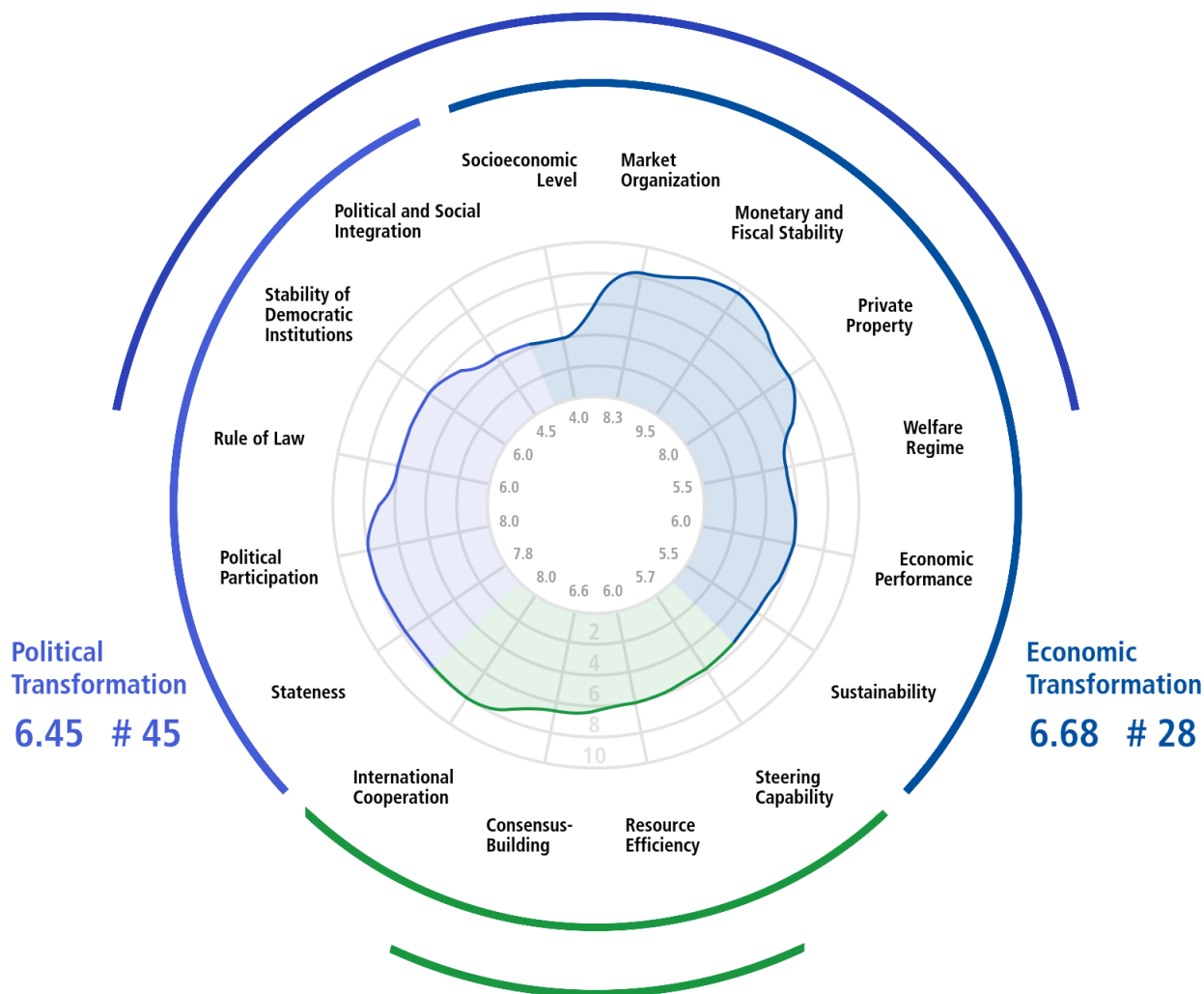


# Peru

## Status Index

**6.56 # 31**

on 1-10 scale out of 137



**Political Transformation**  
**6.45 # 45**

**Economic Transformation**  
**6.68 # 28**

## Governance Index

**5.77 # 32**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2022 Country Report – Peru. Gütersloh: Bertelsmann Stiftung, 2022.

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**Key Indicators**

Population	M	<b>33.0</b>	HDI	<b>0.777</b>	GDP p.c., PPP \$	<b>11879</b>
Pop. growth <sup>1</sup>	% p.a.	<b>1.4</b>	HDI rank of 189	<b>79</b>	Gini Index	<b>41.5</b>
Life expectancy	years	<b>76.7</b>	UN Education Index	<b>0.740</b>	Poverty <sup>3</sup>	% <b>7.5</b>
Urban population	%	<b>78.3</b>	Gender inequality <sup>2</sup>	<b>0.395</b>	Aid per capita \$	<b>14.6</b>

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. 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

The political changes that took place during the review period were once again as numerous as they were substantial. While earlier tensions between the executive and legislative branches had initially subsided, confrontation resumed in 2019 and intensified over the following months. Friction arose due to the political reform pushed by the executive and the questionable process of selecting new Constitutional Court judges. In this context, the executive asked for a “vote of confidence” to stop the selection process underway in the legislature, which Congress ignored. On September 30, 2019, President Vizcarra dissolved parliament, citing the constitution, and called for extraordinary legislative elections in January 2020. The dissolution of Congress was controversial, but in January 2020 the Constitutional Court upheld its constitutionality. For several months, the executive branch ruled by emergency decrees and without a legislative counterweight. Extraordinary parliamentary elections were held on January 26, 2020, which further fragmented the parliament. The new parliament began its work in March.

In parallel, however, the onset of the COVID-19 epidemic prompted the government to declare a “national state of emergency” and mandatory social isolation on March 15. As Congress began its work and under the onslaught of the public health emergency, tensions between the powers of the state intensified over the following months. Since the constitution states that the president cannot dissolve Congress in its final year, the legislature began to pressure the government proposing populist initiatives, which seriously threatened the macroeconomic stability and fiscal sustainability that had been the basis of Peru’s relatively successful economic transformation. Almost all parliamentary factions, even those that had ostensibly worked to defend the economic model in recent decades, joined the wave of populist projects.

Political conflict, government implementation problems and the structural constraints of the Peruvian state combined amid the pandemic to produce disastrous results in addressing the health emergency. Although the government’s strategy was well received by the population in the first few months, the deterioration was noticeable as the months went by. The effects of the epidemic

were devastating and the mortality rate became the highest in the world. The decline in domestic production and massive job losses condemned Peru to the largest recession in Latin America (excluding Venezuela).

In the last quarter of 2020, political conflict, now also fueled by allegations of corruption against Vizcarra, led parliament to attempt to oust Vizcarra, which was finally accomplished in November 2020. In the absence of a vice president, Congressional President Manuel Merino de Lama formed the new government. His regime lacked any legitimacy and provoked massive demonstrations across the country, which were widely suppressed by the police. Faced with internal pressure and the lack of international recognition, Merino de Lama resigned after five days. As a result, Congress had to select an interim president from among its members, which led to the appointment of Francisco Sagasti, who held office until June 28, 2021. Sagasti called his mandate a “transitional and emergency government” whose goal was to combat the effects of COVID-19 and ensure a transparent electoral process in 2021.

## History and Characteristics of Transformation

Since Peru’s return to democracy in 1980, the country’s transformation has been marked by abrupt changes. The transition to democracy began in the mid-1970s, when the political and economic failure of the military government (1968 – 1980) led to its retreat in a negotiated transition. By the 1980s, the Peruvian state and political institutions were notoriously weak. Thus, after the rebirth of democracy, Peru experienced a gradual crumbling of the democratic order under presidents Fernando Belaúnde Terry (1980 – 1985) and Alan García Pérez (1985 – 1990). The process was accompanied by economic crisis, hyperinflation and terrorism. According to World Bank data, GDP per capita (at current prices) was \$738 in 1988, while the Latin American average was close to \$2,150.

This deterioration culminated first in the election of the “outsider” Alberto Fujimori as president in 1990 and then in his “self-coup” in April 1992. Under international pressure, Fujimori partially restored constitutional processes, leading to the 1993 constitution and Fujimori’s re-election in 1995. However, Fujimori’s second term can be characterized as a “competitive authoritarian” regime. Despite the formal existence of democratic institutions, power was highly concentrated, and there were regular infringements on press freedoms, selective violations of individual civil liberties and ultimately electoral manipulation, which secured Fujimori a third presidential term in July 2000. It was only the discovery of an extensive network of corruption in 2000 that finally forced Fujimori to resign and seek immunity in Japan. During the 1990s, the Peruvian party system and democratic institutions collapsed, introducing some of the main characteristics of the “post-Fujimori” era: high electoral volatility, the predominance of informal institutions, deinstitutionalized and highly personalistic political organizations – in general, weak democratic institutions.

