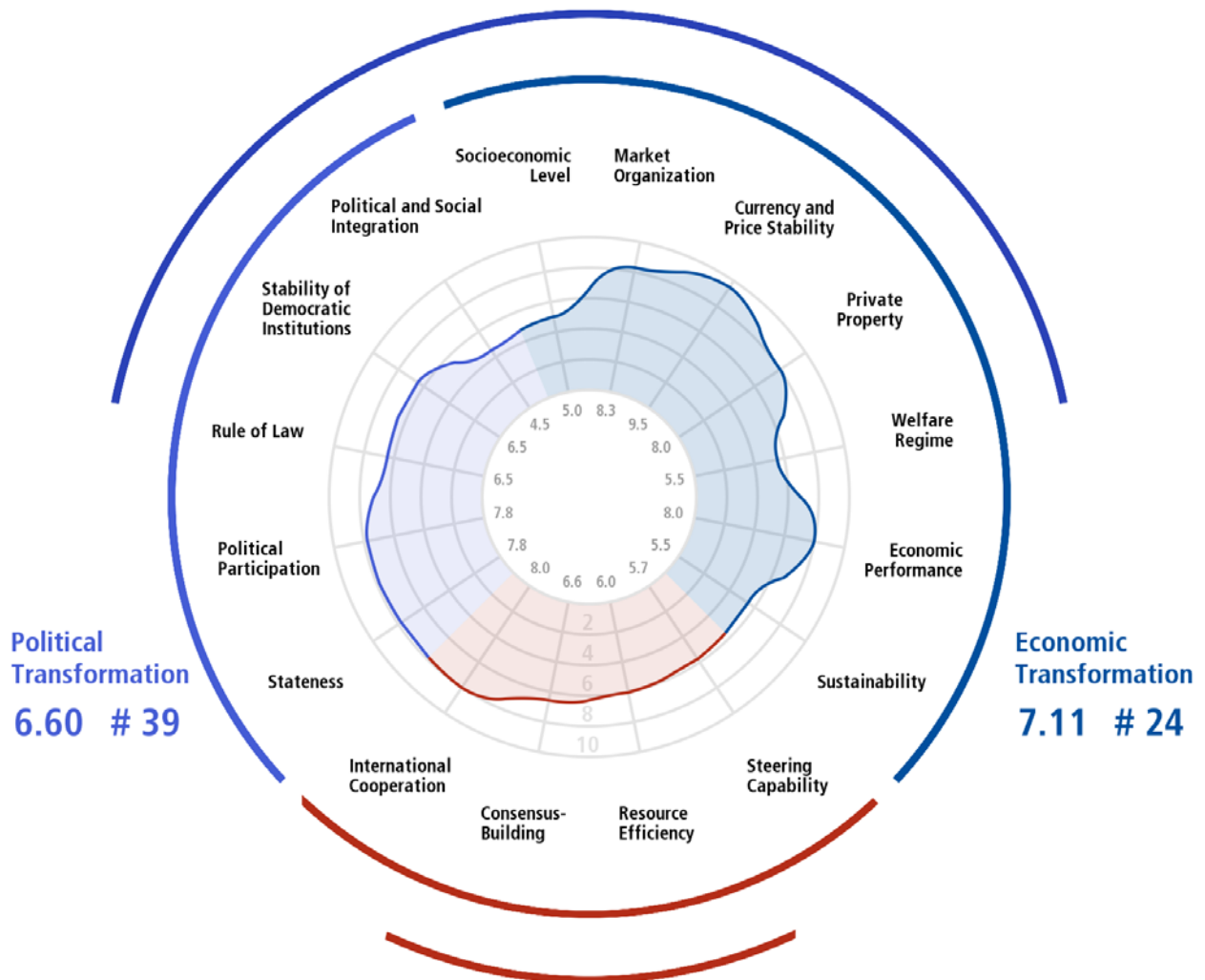


Peru

Status Index

6.85 # 29

on 1-10 scale out of 129



Political Transformation
6.60 # 39

Economic Transformation
7.11 # 24

Governance Index

5.81 # 39

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	31.8	HDI	0.740	GDP p.c., PPP \$	13022
Pop. growth ¹	% p.a.	1.3	HDI rank of 188	87	Gini Index	44.3
Life expectancy	years	74.7	UN Education Index	0.697	Poverty ³	% 9.3
Urban population	%	78.9	Gender inequality ²	0.385	Aid per capita \$	10.6

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

This report covers the end of the Humala administration (2011-2016), and the election and first year of the Kuczynski administration (2016-2021). This is the fourth consecutive elected administration since the fall of Alberto Fujimori in 2000, a record in modern Peruvian history. Historically, democratic periods have been short-lived in Peru. The end of the Humala administration was characterized by political and social instability due to tensions between the administration and opposition, and the growth of public discontent. However, viewed in retrospect, the Humala administration made important public policy advances, especially in social policy and education.

The inconsistent application of electoral laws further exacerbated the uncertain political climate in which the general elections were held. A few weeks before the election, two significant presidential candidates were excluded because they broke electoral law. However, other presidential candidates were allowed to participate despite allegations that their parties had been involved in similar activities. The exclusion of the two candidates and the perception of injustice were important contributing factors to the election result. These factors increased support for the left-wing candidate Verónica Mendoza and the right-wing candidate Pedro Pablo Kuczynski at the expense of Keiko Fujimori, who had previously been defeated by Humala in 2011. In the first round of the election, Fujimori won 39.9% and Kuczynski won 21%, both right-wing candidates. This led to the formation of a Fujimorista super majority in Congress. In the second round, Kuczynski (50.1%) defeated Fujimori (49.9%).

Kuczynski's electoral platform prioritized economic issues including the recovery of higher economic growth and the reduction of the informal economy. However, the new administration will have to secure the passage of its reform program through a Congress controlled by a belligerent and well-organized opposition. Furthermore, the main strength of the government lies in its technocratic capacities. However, there is a lack within the government of political cadres with the appropriate technical skills to balance the power of Congress. During its first months in

office, the government quickly lost popular support, and tensions between the government and the main congressional opposition increased. This has led to a growing concern about how the government's policy agenda will develop. In economic terms, the president and the main opposition have no important disagreements. However, there is no clear solution to the political tension between both groups.

The general international context is not promising either. The commodity price boom has ended and recent corruption scandals (e.g., the Lava Jato investigations in Brazil) may have profound consequences on the political situation in Peru.

History and Characteristics of Transformation

Since Peru's return to democracy in 1980, the country's transformation has been marked by abrupt changes. The transition to democracy began in the mid-1970s, when the political and economic failure of the military government (1968 – 1980) led to its retreat in a negotiated transition. 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 economic crisis, hyperinflation and terrorism. This deterioration culminated first in the election of the “outsider” Alberto Fujimori as president in 1990 and then in his “self-coup” in April 1992. Under international pressure, Fujimori partially restored constitutional processes, leading to the 1993 constitution and Fujimori's re-election in 1995.

However, the second Fujimori term can be characterized as a “competitive authoritarian” regime. Despite the formal existence of democratic institutions, power was highly concentrated, regular infringements on press freedoms, selective violations of individual civil liberties and ultimately electoral manipulation occurred, which secured Fujimori a third presidential term in July 2000. While civic protest against his re-election had been growing since 1996, it was only the discovery of an extensive network of corruption in 2000 that finally forced Fujimori to resign and seek immunity in Japan.

During the 1990s, the Peruvian party system and democratic institutions collapsed, introducing some of the main characteristics of the “post-Fujimori” era: high electoral volatility, the predominance of informal institutions, deinstitutionalized and highly personalistic political organizations – in general, weak democratic institutions.

After the transitional government under Valentín Paniagua, and Alejandro Toledo's election in May 2001, Peru returned to a proper democratic dynamic. Two major tasks emerged at the beginning of the new century: shore up democratic institutions and the recovery of representation in the political system; and ensure the foundations for inclusive and sustainable economic development. However, the last two years of Toledo's term were not politically stable, leading to the surge of Ollanta Humala's leftist nationalist movement. Notwithstanding its limitations,

Toledo began an important decentralization process by allowing the election of subnational governments.

The 2006 elections were marked by the politicization of deepening social cleavages in contemporary Peru. The fear that the radical candidate Humala generated helped Alan García win a second presidential term. While the economy's boom continued, García – formally a social democrat – increasingly adopted right-of-center (fiscally liberal) positions. In the 2011 runoff elections pitting Ollanta Humala against Keiko Fujimori, the ex-president's daughter, Ollanta Humala pursued a more moderate political position similar to that of Lula in Brazil. In so doing, he avoided an outright rejection on the part of Peru's elites and secured the presidency. The 2016 election runoff placed Keiko Fujimori against Pedro Pablo Kuczynski, a former banker and former economy minister within the Toledo administration. This was the fourth election held since the return of democracy, a record in modern Peruvian history. Both candidates were defenders of the economic status quo, but Kuczynski embraced the defense of democratic institutions and human rights, and the fight against corruption, and ultimately defeated Fujimori.

In terms of market economic transformation, Peru's development model of import-substitution industrialization fell into crisis in the 1970s. In the 1980s, neither the austerity policy of Belaúnde nor the heterodox economic policy of García proved able to curb the deepening economic crisis. Fujimori's administration finally tackled needed structural market-oriented reforms between 1990 and 1991, initially with support from the opposition in parliament. Fujimori initiated an orthodox policy of stabilization combined with aggressive structural reforms that included a package of drastic measures ("fujishock") aimed primarily at fighting inflation, restoring budgetary discipline and a restrictive monetary policy. Starting in 1991, most state companies were privatized, the state withdrew from the financial sector, an independent central bank was established, foreign trade was deregulated, the exchange rate was allowed to float, and restrictions on the movement of capital were lifted. As supplementary measures, the labor market was drastically deregulated and the market for agricultural land liberalized. Fujimori's reforms brought relatively rapid macroeconomic stabilization, and until the Asian and Brazilian crises of 1998, a very strong economic recovery.

