

BTI 2012 | Peru Country Report

Status Index	1-10	6.94	# 34 of 128	
Political Transformation	1-10	6.70	# 43 of 128	➔
Economic Transformation	1-10	7.18	# 26 of 128	➔
Management Index	1-10	5.73	# 40 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	29.1	HDI	0.725	GDP p.c.	\$	9538
Pop. growth ¹	% p.a.	1.1	HDI rank of 187	80	Gini Index		48.0
Life expectancy	years	74	UN Education Index	0.704	Poverty ³	%	14.7
Urban population	%	71.6	Gender inequality ²	0.415	Aid per capita	\$	15.2

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

Executive Summary

As President Alan García Pérez's second term (2006 – 2011) drew to an end, Peru's record of democratic and economic transformation was marked both by positive and negative results, progress as well as stagnation. While the government was rather successful in leading the country through the economic crisis and even in strengthening the market economy, it engaged insufficiently or belatedly in social reforms, and did little to strengthen democracy. As a consequence, a gap remained throughout García's term between citizens' (admittedly very high) expectations and the administration's performance, contributing to a certain decrease in the legitimacy of democratic institutions. Economic progress, social unease and institutional fragility thus characterized Peru's social and political climate in 2011, when elections brought leftist-nationalist Ollanta Humala to the presidency with a term running until 2016.

Despite socioeconomic conditions marginally more favorable than in preceding years, Peru's democratic transformation made no appreciable progress, and even suffered some setbacks over the past two years (January 2009 to January 2011). While the García government tried to strengthen its legitimacy through economic modernization, it missed the opportunity to deepen the advances made in 2000 – 2001 immediately after the Fujimori era. Peru's main problems include a weakening state, the precarious structure of political representation, a lack of adequate checks and balances, and above all a weak judiciary that is badly undermined by corruption. In contrast, economic transformation in the last two years showed more progress than did political reform. Peru's economic institutions have been strengthened in recent years, enabling the country to use external support more efficiently and withstand the external shock originating with the worldwide financial crisis. The country's economic performance has been surprisingly strong on both the macroeconomic level and in terms of poverty reduction. However, other core problems of the Peruvian market economy, including its social embeddedness, are still far from being solved and are a major contributing factor to the growing dissatisfaction among the Peruvian population. Although President Alan García's administration had a clearer picture of

Peru's essential problems and a more realistic agenda than did the previous government, its strategies did not always aim at advancing economic opportunities for all Peruvians. While promoting Peru's economic transformation through strong and prudent macroeconomic management, the García administration also provoked deep dissatisfaction in some segments of society, casting a shadow across Peru's future development prospects.

History and Characteristics of Transformation

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

After the collapse of the Fujimori regime in November 2000, the passage of the transitional government under Valentín Paniagua, and Toledo's election in May 2001, 20 years after the end of military rule, Peru returned to the starting point of the democratic consolidation it had begun in 1980. However, the Toledo government did not succeed in strengthening democracy, with the last two years of the president's term leading to exhaustion and increasing political instability, including the surge behind Ollanta Humala's leftist nationalist movement. The 2006 elections were marked by the politicization of deepening social cleavages in contemporary Peru. This helped Alan García Pérez win a second presidential term, though Peruvian citizens regarded him and his policies with mixed feelings from the start. While the economy's boom continued, García – formally a social democrat – increasingly adopted right-of-center (fiscally liberal) positions.

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

1990 – 1991, initially with support from the opposition in parliament. Fujimori initiated an orthodox policy of recessive stabilization combined with aggressive structural reforms that included a package of drastic measures (“fujishock”) aimed primarily at fighting inflation. These measures included revising collective bargaining agreements, reducing subsidies, budgetary discipline and a restrictive monetary policy. In 1991, most state companies were privatized; the state withdrew from the financial sector; an independent central bank was established; foreign trade was deregulated; the exchange rate was allowed to float; and restrictions on the movement of capital were lifted. As supplementary measures, the labor market was drastically deregulated and the market for agricultural land liberalized.

Fujimori’s reforms brought relatively rapid macroeconomic stabilization, and until the Asian and Brazilian crises of 1998, a very strong economic recovery. However, the reforms stopped short of redressing decades-old structural imbalances, such as Peru’s unstable, segmentary integration into the global market, the volatility of its financial sector, and above all its severe societal distortions: the informal sector, poverty and underemployment. In part because of social policy shortcomings, the latter have become even more structurally entrenched. Under the Toledo government, especially since 2002, surprising macroeconomic success was recorded, but without major structural improvements. The García government was rather successful in maintaining high growth rates, which contributed to a remarkable reduction in poverty – but again without reducing informality or inequality. In the context of the free trade agreement with the United States, which President García pushed hard for, the government introduced several legal measures aimed at strengthening the institutional framework of Peru’s market economy.

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

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

The state's monopoly on the use of force is established nationwide in principle, but remains in fact challenged by guerrillas and drug-trafficking mafias in territorial enclaves. In addition, the state is unable to contain the increase in everyday crime and violence, which has led to a growing sense of insecurity among citizens. Given the conflict-laden nature of Peru's current transformation process, the issue of illegitimate violence is one of the core problems threatening Peru's political and economic transformation.

Monopoly on the
use of force

6

In contrast to previous years, the Maoist rebel movement Shining Path (Sendero Luminoso) could not further be weakened. According to rumors, one "column" of Sendero has reorganized, and is again seeking to take up a political guerrilla struggle. Other remaining sections of Sendero are said to have close ties to coca production and trade, though without, decaying completely into mere "narco-guerrilla" operations. Sendero also seems to be expanding from its final bastions in the Valley of the Rivers Apurímac and Ene (VRAE) and Alto Huallaga to the province of Cusco. In 2009 alone, Sendero perpetrated more than 100 attacks and killed 75 members of the security forces.

During the period under review, the state was largely unsuccessful in its fight against drug-related crime, especially with regard to the drug mafia, and failed to hinder Sendero's intensifying connection with the drug cartels. The internationalization of the Latin American drug economy has continued to be a major challenge for Peru. The presence of Mexican drug cartels in particular has raised recurring concerns among Peruvian (and also U.S.) officials. Mexican cartels entered the country in a large-scale manner during the 2000s, extending their reach in part by bribing custom officials and the use of brutal violence. Securing the monopoly on the use of force has been further impeded by networks of corruption supposed to involve a number of military officials and drug traffickers. Documents

from the U.S. embassy in Lima, revealed by WikiLeaks in December 2010, revealed that high-ranking military officers have complained about this “business” engaged in by some of their colleagues. Despite the government’s ongoing efforts to fight drug trafficking and destroy coca plantations, Peru’s drug economy has remained strong and has even expanded.

Though the García administration has made efforts to contain violent social conflict, acceptance of non-state violence has persisted. Much as in the previous review periods, the Ombuds Office (Defensoría del Pueblo) this time reported nearly 250 latent and open conflicts ongoing in a number of provinces, at least half accompanied by some form of violence. These conflicts – most of them driven by socio-environmental issues – occur mostly on the local level, and occasionally turn violent because the state lacks the capacity to settle them. During the last two years, Peruvians report feeling a further decline in public security. According to the 2010 LAPOP survey, 53.8% of Peruvians interviewed said they felt somewhat or very insecure in their neighborhoods. While authorities claim that these perceptions are likely to be exaggerated, events indicate that residents may have real grounds for these fears: Peru topped the regional survey, with 31.1% of those interviewed reporting that they had fallen victim to a criminal act during the last year.

The large majority of the population accepts the nation-state as legitimate, and all individuals and groups enjoy the right to acquire citizenship without discrimination. Despite being a multiethnic nation composed of whites, mestizos, indigenous people, blacks and Asians, the definition of citizenship has not been a politically relevant issue in Peru. Until recently, the politicization of Peru’s ethnic diversity – even for the indigenous population – has been of minor political significance; however, indigenous groups are gaining self-confidence and beginning to mobilize as they learn from the experiences in neighboring Bolivia and Ecuador. As the country suffers from a historically rooted racism directed most virulently against the indigenous population, the influence of ethnicism in Peruvian politics may again rise, undermining what is already a generally weak legitimacy accorded to the central state by the indigenous population.

The state and its legal order are largely secular. Religious dogmas have no noteworthy influence on politics or law. However, the preferential treatment given to the Catholic Church in terms of education, tax benefits, additional state remunerations and stipends continues to raise concerns about the potential infringement of non-Catholics’ religious liberties. Though Article 50 of the constitution establishes a separation of church and state, it also says the state recognizes the Catholic Church’s role as “an important element in the historical, cultural and moral development of the nation,” and provides for collaboration. In addition, a 1980 agreement with the Vatican – ratified by General Morales Bermúdez on the penultimate day of the outgoing military regime’s power – is still in force, bolstering the special status of the Catholic Church. The Catholic Church,

State identity

9

No interference of religious dogmas

9

representing about 81% of Peruvians, is an active pressure group. Catholic archbishops have repeatedly intervened in political issues, actively opposing gay marriage and new regulations on abortion, for example. In January 2011, the head of the Catholic Church and archbishop of Lima, Cardinal Cipriani, harshly criticized party leaders' proposals to allow gay marriage, arguing that the state has to base its laws on "respect for the natural order."