After the transitional government under Valentín Paniagua and Alejandro Toledo's election in 2001, Peru returned to a proper democratic dynamic. Two major tasks emerged at the beginning of the new century: the shoring up of democratic institutions and recovery of the representative political system, and ensuring the foundations for inclusive and sustainable economic development. In terms of economic development, Peru maintained a remarkable economic growth rate, stimulated by the commodities boom in the 2000s. Like most Latin American countries, Peruvian economic development was based on mineral exports and primary products. Along with Bolivia and Panama's economies, the Peruvian economy grew well above the regional average. Revenues from this period translated into a significant reduction in poverty. However, despite the accelerated growth of the Peruvian middle class, its situation is still considered highly vulnerable.

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

Although the favorable economic cycle has ended for the region as a whole and growth rates had decelerated significantly by 2014, Peru remained at the forefront of economic growth in Latin America. For this reason, the economic and social consensus generated around the virtues of the "Peruvian model" seemed strong. In this context, Pedro Pablo Kuczynski, a former banker and former economic minister, won the presidential election of 2016. However, his government quickly fell into a deep political crisis, which featured acute conflicts with the Fujimorista majority in Congress that ultimately forced him to resign in March 2018. Even with the unfolding of the political crisis, the subsequent formation of President Martín Vizcarra's government and the dissolution of the parliament in September 2019, macroeconomic and social stability continued without any major changes.

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 the monopoly on the use of force but is still challenged in some areas. The state's monopoly on the use of force showed some improvements in recent years without, however, undergoing any fundamental change.

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

Peru continues to be one of the main producers of coca. Despite enhanced efforts by the government and the national police, security forces have been largely unsuccessful in reducing the extension of coca crops and the operation of drug mafias. On top of that, in the past few years, illegal activities related to the drug trade have overlapped with informal mining and logging activities, following the expansion of the economy in general. In some regional cases, mafia networks developed links with politicians and elected authorities.

Overall, the threat represented by these groups has not increased in recent years. Indeed, research suggests that one of the legacies of violence in Peru has been an increase in state capacity, particularly in remote and distant areas.

Question  
Score

Monopoly on the  
use of force

7

'06 \_\_\_\_\_ '22 10

7 6 7

1

Despite being a multiethnic nation composed of a majority of “mestizos,” people of indigenous, white, black and Asian descent, and also a very heterogeneous country in regional terms, the definition of citizenship has not been a politically relevant issue in Peru. Until recently, the politicization of Peru’s ethnic diversity – even for the indigenous population – has been of minor political significance compared to neighboring countries, such as Bolivia or Ecuador. Seeking to develop public policies in favor of marginalized ethnic groups, the national census of 2017 incorporated – for the first time – a question on ethnic self-identification. The results showed that Peruvians identified themselves as “mestizos” (60.2%), “original population” (Quechua and Aymara) (around 25%), “white” (5.9%), and “black” (3.6%). The state does not deny citizenship rights to any group, but a small percentage (0.7%) of mostly poor people are undocumented and therefore do not have full citizenship rights. In response, the National Registry of Identification and Civil Status (Reniec) has launched a program (Plan Nacional Perú Libre de Indocumentación 2018–2021) that seeks to correct this problem.

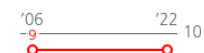
In recent years, indigenous groups have begun to mobilize, particularly in opposition to mining and extractive industries activities, invoking the right to be consulted as indigenous populations in the context of the International Labour Organization (ILO) Convention 169. Consultation rights over the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

In recent years, the involvement of the Catholic Church in politics has attracted attention because of both the church’s strengths and limitations. It is more accurate to speak of the influence of the church in some public policies, rather than clear and widespread interference. This influence is certainly based on the majoritarian Catholic identity of the Peruvian population, which has relatively conservative values.

Various religious groups exert their influence primarily through informal mechanisms, although some religious leaders participate more directly in the political process as elected representatives and through their activities in mobilizing civil society. Although the state has historically had strong relations with the Catholic Church, the spread of other faiths and a growing concern about the extent of religious influence in the public sphere have tempered these relations. Increasingly, religious groups and organizations must represent their interests more transparently through institutional channels. Moreover, they must now even work with other faiths to achieve their goals. However, the influence of religious interests is also being challenged by the active and growing mobilization of feminist and LGBTQ+ groups, among others.

#### State identity

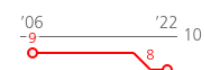
9



1

#### No interference of religious dogmas

8



1

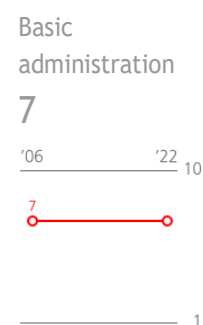
Although earlier reports indicated that conservative groups linked to churches had managed to organize and achieve relative success in pursuing their goals, their power has waned during the current review period. The conservative sectors lost an important ally in early 2019 after Archbishop of Lima Juan Luis Cipriani resigned and was replaced by Carlos Castillo, who has a progressive political orientation. In addition, the dissolution of Congress in September 2019 ended the mandate of several evangelical deputies and deputies sympathetic to evangelical positions. Finally, in the January 2020 general elections, the main candidates associated with a religious agenda were not elected.

Nevertheless, issues related to gender and LGBTQ+ rights, or changes in the basic education curriculum, for example, illustrate the continued importance of religious conservative groups and its influence on public policies. These issues have not disappeared from public debate and are likely to return in the coming years.

The basic administrative infrastructure covers most of the country's territory, but its functioning remains poor. Problems include widespread corruption, the limited capacity of the bureaucracy, and the system's inability to reach the poor. The weak presence of the central government administration outside Lima and beyond the country's coastal regions has historically been a core problem for Peru's political and economic development. An example of the expanded but simultaneously weak reach of the state has been the process of decentralization initiated in 2001, which transferred some decision-making to regional and local governments. However, these governments are extremely weak and the dynamics of political competition have fragmented the political landscape, exposing unskilled politicians that lack the backing of a party to ever-increasing public demands.

Besides law enforcement, the reach of the state and provision of public services is a major problem. 76% of the population has access to sanitation (the second lowest percentage in South America behind Bolivia with 50%), while 87% has access to a water source (the lowest percentage in South America, and the third lowest in the Latin America and Caribbean region). However, some government sectors perform much better than average, mainly due to their level of political importance and the existence of relatively autonomous technocratic groups (essentially authorities involved in macroeconomic management). These sectors have developed stable careers in public service without major political interference.

The momentum of civil service reform has slowed in the current five-year administration. Neither Kuczynski (2016–18) nor Vizcarra (2018–20) were able to improve conditions and enhance civil service capacity. The Congress elected in 2020 further impaired government resources and passed unconstitutional initiatives. For example, Congress approved the phasing out of the Administrative Services Contract (CAS), a measure that transfers temporary government employees into the civil service without holding a merit-based recruitment process. Overall, the severe effects of COVID-19 have highlighted the weakness of the Peruvian state and major inequities in the implementation of public policies.





## 2 | Political Participation

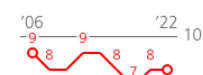
General, multiparty elections are held regularly, conducted properly and accepted as the means of filling political posts. The National Office for Electoral Processes (ONPE) and the Electoral Court (JNE), which together with the National Registry of Identification and Civil Status (RENIEC), are responsible for the execution and monitoring of all electoral processes, have been widely regarded as reliable and some of the best-performing state institutions. These institutions organized the January 2020 parliamentary snap elections at short notice and without major difficulties. On the other hand, the National Board of Justice (Junta Nacional de Justicia, JNJ), a new and autonomous institution, elected Piero Corvetto as head of the ONPE, following a transparent public contest. Corvetto is a civil servant with extensive career experience and recognition in the field of electoral administration.

The Vizcarra administration promoted a comprehensive political reform, but the 2016–2019 Congress approved only a limited set of changes (e.g., regulations regarding the cancellation of political parties, party financing and impediments to holding public office). Most of the changes will affect the 2026 electoral process, but not the April 2021 general elections (e.g., regulations on the registration of new political parties, rules for internal party democracy and the elimination of preferential voting). Therefore, with a partial and limited political reform, and in the context of the COVID-19, Peru faces a very challenging electoral process. On top of that, a number of candidates are included in ongoing fiscal investigations and judicial processes. Accusations of corruption on the part of the prosecution, which include both candidates and their organizations, could interfere in the electoral process since the prosecution of cases can limit the right of participation. Fuerza Popular (the Fujimorista party) and former president Ollanta Humala, for example, could be disqualified as candidates based on the progress of the fiscal investigations.

