. On the other side is the division between leftist parties and the establishment division, in which Peru Libre and Juntos por el Perú have collaborated to pursue political and social change through a constituent assembly.

Secondly, there is the anti-establishment/establishment division. The intense political polarization has created a rift between the establishment represented by the capital city and the anti-establishment discourse supported by the southern regions of the country. The ongoing protests throughout Peru against the Boluarte government clearly demonstrate this division, as people from the south have demanded early elections, the resignation of President Boluarte and the establishment of a constituent assembly.

Peruvian politics have long been marked by the neglect of numerous social demands and a failure to deliver on promises. Peruvian parties are disconnected from civil society. Instead of purposefully addressing demands from civil society, the state still habitually reacts to protests. The political culture among Peruvian elites shows mistrust of and disregard for civil society participation, with Peruvian elites being reluctant to accept the legitimacy of social leaders and their organizations.

Given their political weakness, both the Kuczynski and Vizcarra administrations tried to legitimize their decisions by incorporating civil society actors into the policymaking process. For example, President Vizcarra created the Reform Commission of the Justice System (July 2018), which was responsible for proposing reforms to the judiciary. Additionally, he established the High-Level Commission for Political Reform (January 2019), an autonomous working group that proposed various political reform initiatives. The executive also maintained a certain degree of openness toward civil society by convening the Commission for Sustainable Mining Development and forming different commissions to address COVID-19, including

Public
consultation

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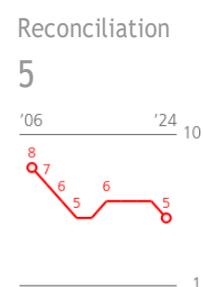
the Grupo Prospectiva and Grupo Temático de Ciencias Sociales. These commissions have submitted reports to key government authorities with the aim of establishing and proposing concrete lines of action.

In contrast, the 2021 Congress displayed serious setbacks in its openness to civil society, rejecting deliberation with this group of actors. Previously, parliamentary commissions used to invite experts from NGOs and civil society to provide input on particular issues. These contributions made it possible to design efficient laws and stronger institutions. However, the current Congress legislates without the input or recommendations of experts and technocrats, making decisions on its own without adequate expertise. Even worse, parliamentary behavior has not only reduced the space for deliberation with civil society but has also delegitimized its existence as a relevant actor.

Reconciliation remains a contested issue in Peru, as sectors associated with human rights violations continue to wield significant political influence. The government's decision-making processes are still shaped by the enduring legacy of these conflicts. Both the political elite and a substantial portion of the public are hesitant to address this matter, resulting in slow progress. By 2010, the majority of victims from the armed conflict spanning the period from 1980 to 2000 were identified and included in the victims' registry. The payment of reparations, which are supervised by the High Level Multisector Commission (CMAN), has commenced through the financing of projects in various communities recognized as having been victimized by the armed conflict.

The work of the Dirección General de Búsqueda de Personas Desaparecidas (DGBPD) of the Ministry of Justice must be recognized. The DGBPD has quietly searched for people who disappeared during the internal armed conflict. Although the creation of this office can be traced back to the last months of the Ollanta Humala government, it was only during the Martín Vizcarra administration (2018 – 2020) that the DGBPD acquired importance in the search for missing persons or their remains. Through a humanitarian approach – which does not encourage or hinder the determination of criminal responsibility – the DGBPD seeks to alleviate suffering and provide answers for the families of the thousands of missing persons. However, during Castillo's term in office, the DGBPD did not receive political support and was not a priority for the government.

One issue deserving attention is the resistance shown by the police and armed forces to acknowledging their own human rights violations committed during the internal armed conflict. Presently, retired military officers hold seats in parliament and are endeavoring to rewrite history by revising school textbooks that cover this pivotal event. Moreover, the current right-wing mayor of Lima, Rafael López Aliaga, has proposed an initiative to grant the military authority over the Memory Place (Lugar de la Memoria, LUM). The LUM serves as a memorial site for victims, providing a neutral analysis of the armed conflict. However, this proposal poses a threat that history will be distorted in favor of the armed forces.



17 | International Cooperation

Policymakers have worked with bilateral and multilateral international donors and have endeavored to make efficient use of international assistance. In significant sectors, the government makes well-focused use of international aid to implement its long-term development strategy. As outlined above, this strategy primarily aims at economic and social development, with a secondary focus on strengthening the institutional framework of democracy.

In recent years, the weakness of political actors and civil society organizations has become more evident, particularly in their lack of technical expertise and the executive's absence of programmatic agendas. International cooperation helps address this gap by proposing government projects and public policies. The influence of international donors helps explain the presence of "islands of efficiency" within the state, which have contributed to recent economic growth and advancements in progressive agendas. The Martín Vizcarra and Francisco Sagasti administrations maintained close ties with international organizations. However, during Castillo's administration, the government and opposition were hesitant to allow international groups to intervene in environmental and human rights issues in Peru. For example, President Castillo chose not to attend COP26 and COP27.