However, the reforms stopped short of redressing decades-old structural imbalances, above all its severe societal distortions: the informal sector, poverty and underemployment, and institutional strengthening. Under the Toledo government, especially since 2002, surprising macroeconomic success was recorded, but without major structural improvements. The García government was rather successful in maintaining high growth rates, which contributed to a remarkable reduction in poverty – but again without reducing informality or inequality. In the context of the free-trade agreement with the United States, which President García pushed hard for, the government introduced several legal measures aimed at strengthening the institutional framework of Peru's market economy. During the first years, the Humala administration made known its interest in consolidating rather than changing the economic course. However, Humala's election commitment to combat inequality materialized in the development of social assistance policies. If poverty reduction was possible with sustained economic growth, this shows that an articulated social policy could also reduce inequality indices.

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

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

Transformation Status

I. Political Transformation

1 | Stateness

In principle, the state has a monopoly on the use of force, but is still challenged in some areas.

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

The further weakening of the Maoist rebel movement Sendero Luminoso (Shining Path), the once powerful terrorist group now tied to coca production and trade, indicates an advance toward increased state sovereignty. Important political and military commanders from one of the main factions in Huallaga were captured during the early years of the Humala administration (2011-2016). However, the problem remains in the area known as Valley of the Apurimac, Ene and Mantaro Rivers (VRAEM), where drug trafficking and senderista groups still have a significant presence.

Peru continues to be one of the main producers of coca, the main ingredient of cocaine. Despite enhanced efforts by the government and the national police, security forces have been largely unsuccessful in their fight against drug-related crime, especially with regard to the drug mafia. In that sense, there is an increasing public concern about national security, in some cases the activities of criminal organizations have been notorious. In addition, organized crime and new challengers to the state apart from drug trafficking have also been revealed. Subnational elections in 2014 exposed cases where illegal activities, such as smuggling, illegal mining and illegal logging, were developing in connect to mafia networks and contract killing. These events are not isolated and they seem to have strong links with the national and subnational political system. Illegal activities also prospered during the years of the boom in commodity prices. There are several cases that illustrate these relationships. In 2014, for example, scandals involving regional governments and criminal networks became public.

Question
Score

Monopoly on the
use of force

6

'06 '18 10

7 6

1

Despite being a multiethnic nation composed of white and black people, and people of indigenous and Asian descent, with a majority of “mestizos,” and also a very heterogeneous country in regional terms, the definition of citizenship has not been a politically relevant issue in Peru. Until recently, the politicization of Peru’s ethnic diversity – even for the indigenous population – has been of minor political significance compared to neighboring countries Bolivia and Ecuador. The state does not deny citizenship rights to any group, but there is widespread variation in the enforcement of these rights.

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

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

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

Two public initiatives illustrate this point: the regulation of therapeutic abortion and the proposal to legally recognize same-sex civil unions. The first initiative was approved despite church opposition, whereas a decision regarding the second issue has been postponed in Congress several times. Both proposals have been harshly criticized by religious groups, in particular Catholic and evangelical groups. Recently, the debate about reforms in national elementary and secondary education has also been criticized by religious groups due to the introduction of what they call “gender ideology” content. In that context, these groups have developed a more aggressive campaign against the government.

State identity

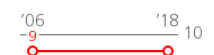
9



1

No interference of religious dogmas

9



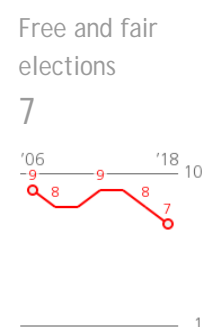
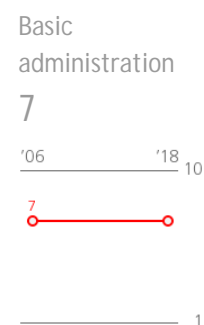
1

The state's basic administrative infrastructure extends throughout most of the country's territory, but its operation remains deficient. Problems include widespread corruption, the limited technical skills of bureaucrats and the system's inability to reach the poor. The weak presence of the central state's administration outside Lima and the coastal areas of the country has historically been a core problem for Peru's political and economic development. The administration's reach has improved since the end of the military regime and especially since the end of the Fujimori administration, but important structural problems remain. In addition, the process of decentralization of the state has become a source of political instability, as this process has fragmented the political landscape and exposed unskilled politicians without parties to increasingly strong popular demands.

Apart from law enforcement, deficiencies in transportation and basic infrastructure are a major concern. The World Bank reported that 76% of the population has access to improved sanitation facilities (the second lowest percentage in South America behind Bolivia with only 50%), while 87% have access to an improved water source (the lowest percentage in South America and the third lowest in the region). However, some state offices seem to perform better than others, so they are considered as "islands of efficiency." This is mainly because of their degree of political importance and the existence of relatively autonomous technocratic groups (basically, agencies related to economic management). These areas have developed stable civil service careers without major political interference. Furthermore, the García and Humala administrations had previously introduced some reforms to improve the quality of public administration, which seem to have been continued by the current government. The Civil Service Law, for example, seeks to address problems concerning the lack of professionalism, training and stability in public administration. In addition, the present administration has declared that the fight against corruption and need to improve access to public services are core policies. Nevertheless, there is no certain idea of how those policies are going to be implemented, or how the administration will confront the political and administrative obstacles to make them possible.

2 | Political Participation

During the review period, there have been some constraints on the fairness of the elections above all with regard to registration. The National Office for Electoral Processes (ONPE) and the Electoral Court (JNE), which together with the National Registry of Identification and Civil Status (RENIEC) are responsible for the execution and monitoring of all electoral processes, have been widely regarded as reliable and as some of the best-performing state institutions. However, during the presidential and congressional elections of 2016 there was an increase in public distrust of the JNE, mostly due to irregularities in the application of the electoral law. During the last months of the 2011 to 2016 legislative period, an electoral reform was passed, introducing new requirements for the formation of political organizations as



well as defining new categories for campaign violations. Non-compliance was also severely punished, including the exclusion of organizations and candidates at any time during the electoral process. In the future, political parties will need to adjust to the growing influence of these electoral institutions on elections.

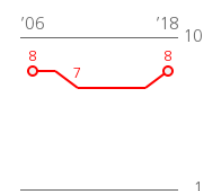
In that context, two important presidential candidates, as well as many parliamentary candidates, were excluded a few weeks before the elections. Presidential candidate César Acuña was excluded because his organization gave money to voters, while presidential candidate Julio Guzmán was excluded because his organization did not fulfill the administrative processes of inscription. Both were major candidates, so their exclusions had a significant impact in the electorate. This situation turned worse when the JNE did not enforce the law with similar rigor when Keiko Fujimori, a leading presidential candidate, and her political organization were denounced for violating the law by giving money to voters in public events. This inconsistent application of law increased public distrust in the process, and some political and media actors have claimed that this constitutes electoral fraud. Though there is no evidence of fraud, the questionable decisions indeed affected the credibility of the electoral system.

In principle, elected political representatives have mostly exercised effective power to govern as far as the classical veto powers (e.g., armed forces, landowners, business groups) are concerned. However, individual societal groups in Peru are occasionally able to successfully push for their interests even against the will of the elected government. Business represents a strong pressure group, and reportedly influenced previous governments not to change the overall direction of economic policies. The current administration favors economic liberalization. Thus, the core interests of business are aligned with most of the government's economic policies. Nevertheless, this government is also vulnerable to pressure from other interest groups able to mobilize specific social interests (for example, socio-environmental civic groups through public protests). Peru faces not necessarily the strength of veto groups, but also the political weakness of the government. The president's party is a minority force in Congress, in control of the Fujimorista opposition. Meanwhile, other forces, such as the left, do not cooperate with the government due to ideological differences or political calculations. Thus, during the first months of the current administration, the opposition in Congress has been cooperative with most of the president's policy initiatives, despite occasional tensions.

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

Effective power to govern

8



1

Association / assembly rights

8

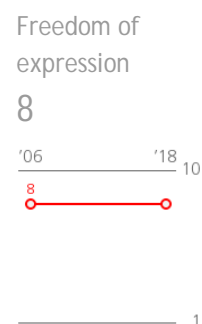
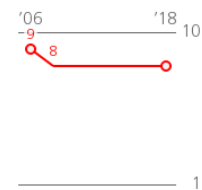
Peru has ratified all eight of the International Labor Organization's (ILO) fundamental conventions. Union activity is still hampered by regulations that dilute certain labor rights, and is also weakened by the large informal sector. It is also important to mention that anti-terrorist legislation is still in place to prevent the resurgence of the Shining Path and similar organizations. Based on that legislation, the JNE denied a request to a Shining Path-related organization, MOVAREF, to register as a political party in 2011. In 2016, the JNE did the same with the FUDEPP, a new and similarly fashioned organization.

Despite Peru's ethnic diversity, ethnic cleavages as such do not represent a fundamental obstacle to the dynamics of association in civil society. However, the combination of geographic and social marginalization still creates in practice barriers for portions of the indigenous population. In addition, in some parts of the country, such as drug-production districts like Alto Huallaga and VRAEM, the population is cautious about exercising constitutional political rights.

About assembly rights, restrictions exist in cases when a state of emergency has been declared, which has been applied not only to zones where the Shining Path operates, but frequently also in cases of massive – and sometimes violent – social protests or organized criminal activity. Per a decree issued in September 2010 by then-President García, the government may even send in the military to contain protests, as was the case in Arequipa during the current administration. The same decree also provides for military courts to handle cases of alleged human rights violations by members of the military, which human rights organizations have criticized because of a higher probability of impunity.

In addition, human rights organizations report that the Peruvian police have repeatedly arrested participants in demonstrations without a valid reason. Though not backed by the constitution, the police argue that participants in unauthorized demonstrations can be arrested. This practice is more frequent in rural areas, where protesting peasants and their leaders have been arrested without proof that they are disturbing the public order. In summary, the right to association is fairly respected, even when there are conflicting scenarios and protests which are controlled and repressed.