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 market-oriented direction of economic policies. The current administration favors economic liberalization. Thus, the core interests of business are aligned with most of the government's economic policies. Nevertheless, this government is also vulnerable to pressure from other interest groups able to mobilize specific social interests (for example, socio-environmental justice organizations through political protests). Peru faces not necessarily the strength of veto groups, but rather the political weakness of representative institutions.

Free and fair elections

8



1

Effective power to govern

8



1

The political events that led to the resignation of President Kuczynski (March 2018) and later to the impeachment of Martín Vizcarra (November 2020) have exposed the weakness of an executive that enjoys minority support in Congress and faces a belligerent opposition. President Kuczynski faced a situation where the opposition controlled an absolute majority in Congress, while Vizcarra governed without the support of a political party and without any congressional group. Francisco Sagasti, the acting president, faces similar problems to those of his predecessor, given that he has a small congressional group and, in addition, the party to which he belongs (Partido Morado) is new and inexperienced in handling state affairs.

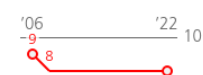
The constitution establishes the right to political organization, especially for independent political and civic groups to associate and assemble freely. The state generally respects this right and numerous civil society groups operate without disturbance by the state authorities. However, governance problems and the frequency of social conflicts, which occasionally turn violent, especially at the local level, have made politicians and the police inclined toward certain restrictions, and excessive use of force and abuses. The state is not always able to effectively protect social and environmental activists against threats and attacks from different actors.

While ethnic cleavages are not a fundamental obstacle to associational dynamics, the combination of geographic and social marginalization still creates barriers for segments of the indigenous population. In addition, constitutional political rights are restricted in some parts of the country, such as the drug-growing areas of Alto Huallaga and VRAEM. Peruvian police have repeatedly arrested participants in demonstrations without just cause. Although not supported by the constitution, police argue that participants in unauthorized demonstrations can be arrested. This practice is more common in rural areas, where protesting farmers and their leaders have been arrested without evidence that they are disrupting public order. In dealing with protests, it is not uncommon for fatal injuries to occur among demonstrators, which is also related to training and organizational problems among the police. The most prominent example was the November 2020 crackdown on mobilizations against the impeachment of Martín Vizcarra, which left dozens injured and two dead in Lima.

The COVID-19 pandemic led to multiple periods of quarantine across the country with different levels of restrictions. The enforcement of these restrictions has varied throughout the country.

Association /  
assembly rights

8



1

Problems related to freedom of expression are not primarily related to political interference or state censorship, but rather to the failure of the state to protect journalists from threats and attacks. Freedom of expression is almost unrestricted in Peru. However, sometimes state agencies, but more often individuals and organized crime, exert pressure on individual journalists that report on sensitive issues such as corruption, which occasionally leads to self-censorship. This pressure has included harassment, intimidation and violence, as well as the inadequate application of libel laws. Attacks on journalists are more common at the local level, where authorities and non-state actors feel free to take action against their critics.

The structure of the media system (both electronic and print) varies at the national and local levels, with radio being the most widely used medium at the local level. Both the public and private media, which dominate the media landscape, are largely free of state influence. In recent years, media in Peru has become increasingly concentrated, with a few powerful media conglomerates able to dominate and exert substantial influence through agenda-setting and their own economic interests.

The media have also become entangled in the political polarization of recent years. The spread of sensational news, defamatory allegations and fake news was a feature of the review period. Political groups promoted a series of sensationalist allegations against their political opponents, especially government bodies. Due to the weakness of the executive branch, these allegations could not be successfully countered in many cases, such as the political trials of Kuczynski and Vizcarra.

### 3 | Rule of Law

The separation of powers is established by the constitution and includes the existence of a Constitutional Court and several electoral autonomy authorities. However, the functional level of the separation of powers is determined by administrative and political factors due to the weak institutionalization of the Peruvian political system. During the period under review, it was not the separation of powers that gave cause for concern, but the extreme conflict between the executive and legislative branches. Peru found itself in a situation of deadlock, as the executive branch could not build a majority in Congress and faced a belligerent opposition – one of the worst scenarios for a presidential regime.

This conflict had already led to the resignation of President Kuczynski in March 2018, after which Martín Vizcarra had to deal with the same situation – a contentious relationship between the executive and the Fujimorista majority in Congress. Checks and balances worked relatively well, however, because while Congress fulfilled its oversight role, the government had a constitutionally provided opportunity to dissolve Congress, as it finally did in September 2019. This problem resurfaced after the January 2020 congressional elections. Although no list supported President Vizcarra and the constitution stipulates that parliament cannot be dissolved in the last

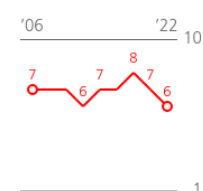
Freedom of expression

8



Separation of powers

6

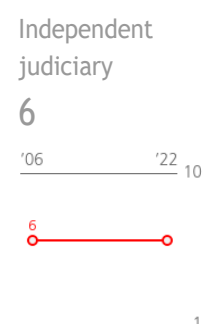


year of a presidential term, the results indicated a Congress with a majority of politically moderate factions. However, during the COVID-19 emergency, most political factions adopted strongly populist rhetoric, and approved initiatives that threaten the country's future economic and political stability. This practice breaks with the political pattern of the last 30 years, which was characterized by macroeconomic discipline. The power of the parliament and the weakness of the executive branch eventually resulted in the impeachment of President Vizcarra in November 2020. President Sagasti, who was subsequently elected by Congress, faced similar problems.

The Constitutional Court has acted as a kind of “safety valve” in resolving conflicts between the executive and legislative. In January 2020, the Constitutional Court recognized the constitutionality of the dissolution of parliament requested by Martín Vizcarra. The executive challenged the constitutionality of various “populist” projects approved by Congress because they implied increasing spending, which is not a Congressional prerogative. The Constitutional Court will ultimately resolve this dispute, which confirms its political importance. However, in November 2020, the court did not reach an agreement to stop the impeachment proceedings against Vizcarra, despite concerns about its constitutionality.

The judiciary functions as a separate branch of government and operates relatively independently. However, citizens do not trust the judiciary; its approval ratings are among the lowest of Peru's democratic institutions. The judiciary is severely undermined by corruption, inefficiency, insufficient territorial and functional reach, limited resources, weak management, a hierarchical and conservative culture, and arbitrary recruitment and promotion procedures. Most people are not able to access the judicial system, which is seen as expensive, unreliable and corrupt, and try to resolve their disputes informally. Arbitration outside the judicial system has emerged as a substitute mechanism for resolving contractual disputes, especially in the private sector and in cases involving chambers of commerce, although often with limited success.

The corruption networks uncovered within the National Judicial Council (CNM), the organism responsible for appointing judges and prosecutors, led to its replacement by the new National Board of Justice (JNJ) in January 2020. For its part, the Public Prosecutor's Office, under the leadership of Zoraida Ávalos, managed to normalize its functions and conduct a number of important investigations in a short period of time. Ávalos replaced Pedro Chávvarry, who resigned amid a notorious corruption case that implicated judges, prosecutors, businessmen and politicians in a widespread network of patronage in the public apparatus.



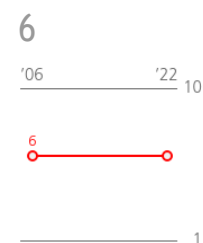
Since the Fujimori era, the Peruvian public has become highly sensitized to corruption. However, impartial prosecution and harsh penalties for misconduct in public office are not general features of Peruvian politics. While corrupt officeholders are increasingly prosecuted under existing laws, they often slip through political, legal or procedural loopholes. These problems are even more pronounced at the subnational levels of government, where corruption cases are frequently uncovered. The system does not work to prevent corruption, although the most scandalous cases are prosecuted. The institutions responsible for monitoring and prosecuting these cases are severely delegitimized. High-ranking officials in these agencies, including former prosecutors, have also been investigated and indicted in recent years.

However, the political class has been seriously threatened by judicial investigations in recent years. In connection with the Lava Jato scandal, former presidents Toledo, García, Humala and Kuczynski, and other important political leaders such as Keiko Fujimori have been investigated for allegedly receiving kickbacks and illegal financing for their election campaigns from Odebrecht. A significant number of governors have also been indicted and convicted of corruption. The special team of prosecutors in charge of these investigations has used preventive detention and house arrest as axes of prosecution. This strategy has been criticized by various sectors and described as arbitrary. In April 2019, Alan García committed suicide right as he was about to be arrested. The judicialization of politics and politicization of the judiciary has made corruption charges a political weapon, and in some cases, they have had enormous political repercussions, such as the resignation of President Kuczynski or the impeachment of President Vizcarra. More generally, public officials fear becoming personally and institutionally involved in public initiatives that could later lead to corruption charges, which in practice reduces the effectiveness of the public sector.