High levels of polarization and politicization have had a detrimental effect on Peru's international reputation. The Ministry of Foreign Affairs has not been able to operate with autonomy and professionalism due to polemical appointments and instability in official positions. Currently, Peru is not considered a credible and reliable partner in its relations with the international community. The confrontation between the executive and legislative branches has also affected the international prestige of the country. Several times, the parliament refused to give permission to President Castillo to leave the country. For instance, the president was unable to attend international commitments such as the Pacific Alliance summit (January 2022) and the presidential inauguration of Gustavo Petro in Colombia (August 2022).

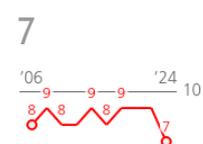
In contrast, in the economic sphere, Peru obtained investment-grade status for its securities between 2008 and 2009 and was further upgraded in 2011 and 2012. All three major rating agencies reported in 2022 that Peru would maintain its BBB investment-grade status. This rating was attributed to the significant decrease in Peru's fiscal and external vulnerabilities, despite the COVID-19 pandemic; broad and diversified sources of growth; low levels of inflation; and improved macroeconomic fundamentals. Furthermore, in 2021, Peru received a formal invitation from the OECD to become a permanent member of the organization.

Peru's commitment to democracy and a market economy is generally firm, but there are some concerns about specific issues. The emphasis on promoting private investment occasionally clashes with other international commitments. For instance, ILO Convention 169 sometimes impedes the progress of significant mining and oil

Effective use of support



Credibility

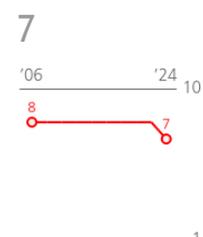


projects, resulting in a slow implementation of the convention. Additionally, conservative sectors in Peru occasionally oppose decisions made by the Inter-American Court of Human Rights, although the government has as yet resisted such opposition.

Peru's foreign policy has traditionally been characterized as pragmatic and friendly toward other countries in the region. However, the Castillo administration has polarized the regional community. Mexico, Argentina and Colombia have shown their support for President Castillo, denouncing a "parliamentary" coup d'état against the leader. Conversely, Brazil and Chile have recognized Dina Boluarte as the constitutional president of Peru and have distanced themselves from the coup d'état carried out by Pedro Castillo. In fact, the Castillo government has divided Latin America's left-leaning leaders. Moreover, Congress has denied Evo Morales entry to Peru due to accusations of political proselytizing. This decision has affected bilateral relations with Bolivia.

In addition, the Ministry of Foreign Affairs has lost professionalism and efficiency due to polemical appointments and the high degree of instability in official positions. Therefore, current possibilities for regional cooperation are limited. The Castillo government demonstrated that government institutions are permeable, with low entry costs. As a result, Peru's ability to cooperate with neighboring countries has declined considerably.

Regional
cooperation



Strategic Outlook

While Peru was able to recover substantially but not wholly satisfactorily from the economic slump triggered by the pandemic, considerable uncertainty is still hanging over the country's political and economic future. Following the fall of Pedro Castillo, Dina Boluarte and her ministerial cabinet have chosen to follow the authoritarian path, controlling protests against the government through the use of police and military repression. This has worsened the confrontation between the government and the citizenry. A part of the citizenry perceives Boluarte as an illegitimate president who is clinging to power with authoritarian tactics and has called for her to leave office as soon as possible. Although Boluarte initially agreed to snap elections in 2024 or even 2023, Congress rejected this plan, and, by mid-2023, it became clear that both the executive and legislative branches would seek to hold on to their power and attempt to muddle through to 2026. Elections, regardless of when they are held, will be fraught with tension, confrontation and polarization, and future representatives will have little room to carry out substantive political and institutional reforms.

Concerning political transformation, the erosion of democracy has reached a new stage, necessitating immediate and profound reforms to counter authoritarian tendencies. The BTI country reports from the past 20 years indicate a continual weakening of the system of representation. Reform efforts have been largely ineffective or have even worsened the situation, such as the ban on the re-election of members of parliament. As for economic transformation, the goals of the reform agenda, whether implicit or explicit, have remained unchanged: to strengthen welfare mechanisms, which includes expanding and modernizing the health and education systems, and to reduce the substantial informal sector.

However, the main problem lies in the fact that there are no reform actors as such, as Peru has long been considered a “democracy without parties” and currently even without (professional and/or experienced) politicians. Consequently, in the climate of widespread political amateurism, there are not even rudimentary structures of interest aggregation or consistent political programs. Prior to 2020, there was at least a relatively established group of political actors whom the electoral processes relied on and who ensured certain levels of minimal commitment to democracy and the defense of the economic model. Currently, political actors are more precarious than ever, have a less defined political-ideological profile, express short-term thinking, and build their projects by appealing to populist styles and authoritarian initiatives. As children of the degenerate game of political representation and competition and largely disconnected from society, current and presumably future candidates for political office remain trapped in this low-level equilibrium, prone to political crises.

In this scenario, both democracy and the market economy could face additional pressure in the future, as commitment to both goals has eroded and consensus mechanisms have been weakened. A more optimistic, but currently less realistic, scenario could emerge if civil society and economic interests exert pressure to maintain the successes of transformation and uphold the “islands of excellence” in crucial areas of the state. These areas have previously resisted populist impulses to dismantle the economic order.