The state's basic administrative infrastructure extends throughout most of the county's territory, but its operation remains deficient. Particular problems include widespread corruption, employees' limited technical skills and the system's inaccessibility for most of the poor. The weak presence of the central state's administration in large parts of the country has always been a core problem for Peru's political and economic development. The administration's reach has improved since the end of the military regime and especially since the end of the Fujimori regime, but important structural problems remain. In addition, the widely supported process of decentralization has become a source of political instability, as the process has fragmented the political landscape and exposed unskilled local administrations to increasingly strong popular demands. World Bank analyses suggest that Peru's limited capacity to use public resources effectively hinders social and economic development. Apart from law enforcement, deficiencies in transportation and basic infrastructure are a major concern. Since the 1980s, a justice of the peace system has existed for the adjudication of minor legal disputes, another legacy of the state's historically rooted incapacity to fulfill its proper juridical function in large parts of the country. The system operates throughout the country but is especially relevant in the poor provinces and the Andes region. Though it is working rather effectively, frictions persist between it and the official judicial system.

Basic
administration
7

2 | Political Participation

There are almost no constraints on free and fair elections. After widespread electoral manipulation during the Fujimori decade, Peru has restored universal suffrage and the right to campaign for office. State agencies once again conduct elections properly. The National Office for Electoral Processes (ONPE) and the Electoral Tribunal (JNE), which are responsible for the realization and monitoring of all electoral processes, are widely regarded as reliable and as two of the best-performing state institutions. During the period under review, elections were held at the regional and local level in October 2010, along with second-round elections in 10 regions in December 2010. In contrast to former elections, there have been very few serious or violent post-electoral conflicts related to alleged electoral fraud. The Organization of American States' (OAS) electoral observation mission judged the

Free and fair
elections
9

elections as “satisfactory,” but also noted some technical deficiencies and a few incidents of violence on election day itself.

In principle, elected rulers have mostly regained the effective power to govern as far as the classical veto powers (armed forces, landowners, business groups) are concerned. The military, which played a prominent role as a veto power following the return to democracy, especially under the Fujimori regime, is now mostly under civilian control, though it seems to wield substantial influence in issues relating to security, military justice and human rights violations during the “dirty war” between 1980 and 1993. This was confirmed by four presidential decrees issued in September 2010 regulating the prosecution and trials of security forces accused of committing human rights violations, one of which had to be derogated after sharp criticism from civil society including the influential voice of Nobel laureate Mario Vargas Llosa.

Individual societal groups in Peru are able to push successfully for their interests even against the interests of the state. Rumors about the continuing existence of a “Mafia Fujimori-Montesinista,” a clandestine network stemming from clientelistic relationships originating in the era of President Fujimori and his advisor Montesinos, have been nourished by WikiLeaks documents from the U.S. embassy in Lima. The leaks indicate that part of the military is involved in this network, operating especially in drug production and trafficking in the VRAE region. While the drug mafia can be seen as a problem of stateness or the rule of law, the coca-producing peasants and their organizations in some provinces present a real check on the state’s effective power to govern. This “cocalero civil society” effectively opposes national anti-drug policies and tends to object to state interference in their affairs.

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

The most prominent example of the state’s intervention in association rights during García’s term was the new NGO law of 2006, which regulates the formation and activities of NGOs. Among other things, the new law obliges NGOs to register with the state’s Peruvian International Cooperation Agency (APCI), and agree to

Effective power to govern

7

Association / assembly rights

8

extensive government control. Though the Constitutional Tribunal subsequently ruled that some of its key articles were unconstitutional, it upheld most of them and de facto left enough room for governmental discretion in applying the law. In view of recurring violent social protest, this issue has remained high on the political agenda of some political parties. Since 2009, a Fujimorista proposal to expand the powers of the APCI has been pending in Congress.

With regard to assembly rights, human rights organizations have criticized Decree 1095, issued in September 2010, which allows the government to call in the military to contain violent civil unrest. It also provides that cases of alleged rights violations by military members will be handled by military courts, implying a higher probability of impunity. Given the high number of social conflicts in the country, many of which sometimes tip into violence, these regulations may mean that demonstrations will increasingly be confronted with the military, as was shown in Cusco in September 2010. In addition, human rights organizations report that the Peruvian police have repeatedly arrested participants in demonstrations. Though not backed by the constitution, the police argue that participants in demonstrations that are not authorized by local authorities can be arrested. This situation is more frequent in rural areas, where protesting peasants and their leaders are arrested without proof that they are disturbing the public order. Violent clashes between protesters and security forces have recurred with some frequency.

The freedom of expression is almost unrestricted in Peru, though at times state agencies, as well as private and criminal powers, exert pressure on individual members of the media who report on critical issues such as corruption. The structure of the media system – electronic as well as print media – is differentiated and provides for a plurality of opinions. Both state-run and private media – the latter of which clearly dominates the media landscape – are mostly free of government influence.

The political establishment has exerted pressure in recent years on media coverage of important issues or corruption cases. Offenses against journalists are more frequent at the local level, where authorities feel free to take action against their critics, including verbal and even physical attacks. The same holds for coca growers and the police; the latter often exceed their authority and seek to intimidate journalists. Pressure on local media has persisted in recent years, either because these media outlets criticized police actions or because they did not publish desired information. During the period under review, two media outlets in the Amazonas department were targeted by the government following the violent indigenous protests in Bagua in May and June 2009. In 2009, two journalists were sentenced to prison for one year each on the basis of alleged defamation. The stateness problems in the Alto Huallaga and VRAE regions, including the growing influence of drug

Freedom of
expression

8

traffickers, undermine press freedom in these provinces. Finally, the often weak and corrupt judiciary does not adequately protect the freedom of expression.

3 | Rule of Law

The separation of powers in Peru is somewhat incomplete, leading to a concentration of power in the executive. The judiciary, and to a much lesser extent the parliament, have sought to restore this balance. Like his predecessor, García had to confront the problem of divided government, but more successfully avoided institutional gridlock between the executive and Congress. However, real progress toward a functional system of checks and balances has been minimal.

Separation of
powers

6

During the period under review, the president used decree powers delegated by Congress according to Article 104 of the constitution to legislate on substantive matters such as combating organized crime or state modernization in the context of implementing the free trade agreement with the United States. However, many of the legal measures introduced by these decrees seemed to exceed the president's delegated authority, or even to contradict the constitution. In addition, Congress failed to comply with its duty to approve or reject the presidential decrees.

García also increasingly used "urgency decrees," allowed by Article 118 of the constitution, to issue regulations even on sensitive matters such as limiting the prosecution of human rights violations. Though he used urgency decrees almost cautiously in the first two and a half years of his term, he issued 125 in 2009 and 89 in 2010, so that this process ultimately accounted for more than 25% of all measures issued with the status of law. Most of these decrees are deemed unconstitutional, as 1) situations of urgency were not present; 2) the Congress has not complied with its oversight duties; and/or 3) the decrees in some cases contravene national or international law.

Peru's judiciary functions as a distinct branch of government and operates – at least in significant part – relatively independently, though its decisions are occasionally circumvented or even ignored. However, its operations are severely undermined by corruption, inefficiency, and insufficient territorial and functional penetration. During the period under review, the judiciary continued to be one of the weakest institutions of Peru's democracy. This weakness has fostered corruption, illegal action and impunity. Neither citizens nor businesses have great confidence in the judiciary, which they consider to be inefficient and corrupt.

Independent
judiciary

6

A seemingly perpetual struggle over the independence of the judiciary continues today. Political actors see the judiciary as an obstacle to their decision-making rather than as a necessary counterweight able to guarantee sound democratic procedures. Though judicial reform has been on the political agenda since 2000,

there has been no notable progress due to the unwillingness of political actors and a lack of interest within large parts of the judiciary itself. When Villa Stein, current president of the Supreme Court – the senior body within Peru’s justice system – assumed his role in 2009, he explicitly declared that he did not take the office to speak of or execute reforms. An evaluation of his conduct by the Legal Defense Institute (Instituto de Defensa Legal, IDL) concluded that there had been no progress in the areas of corruption, judicial independence or judicial administration, even with respect to the reform of the criminal justice system initially initiated in 2004. However, IDL also stated that some improvements in access to justice had been made, citing the justice of the peace system and the alternative systems of jurisdiction allowed for by Article 149 of the constitution, especially concerning legal processes in indigenous communities. The overall assessment of the last two years, however, pointed primarily to attempts by the Alianza Popular Revolucionaria Americana (APRA) government to domesticate the judiciary instead of ensuring its independence.

This said, some islands of excellence do exist within the judicial system, such as the Constitutional Court and the Ombudsman’s Office. In their struggle to protect the essentials of constitutional democracy, these bodies have demonstrated professionalism in interpreting and reviewing laws and in pursuing their own reasoning, free from the influence of the political leadership or of powerful groups and individuals. The trial and sentencing of former President Alberto Fujimori and his advisor Vladimiro Montesinos undoubtedly represented a major step in restoring confidence in the judiciary. In April 2009, Fujimori was sentenced to 25 years in prison for violations of human rights, and the Court of Appeals confirmed the sentence in 2010.