There are some problems regarding freedom of expression, but these are not related primarily to political intervention or state censorship, but more to the failure of the state to protect the media from threats and attacks from illegal organizations. Freedom of expression is almost unrestricted in Peru, though at times state agencies, as well as individuals and organized crime, exert pressure on individual members of the media who report on sensitive issues, such as corruption. The structure of the media system – electronic as well as print – is differentiated at national as well as local levels, with radio being the most used medium in the latter. Both public and private media – the latter of which clearly dominates the media landscape – are mostly free of government influence. However, freedom of expression is to some extent restricted



by harassment, intimidation and violence against journalists as well as by a rigid application of libel laws and not least by self-censorship. Offenses against journalists are more frequent at the local level, where authorities and non-state actors feel free to act against their critics, including verbal and even physical attacks.

Some concerns have been expressed regarding changes in ownership of the main media outlets that have led to the formation of a big corporation that concentrates the ownership of the most important media enterprises, which may limit freedom of speech. This is under revision by the judiciary. This problem has often been evident during electoral periods. In 2016, the first round of the presidential election showed a politicized media against the leftist candidate Verónica Mendoza. However, during the second round of voting it was moderated because the economic orientations of both candidates were aligned with free market policies.

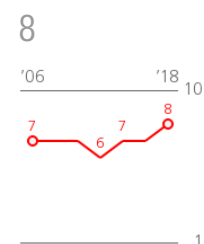
3 | Rule of Law

The separation of powers (executive, legislative and judiciary) in Peru is set by the constitution, and includes the existence of a Constitutional Court as well as several electoral autonomous agencies. However, the functional level of the balance of power is determined by administrative and political factors due to the weak institutionalization of the Peruvian political system. As shown by several studies, the degree of balance between these powers varies according to the political group in power. In the case of the Kuczynski administration, the weakness of his congressional force and the lack of political cadres in government has generated a great imbalance against the executive branch. Furthermore, the Fujimorista opposition have a super majority in Congress, which has led to concerns about the future of relations between the executive and legislative. In other words, the concern is not about separation of powers, but of extreme conflict between the executive and the legislative. There is also a concern about the possibility that the majoritarian force in Congress may seek to supplant the constitutional functions of the judiciary, even to the point of eroding its autonomy.

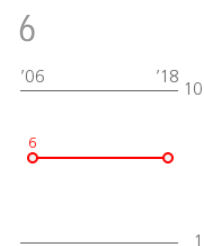
The judiciary functions as a distinct branch of government and operates relatively independently. However, the citizenry does not trust the judiciary, and the judiciary's approval ratings are among the lowest of Peru's democratic institutions. Judicial operations are severely undermined by corruption, inefficiency, insufficient territorial and functional reach, limited resources, weak management, a hierarchical culture, and entry and promotion procedures determined by a contested National Judicial Council. In 2015, of the 2,700 judges, 727 were punished for corruption.

This weakness has itself fostered corruption, illegal action and impunity. Most people try to avoid the judiciary, which is expensive, inaccessible, not trustworthy and corrupt, and try to solve their disputes through informal means. Once into judiciary proceedings, things get very complicated and uncertain, given the level of corruption

Separation of powers



Independent judiciary



and other problems. Arbitration outside the judicial system has emerged as a substitute mechanism to address contractual disputes, particularly in the private sector and with the intervention of several chambers of commerce.

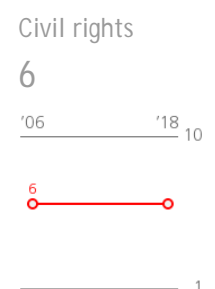
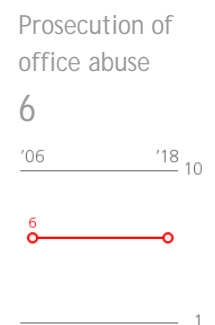
In this context, the problems with judicial independence have to do not only with executive pressure, but also from all political and social actors, including the media.

Some progress has been achieved in recent years, but the judiciary is still very far from being a credible institution.

Since the Fujimori and Montesinos years, political society, civil society actors and the public have become highly sensitized to corruption in politics. However, impartial prosecution and strong penalties for wrongdoings in public office are not general characteristics of Peruvian politics. While corrupt officeholders are increasingly prosecuted under established laws (and former president Fujimori is in jail), they often slip through political, legal or procedural loopholes. These problems are even more pronounced at the subnational levels of administration, where cases of corruption are frequently identified. The system does not work to prevent corruption, though the most outrageous cases that receive media coverage are pursued. In recent years, a significant number of regional presidents have been prosecuted and sentenced for corruption. Even so, the institutions responsible for supervising and prosecuting these cases are severely delegitimized. High-level officials in these agencies, including the national prosecutor, have also been investigated and prosecuted in recent years for being involved in corruption cases or for favoring the impunity of elected officials. The system is very sensitive to small acts of corruption, as many cases involving low-ranking officials are pursued. However, the public perception is that many high-ranked officials who commit serious acts of corruption go unpunished, even though the most scandalous cases are prosecuted and receive media attention.

The state respects civil liberties in principle, but fails to strengthen them further and occasionally does not protect them adequately. Because of the state's weak authority, and especially a weak judiciary, civil rights are violated in some parts of the country, or citizens are discouraged from claiming their rights. In Peru's ethnically diverse and pervasively discriminatory society, this translates into "low intensity citizenship" for some segments of the population. Equal access to justice is still a severe problem for the poor despite programs to improve access and efforts in some provinces to exempt poor people from court fees. Almost one-third of the population has no access to judicial services.

In addition, the state has made only minor progress in addressing questions of injustices perpetrated in the past. Prosecution of human rights violations committed between 1980 and 2000, during the internal armed conflict remains difficult, and represent a source of continuous conflict between the different branches of government.



According to a report by the Coordinadora Nacional de Derechos Humanos, during the Humala administration, 59 civilians were killed and 750 were wounded during social protests. There has only been minor progress in clarifying the circumstances under which these deaths occurred, and prosecution of the police or military who employed the use of force has been sluggish. In this sense, a major setback was the passage of an act that protects police from crimes committed during service. The new administration has attempted to include experts from the Ombudsman's Office in the executive agency that mediates social conflicts, which is a sign of improvement. However, the Fujimorista majority in Congress has appointed a new ombudsman that has generated concern among conflict resolution and human rights experts.

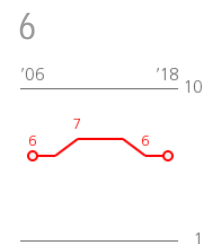
4 | Stability of Democratic Institutions

Democratic institutions perform their functions, but are often inefficient due to friction between institutions, lack of professionalism in the bureaucracy and corruption. Because state institutions virtually collapsed in the 1980s, and were subsequently dismantled and reconstituted in the 1990s, they lack solid grounding in the new democratic state. This applies especially to the rule of law, where necessary reforms continue to lag and political influence and corruption continue to seriously undermine judicial independence. Likewise, the process of decentralization, which began in 2002, was performed hastily and has led to mixed results. The main problem is the operational capacity of subnational governments, which are flooded with amateur politicians and weak parties. Furthermore, the poor bureaucratic capacity of subnational governments and the Ministry of Economy's weak leverage in monitoring their spending has resulted in serious public spending problems. Despite the current political will to improve public services, the civil service and state infrastructure, the effects of these reforms are not tangible yet.

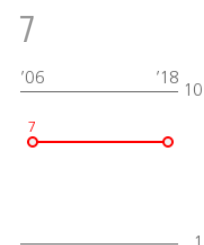
Nearly all influential political actors accept Peru's democratic institutions and regard them as legitimate. However, commitment to these institutions needs strengthening. The minority status of the current administration has fueled speculations that Kuczynski's mandate might be interrupted by an impeachment – even more so since the impeachment of President Rousseff in neighboring Brazil.

Also, the decentralized political institutions are often manipulated for short-term, particularistic 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. Finally, the failure to fully subordinate military justice to civilian rule still exemplifies a weak state.

Performance of democratic institutions



Commitment to democratic institutions



5 | Political and Social Integration

Peru's party system suffers from a very low level of institutionalization, noteworthy even in the context of Latin American countries. Political fragmentation and volatility are high, and the system is not thoroughly rooted in society. The current electoral landscape is somewhat polarized, as recent national elections have reinforced the cleavage between Lima and the interior provinces of the country, particularly the highland regions. Political parties are unstable and personalistic organizations with little legitimacy and low membership numbers. Most existing national parties are political groups without an organized apparatus or a defined, structured program or ideological principles. These parties revolve around individuals, who are not interested in promoting party organizations.

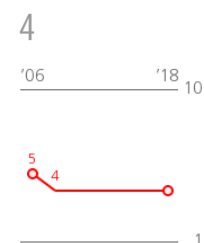
For example, former president Ollanta Humala's party did not participate in the 2016 general elections. After being one of the most important electoral forces, Humala's party is now almost extinct. In contrast, the Fujimorista party, Fuerza Popular, has managed to become a major political force, growing its electorate across the national territory. Although Keiko Fujimori lost the presidential election, Fuerza Popular has a super majority in Congress. This is an unusual scenario, since all former presidents after the transition were able to obtain a congressional majority by their own or making alliances with other groups.

Peru's landscape regarding associations and interest groups continues to be highly differentiated and heterogeneous. In general terms, however, it is highly fragmented and almost completely unable to aggregate and articulate broad societal interests. The spectrum of interest groups ranges from business and professional associations to unions, social movements and community organizations. Business groups are by far better organized and politically represented compared to labor unions or other civic organizations. They have had strong influence on politics in previous governments, and the new administration is also close to business interests due to its own political agenda.

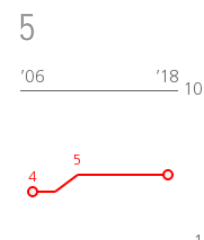
Unions were severely weakened by economic liberalization and have lost their political weight, a trend exacerbated by the very large share of workers employed in the informal sector. Strikes affecting the private sector are less common than strikes in the public sector. In addition, though not openly disregarding unions' rights, the government tends to neglect the views of the unions and to limit their activities when possible. Social protests are certainly important in Peru, but their main actors in recent years are mostly local communities affected by the extractive industries.