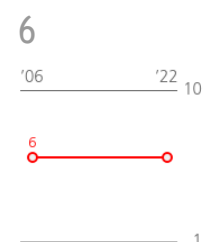
Civil rights and non-discrimination are enshrined in the constitution. The state respects civil rights in principle but fails to strengthen them further and occasionally does not protect them adequately. Because of the state's weak capacity, and especially a weak judiciary, civil rights are violated in some parts of the country, or citizens are discouraged from claiming their rights. In Peru, this translates into "low intensity citizenship." Discrimination against indigenous communities, ethnic minorities like Afro-Peruvians, and LGBTI people is still widespread, though civil society organizations and the Ombudsman Office have engaged in campaigns to publicize this issue. Equal access to justice is still a severe problem for the poor and the indigenous population. Despite programs to improve access, efforts to exempt poor people from court fees and integrate intercultural policies into the system of justice in some provinces have had little success. Almost one-third of the population is unable to access judicial services.

Marriage between same-sex couples is not recognized by Peruvian law. Oscar Ugarteche, a prominent Peruvian economist, sought state recognition of the legality of his marriage, which had been conducted in Mexico several years ago. However,

#### Prosecution of office abuse



#### Civil rights



various instances of the Peruvian administration repeatedly denied his demands. In November 2020, the Constitutional Court rejected by majority Ugarteche's claim – a severe setback for the LGBTQ+ community.

According to the Ombudsman's Office, there were 132 femicides, 204 attempted femicides and 54 violent deaths of women in Peru in 2020. The same trend observed in the incidence of femicides is reflected in the records of attention to cases of violence against women. In comparative terms, there was a 14% decrease in femicide cases compared to the previous year. Although the state views the issue of violence against women as a structural and social problem, it has not managed to successfully advance initiatives to remedy it.

#### 4 | Stability of Democratic Institutions

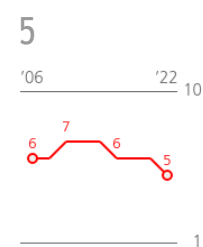
Democratic institutions fulfill their functions in principle, but are inefficient due to frictions, a lack of professionalization in the bureaucracy, and the weakness of state institutions and political actors, with the latter exemplified by the dysfunctional party system. In addition, decentralization since 2002 has been hastily implemented and has led to inconsistent results. The last five years have been marked by acute conflict between the executive and legislature, which has also called into question the continuity of market-oriented economic policy. This intensified under the governments of Martín Vizcarra and President Sagasti.

The dissolution of Congress in September 2019 was highly controversial and constitutionally questionable, notwithstanding the majority approval of citizens. Thereafter, the executive ruled for several months without a parliamentary counterweight. The election of the new Congress in January 2020 and its subsequent installation in March 2020 promised to reduce tensions, but COVID-19 gradually changed the political dynamic. The precariousness of political representation and the lack of party discipline in Congress led to conflict between the government and parties represented in Congress, amid the public health emergency.

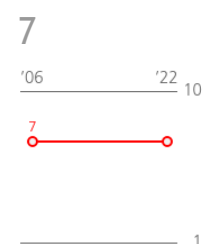
Nearly all influential political actors accept Peru's democratic institutions and regard them as legitimate in principle. However, commitment to these institutions needs strengthening, as irresponsible behavior and an excessive level of short-term political calculations risk democratic governance. These are byproducts of weak political parties and dysfunctional political class.

Since 2016, the political arena has been characterized by extreme conflict between the executive and the legislature, which led to President Kuczynski's resignation in March 2018, the dissolution of Congress in September 2019, the impeachment of President Vizcarra and the resignation of President Merino in November 2020. The problem is that most controversies are driven by short-term, opportunistic considerations, with potentially disastrous political consequences.

Performance of democratic institutions



Commitment to democratic institutions



## 5 | Political and Social Integration

Peru's party system suffers from a very low degree of institutionalization, which is remarkable even in the Latin American context. Political fragmentation and volatility are high, and the system is not rooted in society. Political parties are weak and personalistic organizations, which lack legitimacy and broad membership bases. Most existing national parties are political groupings 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. As a result, polarization is not pronounced and political clientelism is rather sporadic.

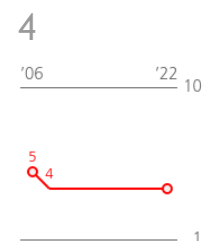
The snap elections in 2020 further exacerbated party fragmentation, as nine parties received representation, three more than in the previous Congress. Likewise, political parties achieved extremely low percentages of the electoral vote. For example, Acción Popular, the party with the most votes, received just 11% of the valid votes. The lack of party discipline in Congress was also a salient feature of this period. There was an apparent disconnect and an unusual degree of incoherence between the leaders of the political parties and their factions in Congress. The December 2020 intraparty elections again demonstrated the parties' weak roots given the minimal participation of affiliates. Overall, the exhausted established political parties, which had been prevalent in previous years, have been further weakened and are competing with the new improvised, personality-led organizations.

In general terms, Peru's landscape regarding associations and interest groups is characterized by institutional weakness and a high degree of fragmentation. This makes it extremely difficult to aggregate and articulate broad societal interests, and for different interest groups to cooperate. The spectrum of interest groups ranges from business and professional associations to unions, social movements and community organizations. Business groups are far better organized and more influential than labor unions and other civic organizations. Unions have been severely weakened by economic liberalization and have lost their political weight – a trend that has been exacerbated by the very large share of workers employed in the informal sector. Strikes in the private sector are less common than strikes in the public sector.

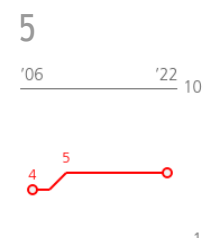
Social protests are certainly important in Peru and, in comparative terms, a high percentage of people engage in protests, but these are mostly sporadic events at the local level. In recent years, the main sources of conflict are related to local communities affected by the extractive industries. For most Peruvians, given the weakness of civil society and political representation, the best way to channel demands is not through representative institutions, but through direct mobilization in the streets.

In this scenario, it is important to mention that the intervention of “external” actors, such as NGOs and international development organizations, are crucial for supporting and strengthening weak civil society organizations.

Party system



Interest groups



Approval of democratic norms and procedures is low in Peru, even by Latin American standards. Dissatisfaction among Peruvians with the functioning of the democratic system has affected their support for democracy. There is a huge gap between citizens' high expectations – nourished by populist and non-populist politicians alike – and the subsequent disappointment created by the often meager or unsatisfactory political results, such as insecurity, corruption, discrimination and unchanged levels of inequality.

According to Latinobarómetro 2018, the share of respondents that prefer democracy to any other form of government was 43%, slightly below the Latin American average (48%) and in steady decline since 2010 (61%). Support for an authoritarian regime under some circumstances reached 27% in 2018 (Latin American average: 28%), while the degree of satisfaction with democracy was 11% in 2018, only ahead of Brazil at 9% (Latin American average: 24%). In addition, trust in specific institutions is rather low, and mostly situated below the average of the Latin American countries surveyed. The only exception is the election authority at 33% (Latin American average: 28%). Trust in government (13%; Latin American average: 22%), parliament (8%; Latin American average: 21%), the judiciary (6%; Latin American average: 24%) and political parties (7%; Latin American average: 13%) are among the very lowest in Latin America. The most-trusted institution is the church at 60% (Latin American average: 63%), followed by the military (46%) and the media (44%).

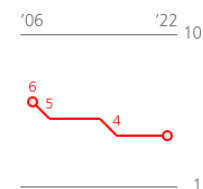
In recent years, national surveys show a certain disappointment in democratic procedures after elections, especially at the local level. Policy decisions taken by democratic procedures are to some extent contested and criticized due to public distrust. According to the Latin American Public Opinion Project (LAPOP) 2018/19, support for the political system in Peru is 41.7%, the lowest percentage in Latin America.

There is a very 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 across the country, often temporary and spontaneously formed, and weakly institutionalized. Partly because of the long-lasting spiral of impoverishment and the growth of the informal sector inherited from the crises in the 1980s to 1990s, the ability of Peruvian society to organize itself has been extremely weakened. The number of economic networks over the past two decades has significantly increased, together with the dynamic of economic growth, but the same has not happened regarding political activity.