Meanwhile, the political and judicial struggle to confine military justice to a narrow range of genuinely military affairs remains ongoing. Some sectors of the military and the political elite advocate keeping cases of human rights violations perpetrated by members of the armed forces under the military’s judicial authority, disregarding rulings by Peru’s Constitutional Tribunal. With the passage of Law 29182 in January 2008, the government showed its open disregard for the Constitutional Tribunal by establishing rules and procedures for the establishment, composition and competencies of the Supreme Council of Military Justice that undermined the supremacy of an independent civilian judiciary. Though civil society, political activists and members of the judicial branch have made efforts to bring military justice institutions under the auspices of the national justice system, the government during the period under review continued to issue decrees that circumvented constitutional bounds of jurisdiction.

While corrupt officeholders are increasingly prosecuted under established laws, they often continue to slip through political, legal or procedural loopholes. Impartial prosecution and penalties for abuse of office are not general characteristics of Peruvian politics. These problems are even more pronounced at the subnational levels of administration, where cases of corruption are frequently identified. Nevertheless, since the Fujimori and Montesinos era, political society, civil society actors and the public have become highly sensitized to corruption in politics. According to a 2010 Proética survey on the issue, Peruvians considered corruption to be the country's most urgent problem, ahead of crime and poverty, while the large majority (80%) also believed that authorities were not seriously engaged in the fight against such practices.

Prosecution of
office abuse

6

Despite these perceptions, several state and non-state agencies have made serious efforts to fight corruption in recent years. However, given the apparent magnitude of the problem, progress has been rather slow, and prosecution of corrupt officeholders has had only limited success. In September 2010, the General Comptroller reported that his office had issued more than 47,000 case reports since 2001, but that only 23% had resulted in sanctions being applied. He also complained that more than 1,300 public officials denounced by the office as having proved links to corruption were still in office, concluding that the public administration has accustomed itself to living with corruption. The comptroller estimated the financial loss to the Peruvian state to be about \$2.5 billion annually. Severe corruption cases have also been reported concerning the judiciary, the police and the military.

The state respects civil liberties in principle, but failed to strengthen them further during the review period. This was in large part because judicial reform failed to progress, and the state's authority weakened further. As a result, civil rights are violated in some parts of the country, or citizens are discouraged from seeking to claim their rights. In Peru's ethnically diverse and pervasively discriminatory society, this translates into "low intensity citizenship" for some segments of the population, such as indigenous peoples and Afro-Peruvians. Equal access to justice is still a severe problem for the poor, notwithstanding programs such as the Program for Access to Justice in Rural Communities (Programa de Acceso a la Justicia en Comunidades Rurales, PROJUR) and efforts in some provinces to exempt poor people from court fees. Almost one-third of the population has no access to judicial services. Positive signs include the new dynamism of the justice of the peace system and the alternative systems of jurisdiction, but access to justice is still hampered by economic, cultural, geographic and linguistic barriers, as well as by the lack of documents.

Civil rights

6

The National Coordinator for Human Rights (Coordinadora Nacional de Derechos Humanos, CNDH), an NGO, reported that violations of individual and collective rights increased significantly under the García administration. During 2009 and

2010, 30 citizens were killed by security forces in the course of protests or demonstrations. Torture and abuse at the hands of the state security forces, although not practiced systematically, has taken place at a rate of 100 reported cases annually since 2006. CNDH has criticized the government for failing to take action to prevent or prosecute these cases, and for providing inadequate assistance to the victims and their relatives. Furthermore, the weakness of state institutions has led to a tendency toward vigilante justice, which further undermines the role of the judiciary as a bulwark of civil liberties. With regard to the civil rights of women, the problem is mainly the state's inability to protect women and girls against violence, including rape and spousal abuse. Insensitivity by law enforcement and judicial authorities toward female victims has aggravated abuses. Discrimination against indigenous communities, ethnic minorities like the Afro-Peruvians, and gay and lesbian persons is still widespread, though civil society organizations and the ombuds office have engaged in campaigns to keep this issue on the public agenda. CNDH has also criticized the government for its lack of concern on this issue.

The state has made only minor progress in addressing questions of injustices perpetrated in the past. In April 2009, the courts sentenced former President Alberto Fujimori, who had been extradited to Peru from Chile in September 2007, to 25 years in prison. He faced charges including the killing of 15 people in 1991, and the enforced disappearance and killing of nine students and a professor in 1992. In January 2010, the Supreme Court confirmed the sentence. Apart from this major case, however, prosecution of human rights violations between 1980 and 2000 remained difficult, and even a source of conflict between state powers (see "Reconciliation" section).

4 | Stability of Democratic Institutions

Democratic institutions perform their functions in principle, but are often inefficient due to friction between institutions, a lack of professionalism, and corruption. After state institutions virtually collapsed in the 1980s, and were subsequently dismantled in the 1990s, they remain without solid grounding in the new democratic state. This applies especially to the rule of law, where necessary reforms continue to lag and the struggle between judicial independence and political influence remains ongoing. Likewise, the process of decentralization, which began in 2003, was performed hastily and has led to mixed results. Though the process has resulted in more democracy, it has decreased the state's efficiency and hampered the process of demand aggregation. The García government tried to reform this process in order to strengthen the efficiency of the state administration, but was largely unsuccessful. The relations between executive and legislative suffer from the pronounced asymmetry of power, and above all from a lack of professionalism on the part of the Congress, which has neglected its government oversight role. In other words, during

Performance of
democratic
institutions
7

the period under review, democratic consolidation did not advance much in terms of institutional stability.

Nearly all influential political actors accept the democratic institutions and regard them as legitimate. However, a few players do not fully accept individual institutions of the democratic state. The decentralized political institutions are often instrumentalized for narrowly defined interests. Political actors see the judiciary more as an obstacle to their decision-making than as a necessary counterweight able to guarantee sound democratic procedures. The failure to subordinate military justice to civilian rule represents a serious example of explicit disregard for the democratic rule of law and open defiance of Constitutional Tribunal rulings.

Commitment to
democratic
institutions

7

5 | Political and Social Integration

Peru's party system is unstable, with shallow roots in society. It features high fragmentation, high voter volatility and increasing polarization. The political parties have lost their ability to mediate adequately between the state and a highly heterogeneous and segmented society. In historical perspective, the once relatively stable party system broke down between 1990 and 1992; since that time, it has been unable to regain organizational stability or anchor itself in society. At least on the national level, the most severe fragmentation of the party system was contained after passing the Law on Electoral Barriers in September 2005. The law established that in order to win seats in Congress, parties had to obtain at least 5% of the votes or at least six elected representatives in more than one constituency. The effective number of parties in the legislature subsequently declined from 4.36 to 3.78 in 2006 (but went up slightly to 3.96 in the April 2011 elections).

Party system

4

The trend toward a more stable party system in the wake of the 2006 national elections thus did not hold. On the one hand, the formation of stronger center-right and center-left forces around APRA, Unidad Nacional (UN) and Frente del Centro was undermined by the strong performance of newcomer Ollanta Humala and his Peruvian Nationalist Party (PNP), which raised the prospect of a Bolivian or Ecuadorian mode of political development, provoking deep distrust within Peru's upper and upper middle classes (Humala won the presidential elections in the June 2011 runoff, after signaling somewhat more moderate political positions). On the other hand, the regional, provincial and local elections in November 2006 and in October 2010 revealed a further fragmentation of the political landscape below the national level. The strong showing of regional groupings in these elections complicated prospects for interest aggregation within the Peruvian political system. All national parties, including APRA and PNP, have demonstrated their inability to establish stable relationships with voters, and have lost significant ground to independent movements. The APRA government in power through the period under

review, for example, lost its once-strong bastions in the north of the country for the second time (in the 2011 national elections, it won only four seats).

Recent surveys show that Peruvians' low level of trust in political parties has further eroded. According to the 2010 LAPOP survey, only 37.6% of those interviewed thought that political parties were necessary to make democracy work, a decline from 2008's (46.1%) already low levels. Furthermore, only about 20% reported allegiance to any political party, with APRA still showing the strongest adherence (24.3%), followed by PNP (15.4%) and the Fujimoristas of the Alliance for the Future (AF, 14.7%). This data again demonstrates both the high fragmentation and volatility of Peru's party system.

Peru's landscape of interest groups continues to be relatively well differentiated and rather dynamic, but it is highly fragmented and unable to aggregate and articulate societal interests within the political system. The broad spectrum of interest groups ranges from business and professional associations to unions, social movements and community organizations. Employers' associations such as the National Confederation of Private Enterprise (Confiep) are the strongest organizations. Their views wield great influence and gained even more dominance under the García administration, which favored a development model characterized by growth-led trickle-down processes, and firmly supported private sector investment. As a consequence, the unions, already severely weakened by neoliberal reforms and massive impoverishment since the end of the 1970s, have lost almost all of their political weight, a trend exacerbated by the fact that a very large share of workers are employed in the informal sector. On the other hand, though not openly disregarding unions' rights, the government tends to neglect the views of the unions and to limit their activities when possible.

In recent years, the major union confederations – the Confederación General de Trabajadores del Perú (CGTP), the Central Unitaria de Trabajadores del Perú (CUT), the Confederación de Trabajadores del Perú (CTP), and the Central Autónoma de Trabajadores del Perú (CATP) – have sought to revitalize the union sector and regain influence. In May 2010, they returned to the National Council for Labor and Employment Promotion (CNTPE), a tripartite forum that operates under the auspices of the Ministry of Labor. On the “dark side” of civil society are the strong cocalero unions (see Monopoly on the use of force), who are capable of effectively organizing in support of the interests of the cocaleros and of voicing policy alternatives, even if these are uncomfortable for the political mainstream.