At the same time, business organizations have better administrative resources, but their level of representation is limited by the heterogeneity of its members. Entrepreneurs do not need to invest in organizations, and the relations between business and government are largely informal. Business groups can be very

Party system



Interest groups



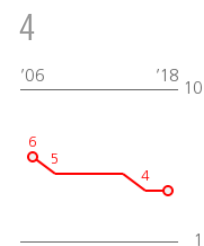
successful in advancing their demands because they maintain direct relationships with high-level officials in government, and some business leaders have been appointed to key government positions. For most Peruvians, given the presence of weak labor organizations, the best way to present demands is not through organized civil society groups or representative institutions, but through direct mobilization in the streets.

Approval of democratic norms and procedures is low, even considering Latin American standards. Dissatisfaction among Peruvians with the functioning of the democratic system has affected their support for democracy. According to the 2012 LAPOP survey, levels of support for democracy in Peru are among the lowest in the Western Hemisphere at 63.6%, only ahead of Bolivia, Guatemala and Honduras. LAPOP experts explain this result mainly through the huge gap between citizens' high expectations – nourished by populist and non-populist politicians alike – and the subsequent disappointment created by the often meager or unsatisfactory political results, such as insecurity, corruption, discrimination and unchanged levels of inequality. Using different methods, data from Latinobarómetro 2016 show similar results. In recent years, national surveys show a certain disappointment in democratic procedures after elections, above all at the local level. Democratic institutions, such as Congress or the judiciary, are distrusted by most Peruvians. Policy decisions taken by democratic procedures are to some extent contested and criticized due to public distrust. The electoral process of 2016 fueled public enthusiasm for democracy and democratic institutions. However, the new government has started to experience the same public distrust as its predecessors.

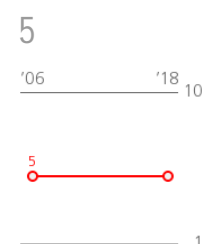
There is a low level of trust among the population. In principle, a wide range of autonomous, self-organized groups, associations and organizations exist in the country, despite political, cultural and socioeconomic barriers. However, these groups are unevenly distributed in the country and often spontaneous and temporary. Partly because of the long-lasting spiral of impoverishment and the growth of the informal sector inherited from the crises in the 1980s-1990s, the ability of Peruvian society to organize itself has been extremely weakened. The number of economic networks over the past two decades has significantly increased, but the same has not happened regarding political activity.

In the last decade, the presence of extractive industries has had an important effect on the mobilization of social actors because of the adverse effects of mining on agricultural lands and livelihoods. But the problem of aggregation and fragmentation remains and has a significant effect in the construction of social capital. According to the 2012 LAPOP survey, the level of interpersonal trust in Peru is rather low, and significantly below the Latin American average. When asked about the confidence they had in the people in their community, only 50.3% of those interviewed answered they would be “very trustworthy” or “somewhat trustworthy” – though rising since 2006 and being significantly higher than 2010, this is still among the lowest levels among 25 countries.

Approval of democracy



Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

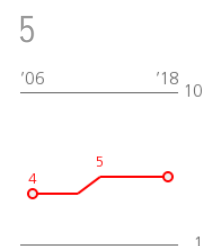
Peru's level of socioeconomic development improved considerably over the last decade, but not so much in the last years, as the economic growth rates have declined.

According to World Bank data, GDP per capita (PPP) rose from \$9,679 in 2010 to \$12,402 in 2015. The Human Development Index (HDI) 2014 ranked Peru 84 out of 188 countries, with an index value of 0.734 (compared to a global average of 0.655). The most important positive trend in the 2000s had been a significant reduction in poverty rates. According to the National Institute of Statistics (INEI), the overall poverty rate declined from 54.7% in 2001 to 21.8% in 2015. Though poverty declined above average in the rural regions of the highlands (Sierra) and the lowlands (Selva), it is still very pronounced in the rural regions compared to urban centers. Extreme poverty declined from 11.2% in 2007, to 6.3% in 2011, to 4.1% in 2015.

Besides poverty-induced disparities, problems such as social exclusion and marginalization are still widespread, particularly in the highlands and the Amazon basin, where most of the indigenous population lives. These problems are largely attributable to the legacy of political violence, historical socioeconomic differences and gender discrimination. The above-mentioned difference between Peru's Human Development Index ranks is mainly due to inequalities in education and income; according to World Bank data, the country's Gini Index value was 45.5 in 2011 and 44.1 in 2014. In addition, Peru's Gender Inequality Index worsened somewhat from 0.384 in 2010 to 0.406 in 2014 (lower value indicates less inequality).

Question
Score

Socioeconomic
barriers



Economic indicators		2013	2014	2015	2016
GDP	\$ M	201217.7	201049.7	189212.1	192093.5
GDP growth	%	5.9	2.4	3.3	3.9
Inflation (CPI)	%	2.8	3.2	3.6	3.6
Unemployment	%	4.0	4.1	4.4	4.9

Economic indicators		2013	2014	2015	2016
Foreign direct investment	% of GDP	4.6	3.9	4.1	3.6
Export growth	%	-0.6	-3.8	1.6	12.9
Import growth	%	2.9	-1.0	-0.8	0.3
Current account balance	\$ M	-8581.6	-8196.3	-9209.6	-
Public debt	% of GDP	20.8	20.7	24.0	24.4
External debt	\$ M	56802.8	61269.6	65940.6	69503.0
Total debt service	\$ M	6730.3	4986.5	4620.6	6675.2
Net lending/borrowing	% of GDP	1.1	-0.4	-3.0	-
Tax revenue	% of GDP	16.4	16.7	15.0	-
Government consumption	% of GDP	11.5	12.7	13.2	13.3
Public education spending	% of GDP	3.3	3.7	4.0	-
Public health spending	% of GDP	3.0	3.3	-	-
R&D expenditure	% of GDP	0.1	0.1	0.1	-
Military expenditure	% of GDP	1.5	1.5	1.7	1.3

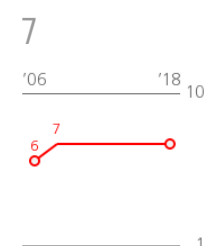
Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Market competition in Peru has a relatively strong institutional framework, with generally equal opportunities for all market participants, at least in the formal market. The informal sector, however, is quite large. Some experts even speak of a dual economy, split between the dynamic coastal regions and the economies in the Andes and Amazon regions where low productivity and high levels of poverty still prevail. The competition framework was strengthened in the aftermath of the free-trade agreement with United States, which began in 2009, leading to successive, smaller reforms concerning state capabilities, infrastructure and the structural imbalances caused by the large informal sector. The World Economic Forum's Global Competitiveness Index 2015-2016 ranked Peru 69 out of 140 countries.

However, severe obstacles remain despite these positive signs, including weak institutions, poor infrastructure, lack of technological readiness and few innovation capabilities. Yet the most problematic factors are an inefficient government bureaucracy, corruption and restrictive labor regulations. While there are still a few

Market-based competition



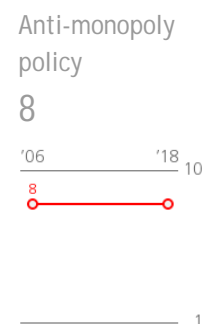
goods and services with regulated prices (such as public tariffs for electricity and water services, or fuel), currency convertibility is guaranteed and domestic and foreign investors are accorded equal treatment before the law during all economic activities.

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

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

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

Nevertheless, governmental authorities do follow up on mergers, especially in sensitive economic sectors. In the last 15 years, the government has strengthened the Institute for the Defense of Competition and Protection of Intellectual Property (Indecopi), giving it the power to sanction abusive acts associated with a dominant market position or restrictive market practices. Indecopi oversees the Free Competition Commission, Consumer Protection Commission, Unfair Competition Commission and the Market Access Commission. However, these governmental commissions apply the law only sporadically. Corruption in the bureaucracy still takes a serious toll, and the desired market dynamics continue to have priority.



The Global Competitiveness Index 2015 –2016 ranked Peru only 64 out of 140 countries with respect to the effectiveness of the government’s anti-monopoly policy. Though improving notably compared to 2010 – 2011, this still indicates a certain gap between legal provisions and actual practice. Recently, pharmaceuticals companies were found to have fixed the prices of medicines and were sanctioned. On the other hand, Congress intervened to regulate some aspects of the AFP system (the private administration of pension funds) to benefit citizens.

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

Peru has also signed bilateral free-trade agreements with Chile, Canada, Singapore, China, Cuba, Mexico, Panama, Korea and Thailand, as well as regional free-trade agreements (FTA) such as those with the European Free Trade Association (EFTA), Andean Community, MERCOSUR and the European Union. These agreements approximate 100% of Peru’s international trade. Peru’s average tariff has been reduced steadily from almost 70% at the end of the 1980s to 2.5% in 2012. There are no import quotas or export limitations. However, the Heritage Foundation points to continuing non-tariff barriers including import restrictions, services market access restrictions, export taxes, price bands for sensitive agricultural products, and domestic preferences in government procurement.

Peru has been a member of the WTO since 1995. And in 2016 was the organizer of the Asian-Pacific Economic Cooperation (APEC) meeting. The new president, Pedro Pablo Kuczynski, has visited China as one of his first meetings in office in order to consolidate economic links between China and Peru.

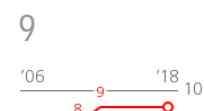
Peru’s banking system is remarkably solid and oriented toward international standards, with functional banking supervision and minimum capital requirements. Capital markets are open to domestic and foreign capital, with sufficient resilience to cope with sudden stops and capital flow reversals. With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

Liberalization of
foreign trade



1

Banking system



1

World Bank figures for non-performing loans (2015: 3.9%) and bank capital to assets ratio (2015: 10.1%).

However, one problem that remains is the high level of dollarization (one-third of deposits and about 50% of credits in the banking system are in U.S. dollars) exposing the Peruvian banking system disproportionately to external risks.