Over the last decade, the expansion of extractive industries has had a substantial impact 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 LAPOP 2018/19, the level of interpersonal trust in Peru is extremely

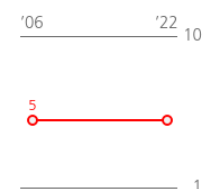
Approval of democracy

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Social capital

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low. Regarding trust within communities, 11% of Peruvians state that people within their community are “very trustworthy,” with 32% indicating “somewhat trustworthy.” Furthermore, only 43% of Peruvians show interpersonal trust, the second lowest percentage in the region, only above Brazil.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Peru’s level of socioeconomic development improved considerably during the commodity boom but has not improved much in the last few years, as the economic growth rate declined. 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 historical socioeconomic differences and the efforts to change these patterns through social policies have had modest impacts.

The Human Development Index (HDI) 2019 ranked Peru 79 out of 189 countries, with an index value of 0.777 (compared to a global average of 0.679). According to World Bank data, the country’s Gini Index value was 42.8 in 2018. In addition, Peru’s score in the Gender Inequality Index improved somewhat from 0.401 in 2018 to 0.395 in 2019 (with a lower value indicating less inequality).

Macroeconomic soundness and proper management of public finances allowed, in part, for a significant reduction in poverty rates in the 2000s. According to the National Institute of Statistics (INEI), the overall poverty rate declined from 54.7% in 2001 to 20.7% in 2016. Poverty also declined above average in the rural regions of the highlands (Sierra) and the lowlands (Selva), though it is still very pronounced in the rural regions compared to urban centers. However, the slowdown in growth rates, due to the fall in commodity prices and the limitations of the Peruvian development model, meant that the rate of poverty reduction slowed and even reversed. Thus, the poverty level increased to 21.7% in 2017, increasing in both urban and rural areas.

Despite the slowdown in annual growth rates and the (slight) increase in poverty rates, the Peruvian economic model was considered a regional “example.” Macroeconomic soundness remained unchanged in the face of the effects of the political crisis that hit the country during the current five-year presidential period, which resulted in the resignation of Pedro Pablo Kuczynski and the impeachment of Martin Vizcarra.

But the impact of the coronavirus pandemic on the Peruvian economy has been devastating. Peru has been one of the most affected countries in Latin America and in the world, according to World Bank indicators for 2020. In the second quarter of

Question  
Score

Socioeconomic  
barriers

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2020, the economy fell 30.2%, the worst record for several decades. The INEI reported a contraction of the wage bill in Metropolitan Lima of 34.3% between June and August 2020, compared to the same quarter of the previous year. According to the ILO, Peru was the worst hit of the nine Latin American countries whose labor sector suffered most as a consequence of the COVID-19 pandemic. The drop in employment has been drastic: 57.1% for men and 53.7% for women. In the COVID-19 context, the increase in poverty and unemployment in urban areas is a new complex challenge for social policymaking.

Economic indicators		2017	2018	2019	2020
GDP	\$ M	211007.2	222574.7	228470.9	<b>202014.4</b>
GDP growth	%	2.5	4.0	2.2	<b>-11.1</b>
Inflation (CPI)	%	2.8	1.3	2.1	<b>1.8</b>
Unemployment	%	3.4	3.2	3.0	<b>6.2</b>
Foreign direct investment	% of GDP	3.3	2.9	3.9	-
Export growth	%	8.8	3.4	-0.5	<b>-19.0</b>
Import growth	%	7.1	3.5	1.7	<b>-14.9</b>
Current account balance	\$ M	-2668.6	-3821.1	-3531.1	-
Public debt	% of GDP	25.4	26.2	27.1	<b>35.1</b>
External debt	\$ M	67603.6	66769.3	64247.3	<b>73549.2</b>
Total debt service	\$ M	11084.4	7088.6	6590.3	<b>6436.0</b>
Net lending/borrowing	% of GDP	-3.4	-2.1	-2.2	-
Tax revenue	% of GDP	13.2	14.3	14.5	-
Government consumption	% of GDP	13.2	13.1	13.2	<b>16.0</b>
Public education spending	% of GDP	3.9	3.7	3.8	<b>4.2</b>
Public health spending	% of GDP	3.2	3.3	-	-
R&D expenditure	% of GDP	0.1	0.1	-	-
Military expenditure	% of GDP	1.2	1.2	1.2	<b>1.3</b>

Sources (as of December 2021): 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. Peru implemented most structural market-oriented reforms in the 1990s and has maintained them since the turn of the new century, despite the fact that Peru elected presidents García (2006) and Humala (2011), who won the elections based on political platforms that were relatively critical of neoliberal reforms.

Peru did not go through the “left-turn” other Latin American countries experienced but did not implement a full agenda of “second generation” reforms either. The World Economic Forum’s Global Competitiveness Index 2019 ranked Peru 65 out of 141 countries. According to Doing Business 2019, Peru ranked 76 out of 190 economies on ease of doing business, down from 68th in the previous report. Starting a business remains difficult (ranked 125 out of 190 countries), requiring 26 days (up from 24.5) and eight procedures at a cost of 9.4% of income per capita.

One of the most important pending reforms has to do with how to deal with the informal sector, which is quite large in Peru. In 2019, 68.4% of the Peruvian labor force worked in the informal sector, accounting for about 30% of GDP. However, non-agricultural informal employment is lower at “only” 59.9%. According to the ILO, 51% of all jobs are generated by the informal economy, with only 15% of informal workers having health care coverage and a mere 4% enjoying retirement benefits. Peru’s informal sector remains one of the most significant impediments to enhancing the quality of competition and achieving social equity. The period of high economic growth between 2002 and 2013 helped to reduce underemployment. According to the INEI, the underemployment rate decreased from 62.6% in 2007 to 44.7% in 2017.

However, lower levels of economic growth since 2014 and the COVID-19 pandemic have had terrible consequences for Peru. On the one hand, the informal employment rate in Peru increased in the first quarter of 2020 to 73% and in the third quarter to 75.2%. According to the INEI, labor informality reached an eight-year high. On the other hand, political parties that in the past supported market-oriented policies are now adopting populist positions, and are calling for price controls, market interventions and the creation of public enterprises, among other initiatives that run counter to market mechanisms.

Market  
organization

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Though the regulation of monopolies and oligopolies is still weak, the institutional framework has improved 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. The Institute for the Defense of Competition and Intellectual Property (INDECOPI) is the competition agency responsible for all matters concerning all sectors of the economy, except telecommunications, and it has the power to sanction abusive acts associated with dominant market positions or restrictive market practices. The INDECOPI has survived many administrations over the last 20 years, experiencing periods of greater autonomy and strength, and periods of relative decline.

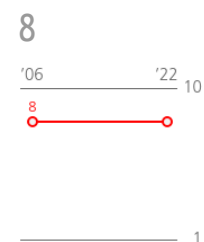
The OECD concluded that Peru has an active competition regime in line with internationally recognized standards and practices, but a merger of regulation was missing. In December 2019, however, during the Vizcarra administration, Congress approved the Law on Prior Control of Business Mergers and Acquisitions, an initiative that was widely debated and long expected by political leaders, economic actors and regulatory agencies. The law and its regulations were scheduled to come into effect in August 2020. Nevertheless, due to the pandemic, the government asked the legislative to extend the application of the law. Months later, the legislative finally approved the antitrust law, an initiative that, among other measures, gives the INDECOPI, and the Superintendence of Banks and Insurances (SBS) the power to carry out prior control of business concentration operations.

At the same time, the Congress elected in 2020 has decreed several initiatives that threaten the free market and free competition, applying populist measures with the aim of, supposedly, defending the citizen and the consumer in the context of COVID-19. In this sense, the legislative approved by insistence a law that introduces sanctions for companies that abuse their dominant market position. Likewise, Congress approved the law that fixes caps on bank interest rates, empowering the Central Reserve Bank (BCRP) to set the minimum and maximum interest rates that banks can charge their clients. In practice, the legislative in this period has shown an interest in promoting initiatives that challenge market competition – a clear break from the pattern observed over the last 25 years, when a consensus on market-oriented policies dominated.

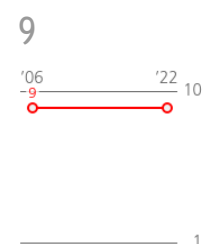
Peru has extensively deregulated foreign trade since the 1990s. No fundamental state constraint on free trade remains. This particularly applies to the treatment of foreign investments and the holding of securities. Previous governments had eliminated all restrictions and controls on payments, transactions,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

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

#### Competition policy



#### Liberalization of foreign trade



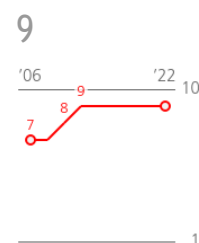
agreements (FTA) such as those with the European Free Trade Association (EFTA), Andean Community, MERCOSUR and the European Union. These agreements approximate 100% of Peru's international trade. Peru's average tariff has been reduced steadily from almost 70% at the end of the 1980s to 2.5% in 2012; the country's most favored nation applied tariff rate averaged 2.4% in 2019. There are no import quotas or export limitations. However, the Heritage Foundation points to continuing non-tariff barriers including import restrictions, services market access restrictions, export taxes, price bands for sensitive agricultural products, and domestic preferences in government procurement.