On occasion, interest groups of a diverse nature are able to make their voices heard or even utilize extra-institutional pressure in support of their interests. This was repeatedly the case during the period under review, as exemplified by the recurring, occasionally violent demonstrations around the country. However, to date there are

Interest groups

5

no intermediary organizations capable of aggregating these “post-material” interests – another consequence of the weak party system.

Dissatisfaction among Peruvians with the functioning of the democratic system has affected their support for democracy as such. According to the 2010 LAPOP Americas’ Barometer survey, levels of support for democracy in Peru are the lowest in Western Hemisphere (with the exception of Haiti), at 60.1% (compared to an average of 71.6%). LAPOP experts explain this result mainly through the huge gap between citizens’ high expectations – nourished by populist and non-populist politicians alike – and the subsequent disappointment created by the often meager or unsatisfactory political results (such as insecurity, corruption, discrimination, and unchanged levels of inequality). Asked how satisfied they were with the actual working of democracy, only about 45% of Peruvians reported a degree of satisfaction – one place above last, tied with Mexico. Using different methods, data from Latinobarómetro 2010 show similar results. Levels of satisfaction with democracy are nearly the survey’s lowest (28%, ahead only of Mexico, at 27%, and well below the Latin American average of 44%). With respect to support for a potential military coup to resolve major societal problems such as corruption or organized crime, Peru ranked 22nd out of 25 countries, with 45.3% of respondents saying they would support a coup (the leader in this area was Argentina, where only 19% said they would approve a coup; Belize and Mexico sat at the other end of the spectrum, respectively with 48% and 47% support for such an eventuality).

Approval of
democracy
5

There is a substantial number of autonomous self-organized groups, associations and organizations, but the level of trust among the population is fairly low. Partly despite and partly because of the long-lasting spiral of impoverishment and the growth of the informal sector, the ability of Peruvian society to organize itself has significantly grown over the past two decades. However, the influence of this self-organization is ambiguous. In principle, a wide range of autonomous, self-organized groups, associations and organizations exist in the country, despite political, cultural and socioeconomic barriers. Due to the country’s social segmentation and diversity, there is a split between more “liberal” and more “participation-demanding” currents inside civil society. The cocalero movement shows one of the dark sides of civil society in Peru by – directly or indirectly – supporting drug trafficking. According to the 2010 America’s Barometer survey, the level of interpersonal trust in Peru is rather low, and significantly below the Latin American average. When asked about the confidence they had in the people in their community, only 46% of those interviewed answered they would be “very trustworthy” or “somewhat trustworthy” – the lowest such level among 25 countries (compared to an average of 59.3%).

Social capital
5

II. Economic Transformation

6 | Level of Socioeconomic Development

Peru's level of socioeconomic development stagnated during the last two years, in large part due to the effects of the economic crisis. In previous years, it had improved slightly due to windfalls from international economic growth and some effective domestic policy measures. In the 2000s, GDP per capita (on a purchasing-power parity basis) rose from \$5,067 in 2000 to \$8,606 in 2008, reaching \$8,626 in 2009 and an estimated \$9,281 in 2010. The Human Development Index 2010 ranked Peru 63rd out of 169 states, with an index value of 0.723 (compared to an average of 0.624 for the world and 0.704 for Latin American countries). It is labeled by the UNDP – somewhat misleadingly – as a country with “high human development.” In fact, key indicators show a medium level of development for Peru. If adjusted for inequality, Peru's index value falls to 0.501 (surpassed by countries such as China or Mongolia). This means a loss of almost a third of its index value (surpassed in Latin America only by Guatemala, Bolivia and Haiti) and a drop of 26 ranks (the largest such decline worldwide).

The most important positive trend in the 2000s, at least until the onset of the financial crisis, had been a significant reduction in poverty rates. From 54.7% in 2001, the overall poverty rate declined to 36.2% in 2008 and 34.8% in 2009. It is estimated to have declined further in 2010, to 31%. However, the incidence of extreme poverty has not kept pace. It declined from 17.4% in 2005 to 12.6% in 2008 and 11.5% in 2009. Data for 2009 from the National Institute of Statistics (INEI) showed that poverty was lowest and had been most reduced in the coastal region (19.1%), while it remained very pronounced in the Andes region (53.4%) and in the Selva (46.0%), where it even increased in 2009. Out of the country's 24 departments, widespread poverty as a structural impediment to socioeconomic progress was still very pronounced in the departments of Huancavelica (77.2%), Apurímac (70.3%), Huánuco (64.5%), Ayacucho (62.6%) and Puno (60.8%). While the incidence of extreme poverty in urban areas declined to 2.8%, it still affects 27.8% of the population in rural areas in the interior, where the mostly indigenous population lives on a subsistence economy.

Apart from poverty-induced disparities, problems such as social exclusion and marginalization attributable to education differences and gender discrimination are still widespread, particularly in the highlands and the Amazon basin, where most of the indigenous population lives. The abovementioned difference between Peru's HDI ranks is mainly due to inequalities in education and income; according to

Question
Score

Socioeconomic
barriers

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World Bank data, the country's Gini Index value is 0.505 (though according to more recent official data from Peru, the Gini coefficient is 0.47, ranking Peru third in Latin America, behind Venezuela and Uruguay). In addition, Peru also lost ground in the 2010 Gender Inequality Index. Finally, the percentage of people living in shantytowns is very high in comparison to the Latin American average.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	107233.3	126822.7	126923.1	157053.0
GDP growth	%	8.9	9.8	0.8	8.8
Inflation (CPI)	%	1.8	5.8	2.9	1.5
Unemployment	%	6.7	6.8	-	-
Foreign direct investment	% of GDP	5.1	5.5	4.4	4.7
Export growth	%	6.9	8.2	-3.2	2.5
Import growth	%	21.4	20.1	-18.6	23.8
Current account balance	\$ mn.	1460.3	-5317.6	210.6	-2314.7
Public debt	% of GDP	30.9	25.0	26.6	24.3
External debt	\$ mn.	32072.8	34558.6	36393.2	36271.0
Total debt service	\$ mn.	9050.8	5259.4	4361.1	6784.5
Cash surplus or deficit	% of GDP	2.0	2.0	-1.5	-
Tax revenue	% of GDP	15.6	15.7	13.7	-
Government consumption	% of GDP	9.0	9.0	10.3	10.0
Public expnd. on edu.	% of GDP	2.5	2.7	-	-
Public expnd. on health	% of GDP	4.3	4.5	4.6	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.2	1.1	1.4	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

Market competition in Peru has a strong institutional framework, with generally equal opportunities for all market participants, at least in the formal market. The informal sector, however, is quite large; some experts even speak of a dual economy, split between the coastal region's formal sector and the economies in the Andes and Amazonas regions where strong informal sectors dominate. The García government has taken additional steps in recent years to improve the competition framework. After approval of the free trade agreement with United States in December 2007, the government issued a series of 99 legislative decrees aimed at enhancing competition. Among these were statutes designed to strengthen state capabilities, infrastructure and education, and aimed at addressing the structural imbalances caused by the large informal sector. There are a few goods and services with administered prices (such as public tariffs for electricity and water services, or fuel). Currency convertibility is guaranteed. Domestic and foreign investors are accorded equal treatment before the law in the course of all economic activities. The contestability of markets is limited due to the segmentation of markets. In its assessment of business opportunities, the World Bank's 2011 Doing Business Report ranks Peru 36th out of 183 countries, just behind Mexico and close to the OECD average. Peru thus improved 10 ranks, thanks to reforms in the areas of opening a business, obtaining construction permits and registering property. The World Economic Forum's Global Competitiveness Index ranked Peru 73rd of 139 countries in its 2010 – 2011 report, a significant improvement compared to previous years. However, severe obstacles remain despite these positive signs, including weak institutions, infrastructure, technological readiness and innovation capabilities.

Peru's informal sector remains one of the most significant impediments to enhancing the quality of competition and achieving social equity. The minister of justice has estimated that 40,000 unregistered business facilities may exist. According to the International Labor Organization, 51% of all jobs are generated by the informal economy, with only 15% having health coverage and a mere 4% enjoying retirement benefits. The reasons are seen in the gap between labor laws and actual working conditions, the shortage of formal employment, the low levels of investment, and the lingering effects of the crises of the 1980s and 1990s, which prompted the emergence of so-called survival economies. Data from the National Household Survey (ENAHO) 2010 shows that 34.7% of Peru's workforce can be classified as "independent workers" and 13.7% are classified as family workers without remuneration. In addition, 65.4% of the Peruvian labor force works in enterprises with fewer than five workers. Many of these operate informally, and workers thus have no access to social benefits.