Peru's banking system proved remarkably resilient in the face of the global financial crisis. This is not only due to weak ties with those elements of the international financial system that proved to be fragile, but also a result of the successful coordination between the Ministry of Finance, the Central Reserve Bank (BCRP) and the SBS. Together, these bodies managed to ensure liquidity for the financial sector and capital markets, and successfully minimized systemic risks. Large quantities of official reserves, strong indicators of financial soundness within the banking system, and banks' limited reliance on external capital have helped preserve conditions of stable liquidity. Consequently, the Global Competitiveness Index 2015-2016 ranked Peru 30 out of 140 countries about the soundness of its banks. BCRP is one of the few stable and capable Peruvian state agencies and has developed a very professional civil service career work culture. In January 2015, Julio Velarde, president of BCRP, received the Central Banker of the Year Worldwide Award from *The Banker*, a publication of *The Financial Times*. The new administration has maintained Velarde as president of BCRP and in August 2016 designated three members of the seven-membered BCRP directory, all of them renowned economists. In October, Congress designated the three remaining members, a decision sharply criticized for being overly politicized. However, in general terms, the autonomy of the BCRP is still guaranteed by the characteristics previously listed.

8 | Currency and Price Stability

Successful anti-inflation policy remained an essential part of what has been called the "Peruvian miracle." Inflation and foreign exchange policies are pursued in concert with other economic policy goals, and are institutionalized in the largely independent central bank (BCRP). The Humala government continued its predecessors' consistent policy on inflation and currency. Since 2002, the central bank's inflation target has been an annual cumulative inflation rate of 2%, with an allowable band between 1% and 3%. The inflation rate, exploding to hyperinflation in the aftermath of García's first government in the early 1990s, returned to single digits in 1997 and has been kept low since that time. With the onset of the economic slowdown caused by the financial crisis, inflation fell to near zero in the second half of 2009. The overall annual rate thus fell to 0.2% in 2009 and to 2.1% in 2010, reaching 4.7% in 2011 and 3.6% in 2015. The exchange rate regime is in principle a floating system, although the BCRP intervenes in the currency market by buying and selling dollars to curtail exchange rate volatility.

Anti-inflation /
forex policy

10
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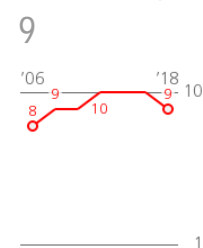
Against some fears voiced before the 2011 elections, the Humala administration maintained solid macroeconomic management, keeping to the path of budgetary discipline. In addition, public debt was further reduced. While public debt as a percentage of GDP stood at 40% in 2005, it was successively reduced to levels of about 20%, 24% in 2015. The largest part of it is long-term debt, which is of lower risk, though almost 50% is exposed to foreign exchange risks. In recent years, despite the slowdown in economic investment, Peru has managed to make use of accumulated reserves to restrain the impact of these external cycles. Measures have been developed to stimulate consumption and spending, as well as to increase public investment. Peru's fiscal policy has proven to be very effective in applying countercyclical policies, independent of the government in power at the time.

However, there is a concern about the new administration's electoral platform. The government has stated that it would increase public spending, but it has also promised to reduce the tax on general sales (IGV) and exonerate other taxes to favor investment. There is a debate about the fiscal strain those contradictory policies could create. Some analysts have even predicted a deficit that the government will have to remediate, especially in a context of economic slowdown. This suggests an important gap between the non-governmental expertise and the president's intentions, as evidenced by the minister of economy who, for the first time since the transition, is perceived as non-technocrat and "weak" minister vis-a-vis the president and the president of the cabinet, who are both economists.

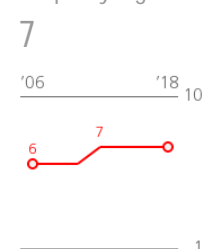
9 | Private Property

Regulations and rights regarding the acquisition, use and sale of property are well defined in law, but there are occasionally problems with implementation and enforcement. The securing of property rights has greatly improved since the 1990s, supporting the new dynamics of the market economy. The main problem lies in the fact that property rights are not adequately protected in practice because the judicial and administrative systems are still weak and inefficient, hampering the ability of individuals and businesses to enforce contracts. Though registering property is easy in Peru (it lasts seven days and requires five procedures, according to the World Bank), the Global Competitiveness Index 2015-2016 ranked Peru only 104 out of 140 countries with respect to protection of property rights, and 104th with regard to intellectual property protection. The Heritage Foundation's Index of Economic Freedom 2015 gives Peru a rather low score of 40 out of 100 points resulting in a rank of 70 out of 178 countries. In addition, in some of the country's areas, few landowners have formal titles to their land, or those titles are unclear. In some areas inhabited by the indigenous population, land titles are not defined at all, are not clearly defined or are defined in a way that is incompatible with indigenous cultural norms. Furthermore, in recent years some cases of land trafficking have involved political personalities and public officials at different levels of government.

Macrostability



Property rights



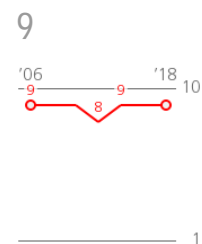
Since the market reforms of the 1990s, private companies are viewed as the primary engines of economic production, and are given appropriate legal safeguards. The second García administration (2006-2011) put significant emphasis on the private sector as an engine of growth, and sought to attract private investment in nearly all sectors of the economy, especially the booming mining sector, which provides abundant royalties. The Humala government (2011-2016), while promising a different strategy during the election campaign, has followed this path by and large, responding to pressure from private sector organizations. The new administration is committed to private business interests, privileging anti-bureaucratic policies. According to the World Bank's Doing Business 2016 report, starting a business suffers not so much from the number of procedures, of which there are relatively few, but instead from the time involved in launching a commercial or industrial firm (which is near the average of the BTI country sample).

The privatization of state companies in the 1990s was not always carried out in a manner consistent with market principles, leading to overall ambiguous results. As a consequence, since the return to democracy in 2000, the public has resisted further privatization, though a reversal of privatization is clearly not on the agenda. Any initiative suspected of eventually leading to privatization provoked intense debate and protest during the period under review, including proposals to privatize the water supply system, universities and prisons. The main instruments of private sector participation are now public-private partnerships and concessions granted to private companies. Major concessions have been granted for mining, ports and airport projects, but also to energy, natural gas, hydroelectric power and irrigation, telecommunications, sanitation, land transport, trains and tourism projects. Some of these projects are still underway or have been postponed. According to Article 60 of the 1993 constitution, the Peruvian state may only engage in entrepreneurial activities if the private sector cannot, refuses to or fails to provide solutions. Under the umbrella of Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado (FONAFE), 34 public enterprises are operating in sectors as diverse as banking, electricity, fuel (Petroperu), water supply and transportation

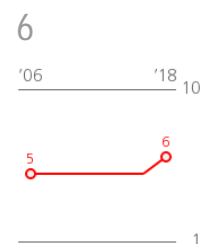
10 | Welfare Regime

Social safety nets are limited and cover only few risks for a limited number of beneficiaries. The Humala administration has made a significant effort to address the problems of inequality and poverty resulting from structural conditions of the country and the rapid economic growth of the last decade. The creation of the Ministry of Development and Social Inclusion (MIDIS) is one of the major advances in shaping comprehensive policies to combat these problems. In a country with clientelistic practices, the MIDIS has not generated mistrust due to the high level of professionalism of its staff, as well as the institutional design of its programs. However, the main problem is the limited coverage of those programs, which are

Private enterprise



Social safety nets

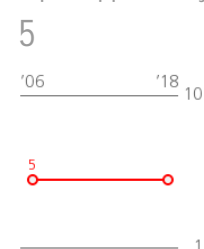


focused on members of the population living in extreme poverty. During the last decade, there has been some progress in expanding coverage of existing services such as integrated health insurance, as well as promoting and developing education through scholarship programs. Despite these limitations, the Humala administration has created an important institutional infrastructure for social policy and the new Kuczynski administration appears likely to continue it.

Peru has institutions designed to compensate for large social differences, but relative to the magnitude and broad range of inequalities they are limited in scope and quality. Despite persistently strong economic growth in recent years, about 30% of the population still lives in poverty; in some rural areas, this rate is above 60%. Income inequality in Peru remains severe, although it is more moderate than in Brazil or Chile. Equal opportunity is limited in Peru and access to public services is uneven. This inequality is often combined with discrimination against indigenous people. In general terms, the most disadvantaged groups in the country are the rural poor; and within the rural poor, women and indigenous people. Other relevant policies are the quotas and positive discrimination policies in the political sphere that try to increase the political representation of women, and young and indigenous people. However, the implementation of quotas and positive discrimination policies remains problematic, and the policies often have limited effect.

Equality of opportunity is particularly poor in the education system. Problems such as high dropout rates, gaps in education access or attainment across different socioeconomic groups are associated with social inequality, which both drives and is driven by these problems. The highest percentage of children not involved in the school system belongs to indigenous groups. According to UNICEF, the chances of success are more elusive for rural students, even more elusive if they are indigenous and especially elusive for those who speak languages of Amazonian origin. While the literacy rate of women (91.5%) lags behind that of men (97.3%), the enrollment ratio is almost on par. During the Humala administration, MIDIS and the ministry of education (MINEDU) made important efforts to guarantee equality of opportunity in education. Furthermore, the intercultural and gender equality is now incorporated into government policy-making, although its effects are not yet observable.