Peru has been a member of the WTO since 1995 and was the organizer of the Asian-Pacific Economic Cooperation (APEC) meeting in 2016. The Global Competitiveness Index 2019 ranked Peru 16 out of 141 countries for trade openness.

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. The resilience of Peru's banking system is also a result of successful coordination between the Ministry of Finance, the BCRP and the SBS. Together, these bodies managed to ensure liquidity for the financial sector and capital markets, and successfully minimized systemic risks. In the last few decades, large quantities of official reserves, strong indicators of financial soundness within the banking system, and banks' limited reliance on external capital have helped preserve stable liquidity conditions. The Global Competitiveness Index 2019 ranked Peru 43 out of 141 countries for the soundness of its banks. In the context of the COVID-19 economic crisis, the government launched an emergency loan initiative, which was guaranteed by the BCRP and which proved crucial in preventing the closure of many enterprises.

The government has implemented 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 international standards already introduced. In line with Basel II, capital requirements for all types of risk have been introduced, including credit, market and operational risks. This is confirmed by the most recent World Bank figures for non-performing loans (which decreased from 4.7% in 2017 to 3.4% in 2019) and bank capital to assets ratio (2019: 12.9%). The high level of dollarization of the economy, an important concern until 2014, has improved somewhat, down to 29.67% of deposits and about 26.22% of credits in the banking system denominated in U.S. dollars, as of October 2020.

#### Banking system



## 8 | Monetary and fiscal stability

Successful anti-inflation policy remained an essential part of what has been called the “Peruvian miracle.” Inflation and foreign exchange policies are pursued in concert with other economic policy goals and are institutionalized in the largely independent central bank (BCRP). 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%. In that sense, the political crisis that developed during the Vizcarra administration did not adversely affect monetary stability: inflation increased from 1.3% in 2018 to 2.1% in 2019.

The exchange rate regime is in principle a floating system, although the BCRP intervenes in the currency market by buying and selling dollars to curtail exchange rate volatility. During the review period, the exchange rate did not change substantially.

Macroeconomic stability and the strength of the Peruvian monetary policy became evident amid the COVID-19 epidemic. The government was able to sell \$3 billion in sovereign bonds on the international market in order to partially finance a broad economic stimulus plan, equivalent to 12% of GDP. The bonds were well received by buyers and Peru received proposals for \$25 billion at low interest rates. This demonstrates that Peru has not lost international confidence in its financial stability. However, the rating agency Fitch Ratings in June 2020 lowered Peru’s long-term issuer rating in local currency to “BBB+” with a stable outlook, compared to the previous rating of “A-,” due to the impact of the coronavirus pandemic. In its report, Fitch points out that “it no longer considers Peru’s public finances to be a strength in relation to its external finances.”

The main question is how much things are going to change after July 2021, with the formation of the new national government.

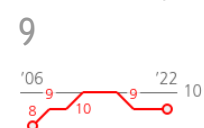
Fiscal stability was largely achieved under the previous administrations. While public debt as a percentage of GDP stood at 40% in 2005, it was successively reduced to levels of about 20%, reaching 27.1% in 2019. The largest part of it is long-term debt, which is of lower risk, though almost 65% is exposed to foreign exchange risks. In recent years, despite the slowdown in economic investment, Peru has managed to make use of accumulated reserves to restrain the impact of these external cycles. Measures have been developed to stimulate consumption and spending, as well as to increase public investment. Peru’s fiscal policy has proven to be very effective in applying countercyclical policies, independent of the government in power at the time. According to data from the Economic Commission for Latin America and the Caribbean (Comisión Económica para América Latina y el Caribe, ECLAC), the fiscal balance remained controlled in recent years (-1.2% of GDP in 2016, -1.8% in 2017 and -1.4% in 2018).

### Monetary stability



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### Fiscal stability



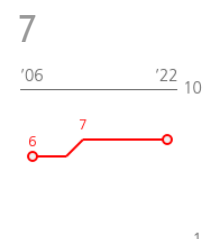
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However, COVID-19 has strongly weakened the fiscal stability of the Peruvian model. Standard & Poor's estimated that Peru's fiscal deficit in 2020 was 7.5% of GDP, after having stood at 1.6% at the end of 2019. The fiscal imbalance is related to the measures applied by the government in response to COVID-19 pandemic. Within reasonable parameters, the executive had debt capacity and was therefore able to increase public spending. The highlight was Reactiva Perú, an economic program promoted by the Ministry of Economy and Finances (MEF) that aimed to respond quickly to the liquidity needs of companies. Reactiva Perú sought to ensure the continuity of the payment chain, granting guarantees to micro, small, medium and large companies, so that they could access working capital loans. The program guaranteed up to PEN 60 billion, equivalent to 8% of GDP. In sum, the government had the ability to increase public spending to counteract the effects of COVID-19, without being unduly concerned about fiscal imbalance. The perception is that the MEF, beyond the political pressures and the effects of the epidemic, has managed the issue of fiscal solvency and avoided seriously compromising fiscal resources. However, there is a lot of concern regarding the possibility that the new national government entering office in July 2021 may not consider fiscal stability as important as previous governments over the last 25 years.

## 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 2019 ranked Peru only 121 out of 141 countries with respect to protection of property rights and 124th with regard to intellectual property protection. The Heritage Foundation's Index of Economic Freedom 2020 gives Peru a rather low score of 67.9 out of 100 points resulting in a rank of 51 out of 180 countries. In addition, in some of the country's areas, few landowners have formal titles to their land, or those titles are unclear. In some areas inhabited by the indigenous population, land titles are not defined at all, are not clearly defined or are defined in a way that is incompatible with indigenous cultural norms. Furthermore, in recent years some cases of land trafficking have involved political personalities and public officials at different levels of government. The enforcement of property rights is an ongoing challenge.

### Property rights



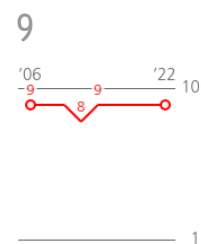
Since the market reforms of the 1990s, private companies are viewed as the primary engines of economic production and are given appropriate legal safeguards. The second García administration (2006 – 2011) put significant emphasis on the private sector as an engine of growth and sought to attract private investment in nearly all sectors of the economy, especially the booming mining sector, which provides abundant fiscal revenues. The Humala government (2011 – 2016), while promising a different strategy during the election campaign, followed this path by and large, responding to pressure from private sector organizations. Kuczynski (2016 – 2018) and Vizcarra (2018 – 2020) administrations were committed to private business interests, privileging anti-bureaucratic policies. According to the World Bank's Doing Business 2020 report, starting a business suffers not so much from the number of procedures, of which there are relatively few (eight), but instead from the time involved in launching a commercial or industrial firm (26 days). Therefore, the legal procedures to open a private business in Peru are one of the longest in the region, surpassed only by Paraguay, Bolivia, Ecuador and Venezuela.

Before the pandemic, some Peruvian business groups had been strongly discredited as a result of revelations stemming from the Lava Jato scandal. The illegal actions of Peruvian construction companies have raised questions about the role of business sector, undermining its credibility locally and internationally. In the context of the COVID-19 pandemic, criticism of the business sector intensified and became widespread in the Congress elected in 2020, with populist rhetoric in the Congress becoming generalized. The launch of Reactiva Perú, an ambitious program designed to provide liquidity to companies paralyzed by COVID-19, was criticized due to the program's supposed bias toward large companies to the detriment of small entrepreneurs. However, the MEF reported that 98% of the companies served by Reactiva Perú were micro and small companies. After several decades, a dominant anti-business discourse has won over most political actors.

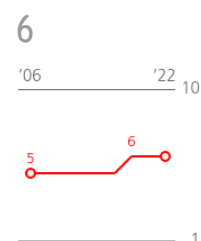
## 10 | Welfare Regime

Welfare institutions designed to avert the social risks associated with a neoliberal economy exist but vary considerably by regional and social groups. The hybrid welfare regime is comprehensive by design, but de facto limited and does not reach all segments of the population, a situation exacerbated by the large informal sector. Deficits are most pronounced in rural areas, reflecting Peru's geographic division into the Pacific coast, the Andes and the Amazon. The social security system is based on three pillars: a mandatory social insurance system, an alternative private system based on individual capital, and a state-sponsored assistance system covering the rest. The insurance system basically provides for payments in instances of illness, pregnancy, disability, old age and death.