Market-based
competition

7

Though the regulation of monopolies and oligopolies is still inconsistent, the institutional framework has improved slightly due to the growing awareness of the dangers of market distortions. In the course of neoliberal reforms in the early 1990s, anti-cartel legislation was introduced in 1991, establishing ex post oversight of dominant market position abuses and collusive practices. In June 2008, the government issued a new competition law aimed at clarifying anticompetitive conduct, strengthening the state's investigative powers and assuring its independence. The law does not have any provision governing potentially anticompetitive mergers, and Peruvian law in general lacks provision for pre-merger notification, except in the electrical sector. Nevertheless, governmental authorities do follow up on mergers, especially in sensitive economic sectors. In the last 15 years, the government has strengthened the Institute for the Defense of Competition and Protection of Intellectual Property (Indecopi), the competition agency, giving it the power to sanction abusive acts associated with a dominant market position or restrictive market practices. Indecopi oversees the Free Competition Commission, Consumer Protection Commission, Unfair Competition Commission and the Market Access Commission. However, these governmental commissions apply the law only sporadically. Bureaucratic corruption still takes a serious toll, and the desired market dynamics continue to have priority. The Global Competitiveness Index ranks Peru only 76th out of 139 countries with respect to the effectiveness of the government's anti-monopoly policy, indicating a certain gap between legal provisions and actual practice.

Anti-monopoly
policy
8

The state has extensively deregulated foreign trade. No fundamental state constraint on free trade remains. This particularly applies to the treatment of foreign investments and the holding of securities. The government has eliminated all restrictions and controls on payments, transactions, transfers and repatriation of profits. The free trade agreement with the United States, which was approved by the Peruvian Congress in 2006 and by the U.S. Congress in 2008, represented a considerable step forward in this area. The agreement entered into force on 1 February 2009. Peru also signed free trade agreements with Chile, Canada and Singapore, all of which entered into force in 2009. A separate free trade agreement with China was signed and ratified in 2009, entering into force in March 2010. Another agreement was signed with the European Free Trade Association (EFTA) in 2010, and an agreement with the European Union in March 2011. In addition, Peru engaged in bilateral negotiations with Thailand. Taken as a whole, these agreements covered 95% of Peru's international trade by the close of García's term.

Liberalization of
foreign trade
9

Peru's average tariff has been reduced steadily from a peak of almost 70% in 1988 to 3.4% in December 2010, when the Ministry of Finance reduced tariffs in three different groups. 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.

Peru's banking system is solid, and oriented toward international standards with functional banking supervision and minimum capital requirements. Capital markets are open to domestic and foreign capital, with sufficient resilience to cope with sudden stops and capital flow reversals. With the opening to foreign institutions in the early 1990s, the Peruvian financial system modernized rapidly and became more competitive. It now rests on a more solid foundation. The government has implemented some measures to strengthen bank supervision following the principles of the Basel II accord, but these measures are still not up to the highest international standards. In line with Basel II, capital requirements for all types of risk have been introduced, including credit, market and operational risk.

Peru's banking system proved remarkably resilient in the face of the international financial crisis. This is not only due to weak ties with those elements of the international financial system that proved to be fragile, but also a result of the successful coordination between the Ministry of Finance, the Central Reserve Bank (BCRP) and the Superintendency of Banks and Insurance (SBS). Together, these bodies managed to ensure liquidity for the financial sector and capital markets, and successfully minimized systemic risks. Large quantities of official reserves, strong indicators of financial soundness within the banking system, and banks' limited reliance on external capital have helped preserve conditions of stable liquidity. Consequently, the Global Competitiveness Index ranked Peru 18th of 139 countries with regard to the soundness of its banks. In the course of the crisis, the share of nonperforming loans increased only modestly to 2.8% in January 2010, up from 2.2% in 2008. The longstanding problem of substantial dollarization within the banking and financial sector has diminished in recent years, due to the evolution of a national capital market during the 2000s.

8 | Currency and Price Stability

Inflation and foreign exchange policies are pursued in concert with other economic policy goals, and are institutionalized in a largely independent central bank. The García government continued its predecessor's consistent policy on inflation and currency. Since 2002, the central bank's inflation target has been an annual cumulative inflation rate of 2%, with an allowable band between 1% and 3%. The inflation rate, which returned to single digits in 1997, has been kept low since that time, although it climbed to 3.9% in 2007 and 6.7% in 2008 due to increases in fuel and food prices. With the onset of the economic slowdown caused by the financial crisis, inflation fell to near zero in the second half of 2009. The overall annual rate thus fell to 0.2% in 2009, and to 2.2% in 2010. The exchange rate regime is in principle a floating system, although the central bank intervenes in the currency

Banking system

9

Anti-inflation /
forex policy

10

market by buying and selling dollars in order to curtail exchange rate volatility. Seeking to contain currency appreciation during the last two years, the central bank intervened in the foreign exchange market, raised reserve requirements on short-term foreign currency borrowing and eased restrictions on institutional investment abroad.

The government's fiscal and debt policies promote macroeconomic stability, supported in part by institutional (self-)constraints. In 1999, the Fiscal Responsibility and Transparency Law (FRTL) was enacted, limiting the public deficit to 1% of GDP and the increase in government consumption to 4% a year. The García administration maintained a record of solid macroeconomic management, keeping to the path of budgetary discipline. The public sector even recorded a surplus of about 2% to 3% of GDP between 2006 and 2008. A proportion of the surpluses were placed in a Fiscal Stabilization Fund (FSF), to be used in the case of downturn. With the onset of the crisis, the government reacted rather early with expansionary fiscal measures. Accordingly, the public-sector deficit increased to 1.8% of GDP in 2009 and to 0.7% of GDP in 2010. Public debt as a percentage of GDP was kept at a relatively low level, falling from 24.1% in 2008 to 23.4% in 2009 and to an estimated 20.8% in 2010.

Macrostability
10

9 | Private Property

Regulations and rights governing the acquisition, use and sale of property are well defined in law, but there are occasionally problems with implementation and enforcement. The securing of property rights has made important progress since the 1990s, supporting the new dynamics of the market economy. However, there are significant exceptions in a large swath of the country. In these areas, as the Economist reported in 2009, few landowners have formal titles to their land, or those titles are unclear. Some areas are inhabited by the indigenous population, where land titles are not defined at all, are not clearly defined, or are defined in a way that is incompatible with indigenous values. These ambiguities still hamper the use and enforcement of property rights, and sometimes lead to violent conflicts such as those between citizens and resource-extracting companies. The main problem, however, lies in the fact that property rights are not adequately protected in practice, because the judicial and administrative systems are still flawed, hampering the ability of individuals and businesses to enforce contracts. The Global Competitiveness Index ranks Peru only 92nd of 139 countries with respect to protection of property rights, and 123rd with regard to intellectual property protection. The Heritage Foundation gives Peru a rather low score of 40 out of a possible 100 points on the issue.

Property rights
7

Private companies are viewed institutionally as the primary engines of economic production, and are given appropriate legal safeguards. Private enterprise was the driving force behind Peru's economic recovery during the last 15 years. The García administration put significant emphasis on the private sector as an engine of growth, and sought to attract private investment in nearly all sectors of the economy. The privatization of state companies has not always proceeded in a manner consistent with market principles, and has met with increasing resistance since the return to democracy in 2000. The privatization of two electricity companies in southern Peru was suspended in the wake of sometimes-violent protests. Some members of parliament have also opposed further privatization, but this has not to date led to a reversal of privatization policies. However, the main instruments of private sector participation are now public-private partnerships and concessions granted to private companies. Major concessions have been granted for mining, ports and airports projects, but also extend to energy, natural gas, hydroelectric power and irrigation, telecommunications, sanitation, land transport, trains and tourism projects. Some of these projects are still underway or have been postponed. Several companies, such as Petroperú, remain state-owned and operated.

Private enterprise
8

10 | Welfare Regime

Welfare institutions designed to avert social risks exist but vary substantially along regional and social segmentations. Peru's hybrid welfare regime is limited to certain sectors and reaches only part of the population. Deficiencies are severe in rural areas. Even before the deep crisis of the 1980s, the social insurance system offered scant coverage and excluded the rural population. Since that time, a lack of funds and the expansion of informal employment have further eroded its effectiveness. The insurance system provides payments in instances of illness, pregnancy, disability, old age and death. Since 1992, the public social security system has been supplemented by a competitive private system. The entire system, however, covers only half of the Peruvian labor force, as those working in the informal sector are not a part. In 2010, the minister of economy and finance announced the implementation of a social security system for workers in micro and small enterprises. The health system is primarily composed of the EsSalud social health insurance system, the comprehensive health insurance system and the private insurance plans, with an additional health insurance system for the armed forces and the national police. According to national household survey data, about a third of the population is covered by the various systems. Similar figures are reported by the ILO and World Bank for the pension system, which is made up of the public pension system and a private system for the administration of pension funds. Unemployment insurance is virtually nonexistent.

Social safety nets
5

A collection of social programs is intended to cover some of the basic needs of the poor. The García administration instituted a variety of new social programs and extended existing ones, and implemented measures designed to enhance the equalizing effect of transfers for local administrations. It reduced the number of relevant multisectoral programs from 82 to 26, improving their efficiency and effectiveness. In 2007 the government created its Crecer (Grow, in Spanish) strategy, which is directed at fighting poverty and chronic malnutrition among children. Other programs, such as Juntos (Together), have been implemented in spite of a lack of short-term political benefits, due to their medium- or even long-term impact. Juntos is a so-called conditional cash transfer (CCT) program initiated in 2005. The state extended this program during the period under review. By December 2010, the program covered about 490,000 poor households, including more than 1 million children. Like many other issues in Peru, the success or failure of Juntos is heavily debated with respect to both efficiency and corruption. A World Bank study from May 2011 concludes that the program works but leaves significant room for improvement.