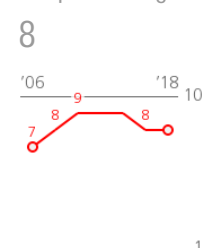
Equal opportunity



11 | Economic Performance

In recent years, the Peruvian economy has felt the weight of the retraction of foreign investment, especially because of the decline in mineral prices. However, despite this external context, Peruvian economic policy appears to show a solid foundation. Under the Humala government, GDP growth reached an impressive 6.5% in 2011 and 6.0% in 2012, but declined to 5.9% in 2013 and 2.4% in 2014, before growing slightly to 3.3% in 2015. The inflation rate decreased from 3.7% in 2012 to 2.8% in 2013, but rose again to 3.2% in 2014 and to 3.5% in 2015. The government's overall

Output strength



balance, which went negative in 2009 (-2.1% of GDP) and 2010 (-0.1%), returned to surpluses of 1.8% in 2011 and 2.0% in 2012. Public debt as a percentage of GDP reached 24% in 2015. Tax revenues, which had fallen to 14.4% of GDP in 2009, went up again to 15.4% in 2010, 16.1% in 2011 and 16.5% in 2012, which is, however, below the Latin American average. Still, supplemented by royalties and other revenues, total government revenues reached 26.3% of GDP in 2012. Foreign Direct Investment as a percent of GDP decreased from 6.2% in 2012 to 4.6% in 2013. According to the World Bank, the unemployment rate showed a slight decrease from 4.0% in 2010 to 3.6% in 2012 but increased to 4.2% in 2014. The exchange rate is a major concern, as the Nuevo Sol has depreciated against the dollar.

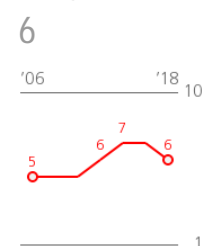
There are some uncertainties regarding the new Kuczynski administration though. Some experts have expressed concern about the government's macroeconomic management, arguing that it is not as good as previous years.

12 | Sustainability

At the beginning of his administration, Ollanta Humala started to refine the institutional arrangements to comply with its commitment to the 2012 United Nations Conference on Sustainable Development. In November 2012, Congress approved a bill to create the National Service of Environmental Certification for Sustainable Investment (SENACE) to provide for a more impartial evaluation of environmental impact assessments, previously administered by the Energy and Mining Ministry. Observers also expect this to help bridge the sometimes-broad interest gaps within society and government. To raise citizens' awareness of environmental issues, the government approved the National Environmental Education Policy in December 2012. However, as the government itself admitted in its report to the 2012 United Nations Conference on Sustainable Development, challenges are huge and many components of Peru's "new" environmental policy are still in the early stages of implementation.

However, at the end of his government, with a moderately adverse economic context, the administration had to redefine the priorities of its policies of economic investment and environmental protection. While the Ministry of Environment (MINAM) has been consolidated, and has had greater visibility as the host of the 2014 United Nations Climate Change Conference, the pressures for economic growth have favored the interests of investors in extractive industries. This is accompanied by a policy of greater permissiveness and ease in gaining approval for such projects, even when they contravene the minimum environmental standards. SENACE's functions, for example, were limited as part of a package of measures for the "reactivation of the economy." The new administration elected in 2016 seems to be following the same environmental policy agenda.

Environmental
policy

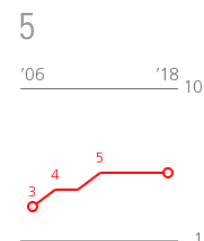


Education is one of the most problematic areas with regards to the sustainability of the Peruvian model. However, some important advances took place during the Humala administration. The Humala government raised education spending from an average of about 2.8% of GDP during the 2000s to about 3.7% of GDP in 2015. Auspiciously, education problems have become an important issue in public debate. During the recent general elections, most presidential candidates agreed in the necessity to continue recent advances in this sector, especially regarding elementary educational programs.

Access to education is fairly high but the quality of these services and the prevalence of socially differentiated levels of school dropout require attention. In 2012, 74.6% of children had access to early education, 92.9% to primary education, and 80.7% to secondary education, according to the National Household Survey. Regarding school dropout, there are qualitative gaps between different social sectors: the chances of success are more elusive for rural or indigenous students. On the other hand, Peru's PISA evaluation scores have improved by the largest margin of any Latin American country, although Peru's scores are still at very low levels.

Regarding university education, during the Humala administration a new University Law was approved. The law aims to improve conditions, and tackle the extremely poor performance of most public and private universities. State weaknesses and a lack of capacity to supervise the law's progress make such reforms difficult to implement. On the other hand, the Humala administration has attempted to improve R&D funding. The Consejo Nacional de Ciencia y Tecnología (CONCYTEC) has been reactivated, taking a special interest in funding research with a priority in technological development issues. According to CONCYTEC, under the previous administration its budget increased eightfold (from about \$4.6 million to about \$40 million). It is unclear whether this emphasis will be maintained by the Kuczynski administration.

Education policy /
R&D



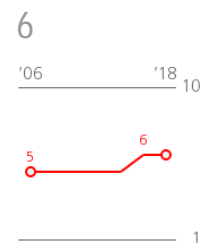
Governance

I. Level of Difficulty

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

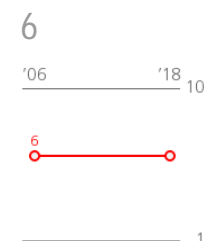
However, in recent years, the shortcomings of the state have become more obvious. Highlighted are the poor quality of public administration and the problems bureaucracy has in implementing the political reforms needed to sustain the progress that the country is experiencing. Moreover, the state is challenged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

Structural
constraints



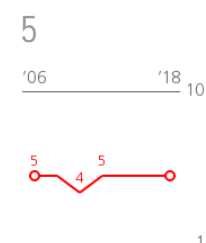
The current situation is marked by the legacy of the 1980s and 1990s crises. Hyperinflation, terrorism, the collapse of the party system, economic liberalization and the authoritarian government of Alberto Fujimori undid to a great extent Peru's social fabric, which to date has not recovered. Despite frequent mobilizations and the active engagement of pressure groups, the civil society traditions that began to emerge toward the end of the reformist military regime (1968 – 1980) today remain very weak. NGO activity has increased, but the landscape of voluntary organizations is not robust, and is plagued by scarce organizational resources (see “political participation”). Moreover, one of the most important obstacles to democratic governance is the fragmentation of civil society. In other words, Peru suffers from the absence of strong actors able to channel the diversity of social demands, such as stable parties or large secondary societal organizations. Two significant developments relating to the culture of civil society have emerged in recent years, however. First, a more liberal wing within civil society has intensified its watchdog work, monitoring human rights issues, extractive activities and the government's reform agenda, as examples. Second, participation of civil society has grown, leading to a diverse landscape of activist groups and a major increase in the voicing of demands at the national, regional, provincial, local and communal levels. In some specific junctures, civil society has had a significant influence, although particular organizations have not been able to maintain their thrust for a long time.

Civil society traditions



Various mobilized groups and protest movements have become stronger in recent years, and occasionally they have voiced their claims violently. The police and the military – the latter having been empowered to intervene in cases of public unrest – have also contributed, on occasion, to the escalation of conflicts. In addition, radical political actors have demonstrated an increasing interest in mobilizing ethnic or social groups. These scenarios indicate some level of social and political tension; Peru remains somewhat polarized. Social unrest was fueled by the expansion of mining activities, in the context of the commodity prices boom, over territories with little previous experience with extractive industries.

Conflict intensity



In recent years (2013-2014), the level of conflicts has slightly diminished, due to the paralysis of important mining projects, explained in part because of the decline in commodities prices, and in part to avoid social opposition to those projects. The new administration, on the other hand, has made an effort to recruit conflict resolution experts for the executive's offices from other agencies, such as from the Ombudsman's Office and from academia. However, the appointment of a questionable Ombudsman by the Fujimorista majority in Congress has caused public concern.

II. Governance Performance

14 | Steering Capability

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

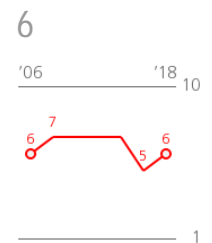
Regarding the new administration, the policy direction has not much changed, but the reasoning has changed. President Kuczynski’s main goal is to “revitalize the economy” via fragmentary and specific reforms that concentrate on reducing bureaucratic red tape and aim to “unlock” investment projects. Furthermore, the lack of a consolidated and coherent political party is expressed in the weakness of the government’s congressional coalition and the configuration of the ministerial cabinet. Most ministers are independents with no major experience in the political arena or in public administration. They operate within a weak state administration that has serious problems regarding the implementation of public policies.

Nevertheless, the electoral platform of this administration is still coherent, especially in economic policy. It is important to say that Kuczynski is the first president to have won an election with a right-wing electoral platform in contemporary Peru. At present, the government may set and maintain strategic priorities. However, the government has problems in implementing policies and is dependent on the Fujimorista opposition, which has an absolute majority in Congress.

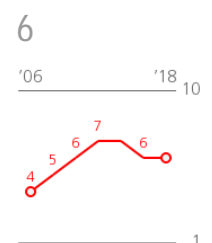
Though its reform agenda has been somewhat unclear, the Humala government had partial success in implementing some of its announced reforms during the first years of its administration. The economic agenda, including the strengthening of the macro-fiscal framework, social policy programs and reforms in education and environmental policy were implemented, albeit with some difficulties and with mixed results. However, the administration has not been able to successfully implement those reforms because of social and political opposition, and because of its own limitations. In the last years of the government, the reformist impetus deteriorated because of increasing isolation of the government, and the limits of a technocratic style of conducting politics without proper negotiation processes. It should be noted, however, that the foundations for the development of a civil service were established under the Humala administration, following initial steps introduced by the García administration.

Question
Score

Prioritization



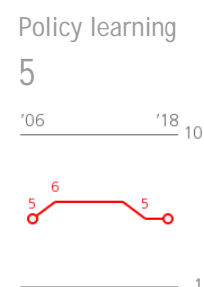
Implementation



Under the new administration, these problems probably remain while a technocratic style is a core characteristic of the Kuczynski administration. The first cabinet configuration privileged technocrats with little experience in politics and, similar to the situation at the end of the Humala administration, the government does not have a majority in Congress. Furthermore, the government has proposed ambitious macroeconomic policy goals, which requires profound reforms that some experts agree the government will not be able to sustain. Social opposition is also considerable. Rather than winning on its own merit, the current government only won the last election because it was the only viable alternative to a Keiko Fujimori government. In that sense, the electoral support of the administration is fragile and volatile, as the rapid fall in public opinion polling has shown.