### Private enterprise



### Social safety nets





The health care system consists primarily of the noncontributory health insurance system (SIS), which covers more than half of the population, the contributory health insurance system EsSalud (about 25–30%) and private insurance plans, with an additional health insurance system for the armed forces and the national police. Coverage increased from 37% in 2004 to 94% in 2020, mainly due to the expansion of the SIS. The pension system consists of the public pension system and a private system for managing pension funds. The public system is managed by the State Office of Pension Funds (ONP), while the private system is managed by pension fund administrators (AFP), with monthly contributions paid into individual accounts. Employees have the right to choose the system to which they wish to contribute. The entire system provides participants with low pensions, far below those of other developed economies. According to the Lima Chamber of Commerce (CCL), about half of Peru’s economically active population (8.5 million workers) are not affiliated with any pension system.

Since the Humala government (2011 – 2016), the Ministry of Development and Social Inclusion (MIDIS) has been responsible for promoting inclusion and social equity, and protecting vulnerable populations. MIDIS has put into operation social programs such as “Juntos” (a conditional cash transfer program) and “Pensión 65” (a grant for adults over 65 that live in extreme poverty). The impact of these social programs, among others, was celebrated during the first phase of implementation, but has gradually faded, and the MIDIS has lost importance and political weight to other key sectors. Meanwhile, critics argued that the MIDIS “compensations” alleviated the poverty situation but did not resolve the structural problems. The Vizcarra government (2018 – 2020) did not implement major reforms of the MIDIS nor did it formulate any new social programs. In essence, the ministry functioned through inertia. The MIDIS gained some visibility during the COVID-19 pandemic when it was tasked with distributing economic bonuses to the most vulnerable population and the self-employed. Thanks to the social programs for which it was responsible, the MIDIS had the necessary expertise. However, the bonuses were quickly exhausted, which left millions of Peruvians in poverty amid the epidemic.

Mechanisms to compensate for inequalities exist but are limited in scope and quality given the extent of disparities, especially poverty and income inequality. Equality of opportunity is limited in Peru and access to public services is unequal. This inequality is often linked to discrimination against the indigenous population. In general, the most disadvantaged groups in the country are the rural poor, and within the rural poor women and the indigenous population. To promote the empowerment of discriminated groups, Peru has introduced quotas and affirmative action policies in the political sphere that seek to increase the political representation of women, young citizens and indigenous peoples. However, the implementation of quotas and anti-discrimination policies remain problematic, with policies often having limited impact. By the end of 2020, nevertheless, several senior positions in the country were

Equal opportunity

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held simultaneously by women, including in the judiciary, the prosecutor's office, the Constitutional Court, Congress and the presidency of the Council of Ministers.

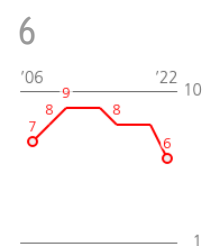
The main social policies that promote equal opportunity relate to education. High dropout rates, unequal access to education and disparities in educational attainment between different socioeconomic groups are associated with social inequalities, which both drives and is driven by these problems. The highest percentage of children who do not participate in the school system belong to indigenous groups. According to UNICEF, the chances of success are low for rural students, lower still for students from indigenous backgrounds and especially low for students who speak languages of Amazonian origin. While the literacy rate for females (91.7%) lags behind that of males (97.1%), the enrollment rate is almost the same.

COVID-19 has exacerbated educational inequalities. To curb the contagion rate, the government decreed that schooling would continue without face-to-face instruction in 2020 and 2021. The Ministry of Education (Minedu) introduced the “Aprendo en casa” (“I learn at home”) program, an initiative to promote remote teaching, which combines different media such as television and the internet. In practice, however, this strategy discriminated against thousands of poor children and young people, especially in rural areas. Only 35.9% of Peruvians have access to the internet, with as few as 5% of people in rural areas, which is compounded by the lack of smartphones, tablets and computers. The Minedu reports that 43.5% of students accessed virtual classes through the WhatsApp application.

## 11 | Economic Performance

In recent years, the Peruvian economy has experienced a decline in private investment, lower economic growth rates and a decline in commodity prices. However, despite this external context, economic policy in Peru demonstrates a solid foundation. Although the Peruvian economy was growing at a slower rate than before, it remained above the Latin American average prior to the arrival of COVID-19. GDP per capita (PPP) was \$13,380 in 2019, having significantly and persistently increased over the last decade. Under the Vizcarra administration, GDP per capita growth reached 2.2% in 2018, declining to 0.5% in 2019. The inflation rate increased from 1.3% in 2018 to 2.1% in 2019. The government's overall balance, which was negative in 2017 (-3.4% of GDP), improved slightly in 2018 (-2.2%). Public debt as a percentage of GDP, which had reached 25.4% in 2017, increased to 26.2% in 2018 and to 27.1% in 2019, but is not as high as other countries in the region. Tax revenues, which had fallen to 13.2% of GDP in 2017, reached 14.3% in 2018. Foreign direct investment as a percentage of GDP slightly increased from 2.9% in 2018 to 3.9% in 2019. According to the World Bank, unemployment showed a slight decrease from 3.3% in 2019 to 3.2% in 2020.

Output strength



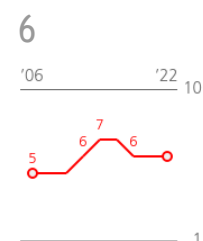
However, due to the recession produced by the COVID-19 crisis, the ECLAC estimates that the Peruvian economy will contract at a rate of -12.9% in 2020, in contrast to 2.2% growth in 2019. According to the ECLAC, Peru has been “one of the hardest hit countries in the world” by the coronavirus pandemic. Although the government decreed that activities would reopen in phases from May 2020, in September, without having returned to pre-crisis levels, signs of a weakening in the recovery were already noted. The economic contraction was compounded by a massive loss of jobs and a worsening of public finances. Nevertheless, a strong rebound in growth is expected in 2021 (9.0%), although this dynamic will be insufficient to recover pre-crisis levels of GDP and production.

## 12 | Sustainability

All recent governments have been torn between Peru’s seemingly successful resource extraction model and demands for greater sustainability – until now, the former has been preferred. However, environmental concerns and regulations have gained ground, though have at times been half-heartedly followed or implemented. During the first half of Ollanta Humala’s administration (2011 – 2016), environmental policy was an axis of government initiatives. Institutional arrangements were refined in order to comply with the country’s commitment to the 2012 United Nations Conference on Sustainable Development. In November 2012, Congress approved a bill to create the National Service of Environmental Certification for Sustainable Investment (SENACE) to provide for a more impartial evaluation of environmental impact assessments, previously administered by the Energy and Mining Ministry; government approved the National Environmental Education Policy in December 2012. The Ministry of Environment (MINAM) was strengthened with the intention of reducing the pressures of the extractive industries. And the COP20 Conference was held in Lima in 2014. Nevertheless, successive governments have had serious difficulties containing the growth in informal extractive activities, particularly logging and mining. The government defines these activities as illegal.

The adaptation plan under the Framework Convention on Climate Change – based on the 2015 Climate Change Strategy (Estrategia Nacional ante el Cambio Climático, ENCC) – is currently being updated with support from GIZ, among others. Since 2018, Peru has had a framework law on climate change that aligns with the commitments of the Paris Agreement, with implementing regulations for this law adopted in January 2020. In 2018, the executive enjoyed an important environmental achievement when Congress approved a bill to regulate the use and manufacture of non-recyclable plastics. While, compared to the Humala era, environmental policy lost support among political actors and stakeholders following the outbreak of social conflicts in 2019 over the Tía María (Arequipa) and Las Bambas (Apuímac) mining projects, it has since regained relevance. The Vizcarra government created the Commission for Sustainable Mining Development, which presented its final report in

Environmental  
policy



February 2020. The final report proposed regulatory and management measures, as well as policies to improve the sustainable development of the mining industry. However, its implementation was postponed in the midst of the COVID-19. The Vizcarra government also launched the “cierre de brechas” program (closing development gaps) on behalf of indigenous communities affected by oil extraction in the Amazon basin.