Peru has institutions designed to compensate for gross social differences, but relative to the magnitude and broad range of inequalities they are limited in scope and quality, and suffer from inefficiencies in the state's bureaucracy. Despite persistently strong economic growth in recent years, about 35% of the population still lives in poverty; in some rural areas this rate is above 70%. The disparity of income distribution in Peru remains severe, although it is more moderate than in Brazil or Chile. Equal opportunity is not a reality in Peru, and access to public services does not take place on an equal basis. This inequality is often combined with discrimination against indigenous people.

Few mechanisms promote the advancement of women, persons with disabilities or the socially disadvantaged. Discrimination against women limits their access to post-secondary education, income and public office. The Ministry of Women and Social Development (MIMDES) is responsible for special programs focusing on gender equality. Its mission is to fight inequality, poverty and exclusion and to work toward equality of opportunity for the disadvantaged in Peruvian society. It has programs specifically devoted to helping women, especially those suffering most from exclusion, poverty and violence. Among these are the National Program against Family Violence and Sexual Abuse (PNCVFS), the Program to Support Resettlement (PAR) for people affected by violence, and the Wawa Wasi Program, which is designed to provide a safe environment for and develop the skills of children of poor and working mothers. There are no special provisions aimed at enhancing women's political participation, with the exception of a provision established in 1996 mandating that at least 30% of candidates on party lists be women. However, not all the parties comply with this quota. Discrimination against

Equal opportunity
5

women also persists within the state apparatus – especially the judiciary – although some progress has been made in national, provincial and local assemblies.

With respect to equality of opportunity for indigenous people – estimated to make up about one-third of the population – the National Institute for the Development of Andean, Amazonian and Afro-Peruvian Peoples (INDEPA) was created in 2005. INDEPA is tasked with formulating and supervising policies, programs and projects for integral development and with coordinating specific policies with regional governments, including the protection of biodiversity and indigenous peoples' collective knowledge. However, INDEPA lacks a separate budget, and there has as yet been no evaluation of its effectiveness. In 2010, INDEPA was moved under the Ministry of Culture, provoking criticism by indigenous organizations and the National Coordinator for Human Rights, among others.

11 | Economic Performance

During the period under review, the Peruvian government, along with the central bank, successfully managed the unfavorable economic conditions caused by the global financial crises, actively stimulating the domestic economy and intervening in financial markets. As a result, the country's economy reversed an initial slowdown and returned to the dynamics seen before the crisis. GDP growth fell from 9.8% in 2008 to just 0.9% in 2009, but jumped to 8.6% in 2010. The inflation rate, which had climbed to 6.7% in 2008, fell to 0.2% in 2009 and 2.2% in 2010. While the public sector's budgetary balance recorded a surplus of 3.1% of GDP in 2007 and 2.2% in 2008, it turned to deficit in 2009 (-1.8%) and 2010 (-0.7%) due to the government's temporary anticyclical measures; this deficit is expected to be further reduced in 2011. Public debt was reduced from about 24% of GDP in 2007 to about 21% in 2010. Tax revenues fell from 15.4% of GDP in 2008 to 13.4% in 2009, but increased again to 14.9% in 2010. While exports as well as imports diminished significantly in 2009, they grew strongly again in 2010, with a positive trade balance of \$5 billion in both years. FDI inflows fell from their peak of about \$6.2 billion in 2008 to \$4.4 billion in 2009. Foreign exchange reserves were not affected by the crisis, but rose from \$31.2 billion in 2008 to \$33.2 billion in 2009 and \$42.5 billion by September 2010. The urban unemployment rate remained almost unchanged at 8.4% in 2009, with a slight decrease to 8.0% in 2010.

Output strength
9

12 | Sustainability

Though environment policy long lacked an adequate institutional framework in Peru, the García government made efforts to update the country's regulations in this area, in part to comply with provisions of the 2007 free trade agreement with the United States. However, a new environmental policy is in only the early stages of

Environmental
policy
6

implementation, and enforcement of legislation remains deficient. At times, even existing environmental regulations are overridden for economic considerations.

Deforestation, overgrazing and overfishing, desertification, and air and water pollution are the nation's primary environmental problems. Worsening environmental problems – especially soil erosion and the contamination of rivers and lakes – primarily affect the highlands and the Amazon basin. Though change is slow, Peru has seen a slowdown in environmental degradation in recent years. Environmental awareness in society and among lawmakers has grown in recent years, not least because of the recurring El Niño phenomenon and the radical protests against pollution by mining firms. In general, however, public and political awareness remains low, though a more deep-seated awareness of the environment and of nature can be found among several indigenous communities.

The García government introduced a broad new set of environmental policies at an impressive pace. A major step toward strengthening the institutional framework was the creation of the Environment Ministry in May 2008. In May 2009, a new environmental policy was adopted, leading to the National Plan for Environmental Action (PLANAA), with a time horizon of more than 10 years. In addition to the ministry, the main institutional pillars now include the National System for Environmental Management (SNGA), tasked with conducting and coordinating environmental policies; the National System for the Evaluation of Environmental Impact (SEIA), which is responsible for performing impact assessments for private and public investments; the National System of Environmental Information (SINIA); and the National System of Environmental Evaluation and Auditing (SINEFA).

Though these steps are all important, their implementation has barely begun, and the task of coordination is immense. The Environment Ministry itself recently conceded that the operations of SINIA and SINEFA to date have been unsatisfactory. In addition, policy reversals are possible. García issued a decree in January 2011 which exempted 33 investment projects from the environmental impact certificates necessary under the SEIA law. Moreover, experience has shown that there has been limited continuity between administrations.

Though the García government was conscious of the structural problems within Peru's educational system, and initiated reforms, the performance of the education sector has remained low. Education and training facilities are available in significant portions of the country, but vary widely in quality. Though Peru's primary education enrollment rate has reached high levels, and completion rates for marginalized urban and rural youth are reasonably high, the quality of education is still rather low. The sector remains a significant obstacle to further development in all areas. Peru spends relatively little on its primary education system. The costs per pupil are among the lowest in Latin America; the wages earned by Peru's teachers

Education policy /
R&D

5

are among the lowest in the region both relative to per capita income and compared to other public servants. The state's expenditure for education since the 1990s has stalled at about 3% of GDP (2009: 3.1%).

The García government intended to reform the entire education sector, but progress is slow. In 2006, it started the National Education Project (PEN) to set long-term priorities in education. An evaluation of PEN four years after its initiation, published in *Revista Economía y Sociedad* in 2011, shows that results have been very mixed. First, quality improved significantly, but Peru still lags behind international levels. While the gender gap has narrowed somewhat, disparities based on socioeconomic conditions remained. Second, a process meant to enhance local responsibility through decentralization and the encouragement of participation encountered enormous financial and organizational difficulties, and did not advance noticeably. Third, while public spending on education increased by 85% during the last decade, it merely stagnated if calculated as a percentage of GDP. In addition, spending per pupil (\$476) is only one-third the amount spent in Colombia, Chile or Brazil.

Definite shortcomings persist in the area of research and development, with expenditure at around 0.1% of GDP. Except for a few extractive industries, Peru's technology standards – and thus its productivity – are low. This is in large part attributable to the low quality of its tertiary education system, and the relatively small number of technology specialists. As part of its national export strategy, the government has launched various initiatives aimed at raising technological standards in specific sectors such as textiles, jewelry, aquaculture and fisheries. The scale and impact of these initiatives have been limited thus far.

Transformation Management

I. Level of Difficulty

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

Structural
constraints
5

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

Civil society
traditions
6

institutions are both rather low, with resentment toward the “central state” quite strong in regional pockets.

Although Peruvian society is plagued by discrimination, and is divided along lines of social class and ethnic community, this has not yet led to parallel splits in the political landscape, nor to major violent conflict. However, various mobilized groups and protest movements have become stronger in recent years, and on occasion voice their interests unconventionally. The police and the military – the latter having been empowered to intervene in cases of public unrest – have also contributed to the escalation of conflicts. In addition, radical political actors have demonstrated an increasing interest in mobilizing ethnic or social groups. The “ethnicization” of Peruvian politics casts a dark shadow over the prospects for coherent management of transformation, as has been the case in neighboring countries Bolivia and Ecuador. Violent incidents have occurred in Lima as well as in the Andes and Amazon regions.

Conflict intensity
5

II. Management Performance

14 | Steering Capability

Coming into office in July 2006, the García administration faced a wide range of political, economic and social problems left by its predecessor. In the course of his term, which ended in July 2011, the government’s priorities became successively evident, and might be summarized as “solid economy first.” In other words, though the leadership was generally committed to constitutional democracy and a market economy guided by principles of social justice, these aims were not always given the appropriate priority. First, they were sometimes postponed in favor of short-term crisis management strategies and other gains. Second, the general aims were only partially translated into specific agenda items. Third, conflicting objectives have shared the agenda, such as the pursuit of security vs. civil liberties, or attempts to cultivate a good relationship with the armed forces vs. the need for an independent judiciary. These conflicts have hampered the translation of priorities into a sound strategy. Fourth, the government clearly prioritizes economic development over the strengthening of democratic institutions. Fifth, principles of social justice have not been the primary guide to economic development; rather, the government has sought first to maintain macroeconomic stability, and then to apply windfalls to fund “trickle-down” policies, though these policies were complemented by a tighter institutional framework during the course of his term.