Viewed in retrospective, the Humala administration demonstrated little policy learning and limited flexibility. The government has moved forward in various initiatives by reacting to political events, rather than formulating a long-term policy agenda. Yet, at the same time, the government has also proven stubborn, refusing to reverse mistakes or respond to justified criticism from various sectors. During the first year of its term, when adapting to the basic economic model of resource extraction and economic growth, the Humala government seemed inclined to rigidly enforce its political measures. Learning ability and flexibility vary across policy issues and ministries, however, and seem to have improved slightly over time. The Ministry of Economy and Finance, the re-named and re-organized Ministry of Social Development and Inclusion, and the Ministry of the Environment have demonstrated considerable ability to learn from their mistakes. Other areas of government, however, suffered from the weaknesses of Peru's state administration (a situation even more dire in regional and local bureaucracies).

The core of this problem in the last years of the administration has been the political dimension of the administration. The political management of reforms is ineffective and the government has not learned from previous mistakes. Young ministers with a technocratic approach to politics were appointed due to several crises in the cabinet. This situation opened the opportunity for policy innovation because of the technical abilities of these cadres. However, they still lacked the political expertise needed to solve the core problems of the administration. Important policy innovations introduced by these ministers faced setbacks at the beginning of the new administration. This was because those reforms, such as the productive diversification program, lacked political consensus and were not unanimously supported by the business sector. The new administration has the advantage of being aligned with business interests. However, the government's expertise is concentrated just in economic policies and the lack of political abilities could put in risk important reforms.



15 | Resource Efficiency

Though the Humala government did not make optimum use of available human, financial and organizational resources, it has sought to improve efficiency. The government was not only committed to sound macroeconomic policies and a carefully balanced budget, but it also managed the state's surpluses well. However, due to the inefficient bureaucratic apparatus, policies and measures that went beyond core areas (macroeconomic management, management of state resources) were not implemented. Also, important deficiencies remain concerning human resources. Despite various attempts at reform, many observers consider Peruvian bureaucracy as inefficient and corrupt, with a near total lack of meritocracy.

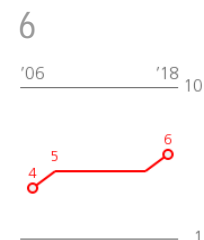
The government's efficiency suffers from a state administration with low professionalization, particularly at the regional and local levels. According to the Ministry of Labor, there are an estimated 1.3 million state employees, comprising about 8% to 9% of Peru's active labor force. However, as the director of the National Authority of the Civil Service (SERVIR) admitted in 2010, confirmed by the Labor Minister himself at the beginning of 2012, the Peruvian state does not know the exact count of state employees, as there has been no registry created to date.

SERVIR was created in 2008 to improve the professionalism and enhance the transparency of Peru's civil service in the mid and long term, and is successively forming and implementing policies to promote a meritocracy. In recent years, SERVIR proposed a law to oversee civil service, which was approved in 2013. Despite the slow progress, it is important to recognize the continuity of this policy during the Humala administration and in the beginning of the new government. In that sense, President Kuczynski decided to reappoint senior functionaries from the previous government, including the minister of education. This is important because of the reduction in the costs of learning and adaptation.

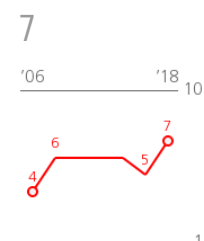
The Humala government sought to coordinate conflicting objectives and interests, but in the absence of a sound political agenda, found itself faltering in this regard. At the beginning, Humala failed to establish a clear orientation in his government, first a center-left, then a center-right and, finally, an ambiguous centrist orientation. In that context, there were conflicts between some sectors for the prioritization of their policies. The lack of political leadership and well-defined objectives in the government have caused the Ministry of Economics have an important role in the decision of conflicting objectives.

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

Efficient use of assets



Policy coordination



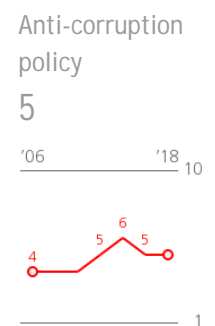
different trajectories and political backgrounds. However, the appointment of Mario Cateriano as head of the cabinet in 2015 provided a more stable and coherent executive direction both in the government's internal dynamics and in its relations with the opposition.

The new Kuczynski administration seems to manage these problems more efficiently. Despite facing the same political problems as its predecessor, the orientations of the government are rather clear and coherent as a center-right administration. Important decisions, such as economic policy, are discussed in coordination between the president, the minister of economy and the head of the cabinet (Presidente del Consejo de Ministros, PCM). Cross-sectorial policy is usually decided through coordination between the PCM and the ministers involved. President Kuczynski has elaborated a list of seven “commandments” which include: “Deal with your ministry, not with others” and “Before any doubts, verify with the Presidency of the Council of Ministers or with the ‘Presi’.”

Though essential integrity mechanisms and a legal framework to combat corruption exist – such as the Comptroller General to audit state spending, the Party Law to regulate political parties, or legislation that requires public officials in senior positions to provide declarations of their assets – most analysts agree that the anti-corruption measures have been weakened by inefficiency, a lack of implementation and in many cases, a lack of genuine political will. The main progress in the fight against corruption involved the prosecution of subnational authorities after corruption cases were revealed in 2014. These cases demonstrated the penetration of illicit interests at different levels of the political system. Congress, the Prosecutor's Office (Fiscalía de la Nación) and the judiciary are the principal institutions involved in these cases.

However, there have been clear problems in the national anti-corruption policy. In December 2014, problems in the Fiscalía de la Nación motivated several partners in civil society, including the NGO Proética, to distance themselves from the National Anti-Corruption Commission. The Contraloría General de la República has proven incapable of detecting corruption cases before they become a scandal in the media. At the same time, during the last stage, the government has been involved in corruption networks that could reach the president himself. The case of the network run by Martin Belaúnde Lossio, Humala's former campaign financier, has raised serious questions among the population, especially after the involvement of the first lady and president of the Nationalist Party, Nadine Heredia, in the investigation. Similarly, Congress has developed ad hoc investigations for cases involving former Presidents Alan García and Alejandro Toledo, but there have been no clear results yet. However, these scandals have placed the anti-corruption agenda in the public opinion.

The Kuczynski administration was involved in a corruption scandal in the health care sector at the very beginning of its term. Yet, the president's rapid response created an



opportunity to solve the problem. The president created a Presidential Commission for Integrity, which has proposed reform recommendations that the government has assumed in principle. On the other hand, the Lava Jato scandal, which involves corrupt acts committed by the Brazilian enterprise Odebrecht, has implicated Peruvian officials and authorities. The scandal seems to be one of the most important political crises in Peru since the fall of Alberto Fujimori in 2000.

16 | Consensus-Building

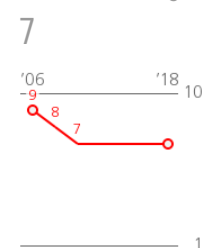
Virtually all significant political and social actors agree in principle that establishing a stable democracy and market economy should be the goals of reform, though there is some controversy over strategic priorities such as the weight to be given to social and environmental policies, or strategies for improving the rule of law. There is also discussion regarding how to strengthen the democratic process and what institutional reforms are needed. There is a growing consensus around the idea that political reform is needed to make Peru's democratic institutions more representative, but there is no consensus about what to do in concrete terms.

One problem lies in the fact that the significant political actors who agree on democracy and a market economy as strategic, long-term goals do not include a broad spectrum of stakeholders in their decision-making processes. This situation lends a lack of certitude to their decisions and engenders distrust from society. The lack of public trust in Peru's democratic institutions risks the development of an anti-democratic discourse.

While many initially doubted Humala's commitment to a market economy, these doubts dissipated thanks to the pragmatic political course he pursued during the first months of his term. This "Lulaization" also allowed him to maintain his focus on the need to strengthen social safeguards within the economy. However, the extent to which social safeguards should be embedded within the economy is a heavily contested issue in Peru, with the economic establishment on one side and leftist forces seeking stronger regulation of market forces on the other. In addition, consensus-building proved to be hampered by the weak system of interest mediation, beginning with Humala's party coalition, and the often-particularistic nature of demands.

The new government faces a paradoxical situation with the Fujimorista opposition. Both the government and Fujimorista opposition largely agree over economic policies, since both represent right-wing platforms. Accordingly, the Fujimorista-controlled Congress has been cooperative with the government in terms of economic policies. However, substantial political tensions remain, including Congress's support for the censure of the minister of education, Jaime Saavedra. This complicated political relation has led some analysts and journalists to suggest the possibility of an impeachment.

Consensus on goals



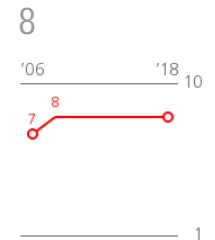
In narrowly defined terms, the government successfully integrates potential veto powers such as the military and the business community into its fold. The military seems to be subordinate to civil authorities; the government has been eager to cultivate civil-military relations, given the importance of the armed forces in Peru's political landscape. Perhaps to avoid any ruffling of positive relations with the military, Humala maintained decrees issued by García, which allow military personnel accused of human rights violations to be judged by military courts. Regarding the business sector, the continuity of economic liberalization policies has secured the support or at least the neutrality of this sector.

Otherwise, there are severe problems with illegal actors such as the Shining Path and the coca mafia. The Shining Path seems eager to re-build a political force via the Movement for Amnesty and Basic Rights (Movimiento por Amnistía y Derechos Fundamentales, Movadef) and thus to participate in democratic politics. The Humala government has started to encounter the further rise of Movadef with legal and political measures. The cocaleros and their unions, who openly demand an end to the government's coca eradication policy, are a special case: they pursue illegal aims, but do so legally and in public. The rise of Movadef and the cocalero movement indicate a freer political society compared to previous decades, though government officials lack a clear strategy to deal with these changes. In recent subnational elections, most of the "anti-democratic" candidates with links in these illegal activities were marginal rather than popular.