Question
Score

Prioritization
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Thus, while deprioritizing democratic reforms, the government and above all President García have pursued the deepening of Peru's economic transformation with considerable resolve, frequently resorting to governing by decree. Examples include the free trade agreement (FTA) signed with the United States, which García vehemently defended before the Peruvian public. In addition, reforms addressing the informal sector fit into this modernization strategy, and even tackled some of the underlying problems of Peru's economy and welfare regime. The government – along with the central bank – also showed admirable determination in tackling the economic crisis. However, this kind of economic transformation has not always seemed commensurate with the country's situation, problems and needs, as the persistence of inequality and the high levels of disapproval of the government's performance illustrate. García seemingly tried to deflect criticism and counter his declining approval ratings by making frequent public appearances, but without success.

Though its reform agenda was somewhat one-sided, the García government had partial success in implementing its announced reforms. The economic agenda, social policy programs such as Juntos, and reforms in education and environmental policy were implemented, albeit with some difficulties and with mixed results. Other agenda goals, such as parts of the informal sector reform, were not implemented successfully, falling victim to postponement or outright abandonment. Implementation not only suffered from programmatic incoherence, but also from a lack of coordination and competence and the inefficiency of the state administration. The García administration did achieve some of its reform goals, most noticeably where regulations could be issued by decree and where consensus-building was unnecessary. However, even some of these reform steps suffered from hasty implementation and a lack of coordination. Important initiatives, such as judicial reform and the law to reform the civil service, either went unaddressed or did not proceed. While some government agencies – such as the Ministry of Economy and Finance – showed the ability to develop clear policies and suggest effective implementation strategies, others demonstrate weaker organizational capability.

The government demonstrates a general policy learning ability, but its flexibility is somewhat limited. Learning processes affect routines and policies only inconsistently. The pace of government actions has largely been set by the president alone, resulting in a president-centered, nearly unilateral decision-making process. García at least learned from the disastrous performance of his first administration in the 1980s, conducting more sophisticated economic policies during his second term that allowed for a flexible and rather innovative response to the economic crisis beginning in 2008. These policies also reflected the aggregated experience and learning contained within the widely respected Ministry of Economy and Finance, which has proved able to operate effectively despite frequent ministerial changes

Implementation
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Policy learning
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(there have been five ministers since July 2006). The government also worked closely together with the IMF (which in turn praised the authorities' cooperation). Other areas of government, however, suffer from the weaknesses of Peru's state administration (a situation even more dire in regional and local bureaucracies). These administrative impediments badly undermined the government's attempts to rely on effective monitoring and evaluation. Frequent cabinet changes – one per year, on average – also hampered the process of continuous policy learning, as well as of institutionalization. In effect, policy learning has taken place only coincidentally in Peru, with the government reacting to changing conditions with mere changes in policy outputs. In large part, the administration was even driven by an agenda set outside the government, and relative to which it played a mostly reactive role (e.g., the frequent social turmoil or the corruption scandals).

15 | Resource Efficiency

Though the García government did not make optimum use of available human, financial and organizational resources, it has sought to improve efficiency. The government was not only committed to an austerity policy and a carefully balanced budget, but it also managed the state's surpluses well, giving it the ability to address the difficulties caused by the financial crisis. Public deficits due to the crisis management are credibly transitory, and the level of state debt is without doubt manageable. The state's budget is rather effectively audited by the autonomous Comptroller General. Though transparency of budget planning and implementation could be improved, actual budget expenditures deviated relatively little from associated expenditure plans. The government took steps to streamline the public administration, improve coordination between agencies and programs, and simplify administrative procedures by further implementing the rather complex state administrative reform plan. Some of the regulations implemented in the wake of the FTA with the United States are aimed at an improved use of financial resources. However, due to the inefficient bureaucratic apparatus, whose reform is still pending, policies and measures which went beyond some core areas (macroeconomic management, management of state resources) did not proceed.

Important deficits remain concerning human resources. Despite various attempts at reform, many observers consider Peruvian bureaucracy as inefficient and corrupt, with a nearly total lack of meritocracy. The government's efficiency suffers from a state apparatus with low skills, particularly at the regional and local levels. Politically motivated staff changes decreased in comparison to the Toledo government, but remain present and more pronounced at lower levels of the state administration. There are about 1 million state employees, comprising about 6% to 7% of Peru's active labor force. However, as the director of the recently created National Authority of the Civil Service (SERVIR) admitted in 2010, the Peruvian

Efficient use of
assets

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state does not know the exact count of state employees, as there has to date been no registry created. SERVIR was created in 2010 to improve the professionalism and enhance the transparency of Peru's civil service, but is starting virtually from scratch. At the end of 2010, there were rumors that the outgoing government would issue regulations to exempt some trusted employees from dismissal by the administration's successor; this was also done by President Toledo in 2006 before leaving office.

The García government seeks to coordinate conflicting objectives and interests, but either shows only partial success or plays a decidedly zero-sum game. It has sometimes set rigid priorities, as was the case with the NGO law and its military policies (security/efficiency vs. liberal principles). Some of the president's rather frequent cabinet changes were due to conflicts between ministries. With respect to coordination, President García on the one hand imposed a strict hierarchical relationship within his cabinet, therefore achieving a certain policy coherence at least on core policy goals such as the consolidation of the market economy. The technocratic staff of the Ministry of Economy and Finance proved capable of at least outlining conflicting goals in its agenda. Observers argued that García's sometimes erratic style of governance was attributable to a lack of clear principles, for which he compensated with political maneuvers such as issuing decrees or making public interventions. On the other hand, during the period under review there were several interministerial committees tasked with coordinating policies affecting multiple ministries, such as social and environmental policies or the newly created anti-corruption commission. At times, the president himself undermined his own government's legislation by issuing what were often rather controversial decrees. This strategy, for example, was used to exempt several investment projects from environmental impact evaluation. There is therefore some doubt as to whether the leadership can ensure that its overall policy is coherent.

Policy
coordination
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Although the government has been generally committed in its fight against corruption, it delivered a rather ambiguous performance during the period under review. Attempts have been characterized by a high degree of inconsistency, and have been harmed by the lack of a national anti-corruption policy. Though a legal framework to combat corruption and essential integrity mechanisms have been enacted, these instruments suffer from inefficiency, a lack of implementation and in many cases, a lack of genuine political will. As an example, during the 2000s, the Toledo and García governments repeatedly created national anti-corruption agencies, but later replaced or deactivated them. In 2006, the García administration created an anti-corruption council that was replaced by the National Anti-Corruption Office (ONA) in 2007; ONA was formally deactivated in 2008, and – after a severe corruption scandal in November 2008 led to the resignation of the entire cabinet – the national plan to fight corruption was subsequently presented (which was still in place as of the time of writing). In 2010, the García government

Anti-corruption
policy
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created a new Anti-Corruption Commission (CAN), tasked with developing medium and long-term strategies to prevent and fight high-level corruption. This is intended to include a center for monitoring advances in the fight against high-level corruption (though as of the time of writing, its website still read only “in process of implementation”).

Notwithstanding these failures, core legislation aimed at fighting corruption exists. State spending is audited by the Comptroller General, though the labyrinth of Peru’s administration – there are about 1,500 public entities – often impedes transparent auditing, particularly of spending at the regional and local levels. Party financing is regulated by the Party Law, but lacks a sound framework or rigorous auditing mechanism, with the result that contributions to parties and campaigns have little transparency. Citizen and media access to information on all state activities has been improved by the Law on Access to Information and by additional regulations providing for transparency. However, there has been no rigorous evaluation of this measure’s impact. To promote transparency, Peru’s domestic legislation requires public officials in senior positions to provide asset declarations. In sum, though the main integrity mechanisms have been provided with a legal framework, implementation has been very uneven and the measures have to date proved largely ineffective.

16 | Consensus-Building

Apart from illegal actors (i.e., guerrillas and organized crime groups), virtually all significant political and social actors agree in principle that establishing a stable democracy and market economy should be the goals of reform, though there is some controversy over strategic priorities. In addition, some doubts persist about the political orientation of incoming President Ollanta Humala, particularly in terms of economic policy. The García government did not do enough to strengthen consensus on goals, showing rather an inclination to act unilaterally or rely on the backing of strong actors such the employers’ organizations or the armed forces. Consensus could have been strengthened by referring to the National Agreement on Governance (Acuerdo Nacional), which was launched by President Toledo and his team in 2002, and included all of Peru’s important parties and social forces. Though its implementation failed due to the political stalemate, it is still seen as a blueprint for the course the country must take. Even the García government referred occasionally to the agreement, but this could be done more systematically, and accompanied by an integration of the political forces backing the accord into the policymaking process.

In narrowly defined terms, the government successfully incorporates or integrates potential veto powers such as the military and the business community. The military in particular seems to be kept under control, and the government has

Consensus on goals

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Anti-democratic actors

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worked hard to improve civil-military relations. Indeed, the government and the governing APRA party appeared to have entered into a new alliance with the armed forces during the period under review, as evidenced by the law on military justice and the bills to provide amnesty (or pardons) to perpetrators of human rights violations between 1980 and 2000. The four decrees issued in September 2010 point in the same direction. There are severe problems with illegal actors, be they Shining Path, the coca mafia or the clandestine groups of the so-called Mafia Fujimori-Montesinista. The cocaleros and their unions, who openly demand an end to the García government's coca eradication policy, are a special case: They pursue illegal aims, but do so legally and in public.

Given the potential for severe conflicts arising from unattended demands, Peru's political leadership has been reasonably successful in managing social cleavages. Social tensions have been an issue in many parts of the country, and the government has taken action to address them. The leadership created a conflicts unit within the Council of Ministers to facilitate dialogue with disaffected groups and to provide for conflict settlement. However, many conflicts stem from the state's reluctance to fulfill its promises, and from its tendency to push through desired policies despite open criticism. As a consequence, the government has often been surprised by the outbreak of conflict, and has been able only to react. The most salient example of this was the civil unrest in Bagua in 2009, when 32 indigenous people and police were killed during protests against García policies. The government later reacted with decrees expanding the role of the military in cases of unrest – a measure doing little to manage the sources of conflict. Thus, key political actors have not only been unable to mitigate the latent conflict associated with ethnic and socioeconomic division, but have even contributed to the alienation felt by the indigenous and Amazon people. However, political fragmentation has made it easier for political leaders to prevent structural conflicts from escalating further. The government's strong focus on political decentralization might bring progress on the issue of regional heterogeneity, as local institutions now better represent these differences. However, this presupposes a careful delineation of political and fiscal responsibilities that has not yet occurred, though the government is continuing its streamlining process.

In terms of long-term political strategy, the political leadership tends to ignore civil society actors and formulates its policy autonomously. Some actors, such as the employers' organizations and the armed forces, are involved behind the scenes in identifying political priorities and formulating policies. However, fragmentation and the centrifugal tendencies in Peruvian civil society make it difficult to find adequate counterparts in civil society who are interested in sound national policies beyond particularistic goals. Peruvian politics has been marked by the neglect of many social demands and a failure to deliver on promises. As a consequence, when addressing demands from civil society, the government mostly reacts to the

Cleavage /
conflict
management

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Civil society
participation

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outburst of conflicts. The law on NGOs illustrates this tension nearly perfectly. Though the state is interested in containing excessive conflict, its measures have run counter to democratic principles.

Like its predecessors, the current political leadership recognizes in principle the need to deal with historical acts of injustice, but this goal is subordinated to other political goals. Measures such as the decrees issued in September 2010, which would have created a blanket amnesty for the security forces, even point to the opposite direction (the decree was withdrawn after sharp domestic and international protest). In short, the process of reconciliation stagnated during the period under review.

Progress made during the 2000s was mainly driven by civil society actors rather than by politicians. Those initiatives which have aimed at addressing the human rights violations committed between 1980 and 2000 will have a positive effect in the long term. Particularly as compared to similar efforts in other Latin American countries, these initiatives have been purposeful and comprehensive. The establishment of the Truth and Reconciliation Commission in 2002 has led to intensive work collecting testimonies, compiling a new record of the victims of human rights violations (70,000 individuals – not the previously presumed total of 30,000 – were killed), and determining the perpetrators of crimes committed. However, the impetus for a true reconciliation was lost in the wake of these successes, and most of the commission's recommendations have not been carried out.

In 2007, the National Council for Reparations began its work monitoring reparations given to victims of human rights abuses documented by the truth commission. By 2010, most of the victims had been identified and integrated into the Victims' Registry. Reparation payments coordinated by a special commission (Comisión Multisectorial de Alto Nivel, CMAN) have begun through the financing of projects in several communities identified as collective victims of the armed conflict. However, the García administration did not demonstrate great interest in pursuing a comprehensive strategy of reconciliation. The process has been slow, especially in the case of the trials of members of the military and the police, who along with the Shining Path guerrillas were the main perpetrators of injustices. Indeed, President García seemed inclined to provide unconditional backing to all members of the security forces accused of human rights violations. However, sharp criticism by Peruvian civil society led him to withdraw Decree 1097. Elsewhere, there has been some movement within the military to document its role during the dirty war, thus contributing further to the process of reconciliation.

17 | International Cooperation

The political leadership works with bilateral and multilateral international donors, and tries to make efficient use of international assistance. In significant sectors it makes well-focused use of international aid in order to implement its long-term development strategy. As outlined above, this strategy aims predominantly at economic and social development, and to a lesser degree at strengthening the institutional framework of democracy, though some steps have been taken in the realm of anti-corruption policies. The government coordinates its high-priority reforms closely with the International Monetary Fund, the World Bank, and the Inter-American Development Bank, and has earned guardedly positive marks from these institutions. The government for the most part makes effective use of the resources provided by international partners. In contrast, the role of outside actors in the democratic transformation process is minor. The government has worked with the United States in passing the free trade agreement and at a strategic level in the war on drugs. However, this latter policy has encountered (sometimes quite significant) resistance from coca farmers.

Effective use of
support
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In general, the García government acted as a credible and reliable partner in its relations with the international community, and was able to build confidence in its reform policies. Indeed, there was a huge gap between its credibility within the country and its credibility internationally. Apart from the country's close relations with bilateral and multilateral donors, the web of free trade agreements established all over the world represents an additional sign of trust in the Peruvian leadership. Tensions with Chile concerning the maritime border between the two countries, which rose under the Toledo presidency, were tempered and ultimately brought before the International Court of Justice in The Hague. The country thus demonstrated its willingness to adhere to international norms of peace and justice. In 2008 – 2009, Peru obtained investment-grade status from all three major rating agencies. The rise in its rating was attributed to the significant decrease in Peru's fiscal and external vulnerabilities, broad and diversified sources of growth, low level of inflation, and improved macroeconomic fundamentals. There is a caveat to consider concerning the transformation to democracy, however, as the above-mentioned NGO law and subsequent maneuvers have led the international NGO community to doubt the government's commitment to liberal principles.

Credibility
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Peru's political leadership cooperates with many neighboring states and complies with the rules set by regional and international organizations, although President García was quick to criticize neighboring countries on some issues. The government has sought closer cooperation among the Andean Pact countries; however, this has at times been difficult given the political changes taking place in Bolivia, Ecuador and Venezuela. While relations with neighboring Ecuador remain

Regional
cooperation
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friendly, tensions with Bolivia and Venezuela have emerged over the region's appropriate political and socioeconomic model. The passage of a free trade agreement with neighboring Chile was an important step. In 2007, Chile extradited former President Fujimori to Peru, a clear sign of confidence in Peru's democratic capabilities.

Strategic Outlook

Although the García government did not manage the country's transformation as well as it could have, there has been noticeable progress concerning economic governance, and some of the administration's reform measures during the period under review moved in the right direction despite poor communication with the public. However, Peru's problems will only be surmounted by a mix of strong policy and critical reforms, which will require a strong political consensus. It remains unclear whether political elites will be able to build upon the recent transformation successes – fragile they may be – and whether the Humala government will continue the as-yet-incomplete reforms as originally planned through the medium and long term. The sustainability of reforms is dependent on political elites' willingness to stick to the path of reform over time. The political elite should provide an update of the 2001 National Agreement on Governance (Acuerdo Nacional), articulating a stronger commitment to institutional reforms. However, this would require a shift in the behavior of the entire political elite, which in the past has pursued shortsighted and particularistic strategies instead of favoring long-term planning and the common good.

Although social and economic development has been insufficient to date and needs to be addressed in the near future, Peru's most urgent transformation problems lie in the realm of politics and political management. Though the García administration continued or addressed some elements of a comprehensive transformation strategy, its deepening is required. This process should focus on four key elements:

- **Securing stateness:** Though the García government confronted the problem of stateness more thoroughly than did the Toledo government, problems nevertheless increased due to growth in transnational drug trafficking. The new government would greatly benefit from increased international cooperation with its neighbors and international organizations, aimed at containing the erosion in control related to the drug trafficking mafia. Because the problem is multifaceted – spanning the issues of guerrilla activity and urban crime, anomic tendencies and mafia organizations – the new leadership should also develop a national master plan that more effectively combines the legitimate use of force with “softer” strategies such as prudent conflict management, socioeconomic measures and – in the case of coca producers – an offer of alternative production options. Above all, the state should draw a clear line between (sometimes) violent social protest and crime, whether organized or not.
- **Strengthening the system of political representation:** Peru's party system remains weak, and does not fulfill the function of aggregating interests and channeling the diverse demands of Peruvian citizens. This in turn contributes to the recurrent political turmoil in various parts of the country. In order to strengthen the party system, the political elites need to improve the functioning and internal democracy of the Peruvian political parties. Stronger party legislation is

necessary, above all concerning the regional and local levels, where centrifugal tendencies are undermining the still-weak representation structures between society and the state.

- **Strengthening the rule of law and the judiciary:** All of Peru's political actors need to demonstrate a stronger commitment to systemic judicial reform. As the Chilean example shows, a successful reform requires both committed reformers and the capacity to identify and break anti-reform interests (inside the judiciary, inside the state apparatus and among the political elite). The use of international advice and support will be crucial in implementing the daunting but necessary reform measures.
- **Reforming education:** Although some educational standards such as literacy have made progress, and the first steps toward far-reaching reform have been taken, Peru's education system is still hamstrung by low teacher salaries, low expectations and low performance. This is a severe obstacle not only to social and economic development, but also to the development of civic virtues and thus the strengthening of democracy. The task for the next administration will be to build on the García administration's reform steps, and to build consensus among political elites for a long-term strategy that recognizes the country's regional and cultural diversity.