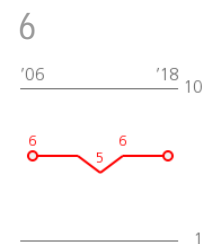
Given the potential for severe conflicts arising from unfulfilled demands, Peru's political leadership has been partially successful in managing social cleavages but has also failed to resolve some of the most emblematic conflicts, particularly in resource extraction where protests are common. The low legitimacy levels of political leadership have a negative effect in these cases. When political leaders try to mediate these conflicts, the situation becomes more polarized due to the low credibility of representatives and the high personalization of Peruvian politics. It is possible that the reason social cleavages have not created major conflicts has more to do with social fragmentation and less to do with the ability of political leaders.

Though the Humala government initially tried to depoliticize cleavage-based conflict and to expand consensus across the dividing lines by issuing reforms and promoting dialog, realities and the occasional mishandling of a mining conflict, as in Cajamarca, Cusco and Arequipa cases, made this a difficult endeavor. Thus, the 2016 elections show a similar pattern of territorial cleavage observed in previous elections. Furthermore, in some of the extractive regions, a radical candidate and former governor of Cajamarca, Gregorio Santos, gained important support. Also, the political left has gained representation in Congress for the first time since the Fujimori's coup in 1992.

Anti-democratic actors



Cleavage / conflict management



The Humala government tried to provide channels for more civil society participation, especially for groups involved in social, environmental and indigenous peoples' issues. One major difficulty, however, has been the change of course concerning the economic model. Fragmentation and the centrifugal tendencies in Peruvian civil society – reinforced by the weak party system – make it sometimes difficult to find adequate counterparts in civil society who are interested in sound, long-term national policies, not just particularistic, short-term goals.

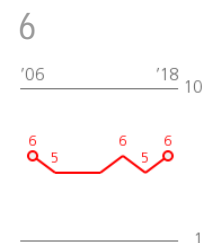
Peruvian politics has long been marked by the neglect of many social demands and a failure to deliver on promises. Rather than purposefully addressing demands from civil society, the government still has the habit of reacting to the outburst of protests. Peru's political leaderships mistrust social actors because of their weak roots in society. The political culture of the Peruvian political elite disregards civil society participation and is reluctant to accept the legitimacy of social leaders. There is a highly-internalized vision of these initiatives as politicized spaces which election losers use to advance their particular interests. Overall, the quality of civil society political representation remains poor, given that political parties are weak and fragmented institutions.

The new government will have to compromise to confront this situation and open direct channels for solving social demands. The government is widely perceived as a government that listens to the public, demonstrates a willingness to address the problems of its citizens, is open to civil society and form expert advisory councils. One of the most important public manifestations of this was in 2016 when the president and several ministers participated in a national march, “Ni Una Menos” (Not One Woman Less), and the president promised that his administration would tackle violence against women.

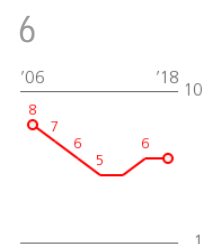
Reconciliation is still a contested issue in Peru given that the major perpetrators of human rights violations still exert influence. The legacy of this conflict continues to shape the government's deliberations. The political elite and large parts of the public are not very eager to touch this issue; thus, progress is very slow. By 2010, most of the victims of the 1980 to 2000 armed conflict had been identified and included into the victims' registry. Reparation payments coordinated by a special commission (Comisión Multisectorial de Alto Nivel, CMAN) have begun through the financing of projects in several communities identified as victimized by the armed conflict. Like its predecessors, the Humala government recognized the need to deal with historical acts of injustice, but this goal was subordinated to other political objectives.

The minister of defense openly declared in September 2011 that there should have to be a cut-off point for the reconciliation of the country, meaning nothing else than the perpetuation of immunity for human rights violations. In 2012, the Supreme Court had to revoke a decision of one of its chambers to reduce penalties to members of a death squad operating under Fujimori after domestic and international protest, indicating the struggle behind the scenes on that topic is still ongoing, leaving the

Civil society participation



Reconciliation



victims somewhat alone. In 2014, Ollanta Humala designated a former military officer, Daniel Urresti, as minister of the interior. Urresti is accused of being involved in the murder of a journalist during the conflict. However, there have been important advances such as the inauguration of a national memorial (Lugar de la Memoria) and the law on the search of disappeared persons.

The new government has supported this agenda, because the president adopted the policy during the second round of the presidential election to position himself in opposition to Keiko Fujimori. President Kuczynski has appointed Marisol Pérez Tello as the minister of justice and human rights. Pérez Tello is well known within the associations of relatives of disappeared people, who recognize Tello as an ally for their cause. However, the Fujimorista congressional majority could undermine the effectiveness of some of these policies.

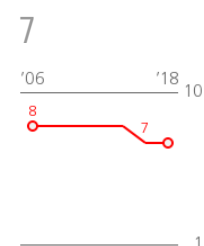
17 | International Cooperation

The political leadership works with bilateral and multilateral international donors, and tries to make efficient use of international assistance. In significant sectors, it makes well-focused use of international aid to implement its long-term development strategy. As outlined above, this strategy aims predominantly at economic and social development and to a lesser degree at strengthening the institutional framework of democracy. The government coordinates its high-priority reforms closely with the IMF, the World Bank, and the Inter-American Development Bank, and has earned guardedly positive marks from these institutions. The World Bank gives support in areas such as social programs, infrastructure, public services and state efficiency and acknowledges the cooperation on the part of the Peruvian government.

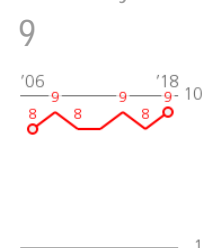
In recent years, the weakness of political actors and organizations became more evident, especially in the lack of technical cadres and programmatic agendas in the executive. In this context, international cooperation fills this void by proposing government projects. The influence of international donors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

The Humala government acted as a credible and reliable partner in its relations with the international community, and won confidence in its reform policies in the early years of its mandate. While there were some doubts regarding his commitment to democracy and market economy principles before and even shortly after his election as president, especially in circles close to the international business community, Humala soon established himself a type of “Lula” concerning economic pragmatism. His government’s continuity and professional macroeconomic management – which

Effective use of support



Credibility



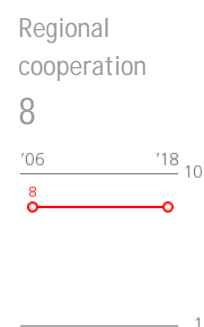
led to a loss of credibility at home – soon contributed to a recovery of confidence from Western partners.

Apart from the country's close relations with bilateral and multilateral donors, the web of free-trade agreements established all over the world represents an additional sign of trust in the Peruvian leadership. Between 2008 and 2009, Peru obtained investment-grade status from all three major rating agencies and was further upgraded in 2011 and 2012. The rise in its rating was attributed to the significant decrease in Peru's fiscal and external vulnerabilities; broad and diversified sources of growth; low levels of inflation; and improved macroeconomic fundamentals.

However, during the last stage, the political instability in Humala's administration and the absence of clear objectives regarding democratic, political and institutional reforms have generated some doubts among international partners. In that sense, the new administration has been effective in projecting an image of reliability with international organizations and commercial partners. This was basically possible due to the characteristics of the president and his collaborators, as they have been closely related with multilateral organizations.

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

Peru's political leadership cooperates with most neighboring states and complies with the rules set by regional and international organizations (such as the Organization of American States). The Foreign Ministry is one of the few state agencies which works with efficiency and autonomy. Peruvian foreign policy could be characterized as pragmatic and friendly with other countries in the region. Humala has succeeded in maintaining friendly relations with Bolivia, Ecuador and Venezuela, but also with Colombia and Brazil. Occasionally tensions have arisen with Chile, due to territorial disputes, but despite Humala's nationalist rhetoric during his campaign, there has been no real conflict between the two countries. The maritime border dispute between the two countries was resolved by a decision on the part of the Court of The Hague, which was largely accepted by both countries, despite some minor discrepancies regarding secondary issues. In general terms, the new administration does not represent a change for these relations.



Strategic Outlook

At the end of his mandate, President Ollanta Humala led a weak government, and ran out of time and political support to implement his reform agenda. There is a consensus within Peru that the country requires deep reforms. However, some demand market-oriented reforms, while others demand reforms to limit market excesses and promote a social-democratic model. At the same time, however, public concerns about national security have increased. According to recent public opinion polls, the expansion in the networks and activities of organized crime has become the key challenge facing the country. The international context is also worrisome given the possible effects of the end of the commodity price boom and the Lava Jato scandal on Peru.

The 2016 elections were competitive and several candidates had a realistic opportunity of competing in the second round against Keiko Fujimori, the early favorite to win the election. Despite the problems in the application of electoral laws, the elections marked an important historical event in contemporary Peruvian history as for the first time four consecutive democratic elections have taken place. Pedro Pablo Kuczynski won the second round in a polarized campaign against Keiko Fujimori. Kuczynski was an established political figure who had recently served in the government of Alejandro Toledo as economy minister and president of the Council of Ministers. In the 2011 elections, Kuczynski managed to win the support of a large proportion of Peru's middle class, especially young middle-class people. However, he failed to extend his support base beyond Lima. The same pattern was true for Kuczynski's electoral support in the first round of the 2016 elections. This led to the unusual situation in which the current government is a minority force in parliament. Thus, the new administration is weak, and faces both endogenous and exogenous problems. The lack of political cadres is important and constitutes a limitation for cabinet configurations. Furthermore, although the government and the Fujimorista congressional majority agree over economic policies, the relationship between the government and Fujimorista opposition is tense.

In this context, questions arise over the future of the Peruvian model. Institutional reforms are necessary to strengthen Peru's recent economic achievements and democratic institutions, and improve social and political conditions. However, the weakness of the government could prevent the development of such a reform agenda. Furthermore, the capacity and political will of the Fujimorista congressional majority could secure these reforms, but "to the image and likeness" of their particularistic interests. Finally, the adverse international political and economic context will affect the economic role of the country in the region.

In summary, it will be crucial that Peru avoids the middle-income country trap. Progress has been made, but it remains insufficient.