Education is one of the most problematic areas concerning the sustainability of Peruvian development. Under the Vizcarra government, public spending on education (as a percentage of GDP) only increased from 3.7% to 3.8% of GDP. Access to education is fairly broad, but the quality of education and prevalence of socially differentiated dropout rates require attention. In 2018, 92.1% of children had access to early education, 96.2% to primary education and 86.1% to secondary education. In terms of school dropout rates, there are qualitative differences between various social sectors, with rural and indigenous students particularly disadvantaged. On the other hand, Peru’s PISA results have improved more than any other Latin American country, although Peru’s scores are still very low overall. The 2019 UN Education Index ranks Peru 79 out of 182 countries, with a score of 0.740, showing some improvement in recent years.

During the Kuczynski and Vizcarra administrations, the modernization of basic education initiated under the García government (2006 – 2011) lost momentum amid political conflicts. The continuity of reform in education now faces resistance from conservative sectors mobilizing against “gender ideology.” Nevertheless, reform in education has achieved important successes in university education. The National Superintendence of Higher University Education (SUNEDU) has begun to deny operating licenses to public and private universities that do not meet official standards. During the review period, the SUNEDU licensed 94 universities (92 universities and two graduate schools) and refused licenses to 48 universities and two graduate schools.

Prior to the COVID-19 pandemic, public spending on R&D was 0.12% of GDP, which is extremely low compared to the Latin American average. In the 2019 Global Competitiveness Index, Peru ranks only 106 out of 141 countries in terms of R&D spending. However, the epidemic has brought the importance of investing public funds in R&D to the forefront of discussion. The National Council for Science and Technology (CONCYTEC) collected 1,100 ideas for scientific projects to combat the pandemic and provided PEN 6 million in funding to 29 scientific projects to combat COVID-19. In the 2021 budget, the government earmarked PEN 165 million for the CONCYTEC, although this amount is less than one-third of the R&D funding of countries such as Chile and Colombia.

Education policy /  
R&D



## Governance

### I. Level of Difficulty

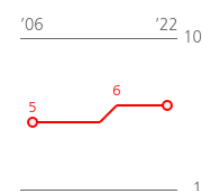
Structural constraints indicate a medium level of difficulty, with both positive and negative factors to be considered. Negative factors include Peru's relatively low level of economic and social development (though Peru is categorized as a medium-income country); structurally ingrained poverty and inequality; inefficient state administrative and legal institutions; significant ethnic, regional and social heterogeneity; severe infrastructural deficiencies in the Andes and the Amazon regions; weak civil society; a large informal sector; vulnerability to changes in the world economy; recurring natural disasters such as earthquakes and phenomena associated with El Niño; and, last but not least, the emerging effects of climate change, above all in the Andes.

Yet, there are positive factors that brighten the picture somewhat. In the 1990s, the state re-established its monopoly on the use of force, though more recently it has been challenged across significant parts of the territory by criminal activities that defy the rule of law and have begun to influence the political sphere. Heterogeneity has not led to severe ethnic or religious conflict, and social tensions have not escalated dramatically despite social segmentation. Despite the educational system's problems, Peruvians are for the most part able to obtain a basic level of education.

To contain COVID-19 infections, a strict and long-term quarantine was imposed. However, structural problems in the health care sector contributed to Peru recording the highest mortality rate globally, with 6,000 deaths per million people, more than double that of the Czech Republic (second) and Brazil (third), and almost three times that of Belgium (fourth) and Argentina (fifth). In addition, the economy contracted by 12.9% in 2020, with a massive loss of jobs and substantial deterioration in public finances. As a result, Peru is one of the countries that was most severely affected by the coronavirus pandemic worldwide. Given the ongoing political turmoil, this scenario will put enormous pressure on the incoming government.

Structural  
constraints

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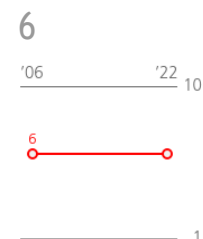
The current situation regarding civil society is marked by the legacy of the 1980s and 1990s crises. Hyperinflation, terrorism, the collapse of the party system, economic liberalization and the authoritarian government of Alberto Fujimori undid to a great extent Peru's social fabric, which to date has not fully recovered. Despite frequent mobilizations and the active engagement of pressure groups, civil society traditions that began to emerge toward the end of the reformist military regime (1968–1980) remain very weak and many individual organizations have not been able to maintain their thrust. According to the most recent data from Latinobarómetro and LAPOP, social trust and trust in institutions remain rather low.

Overall, civil society is not robust, and is plagued by scarce organizational resources and, above all, fragmentation. It suffers from the absence of strong actors capable of channeling the diversity of societal demands, such as stable parties or large civil society organizations. This contributes to the fact that the most common expressions of civil society are not organized, but rather spontaneous and episodic, such as the mobilizations following Vizcarra's ousting. In recent years, however, some significant developments have emerged regarding the culture of civil society. First, a more liberal wing within civil society has intensified its watchdog work, monitoring human rights issues, extractive activities, and the government's reform agenda. Second, participation in civil society has grown, leading to a very diverse landscape of activist groups and a major increase in voicing demands at the national, regional, provincial, local and communal levels. For example, "Ni Una Menos" (Not One [Woman] Less), a women's movement that denounces gender violence, or the ultraconservative "Con Mis Hijos No Te Metas" (Do not mess with my children), which criticizes "gender ideology," are both activist groups that have acquired a certain degree of visibility and political influence.

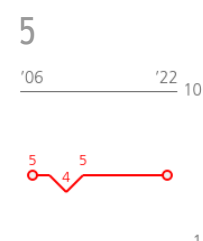
Various mobilized groups and protest movements have become stronger in recent years, and occasionally they have voiced their claims violently. The police and the military – the latter having been empowered to intervene in cases of public unrest – have also contributed, on occasion, to the escalation 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. 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. The intensity of ethnic and social conflicts has slightly diminished in recent years due to a slowdown in important mining projects, which can be explained by the decline in commodity prices and efforts to avoid social opposition to these projects.

For several years, political conflict in the country revolved around the Fujimorista–anti-Fujimorista cleavage – a confrontation that polarized Peruvian society having initially developed at the level of social groups and digital media, but which later characterized the parliament elected in 2016. However, Fujimorista–anti-Fujimorista

#### Civil society traditions



#### Conflict intensity



polarization lost relevance following the dissolution of Congress in September 2019, with the intensity of conflict in the new Congress that formed in January 2020 located on a new axis.

In the parliamentary election, parties with anti-system positions gained representation, including the Unión por el Perú (UPP), which favors the death penalty for “corrupt politicians,” and the Frente Popular Agrícola del Perú (FREPA), which is a theocratic and nationalist party. Although it was perceived that parties such as the UPP and FREPA would form minority groups in Congress, the truth is that most political groups in the legislature have started to advocate an anti-system logic, which has contributed to increasing confrontation between the legislature and executive. For the new legislature, the antagonist was not only the Vizcarra administration, but, in general, the entire formal political system. The anti-system behavior and the populist rhetoric of the new Congress was characterized by the proliferation of speeches and initiatives that sought to divide a legislature supposedly allied with the people and their immediate needs, on the one hand, from the business class, the media, academic experts and technocrats, who supposedly would govern with their backs to the population, on the other hand.

In sum, the appearance of this populist/institutionalist cleavage is an expression of the current confrontational nature of politics in the country. This is a major change in Peruvian political dynamic compared to the last 25 years.

## II. Governance Performance

### 14 | Steering Capability

President Vizcarra took over from President Kuczynski, who resigned in 2018 and whose liberal economic agenda had been pulverized in political conflicts. In its first year, the Vizcarra administration (2018 – 2020) had serious difficulties working out its priorities while trying to maintain cooperative relations with the Fujimorista party in Congress. The revelation of corruption in the upper echelons of Peru’s judiciary allowed Vizcarra to refocus the executive branch’s priorities on fighting corruption, which led to several reform initiatives backed by a popular referendum and prominent expert commissions.

In early 2020, the government’s priorities seemed relatively clear, and were linked to economic reactivation and the calling of elections for the following year. However, the COVID-19 pandemic combined with the political crisis stalled many of these priorities, and redirected government efforts to the health crisis and ultimately to mere political survival. Changes in the executive branch from Vizcarra to Merino and then to Sagasti not only complicated the government’s response to the pandemic, but also reduced the prioritization to a smooth transition to the government elected in 2021.

Question  
Score

Prioritization

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Despite some success during the Vizcarra administration in passing anti-corruption laws, Peruvian governments face major structural difficulties in implementing key initiatives. Even before the COVID-19 pandemic, the state had shown weakness as well as little technical expertise in implementing its priorities, including problems in spending the budgets assigned to different sectors. This was due, in the first place, to the political inexperience of the main government cadres and the weakness of political parties. Furthermore, implementation capacity has been negatively affected by instability in public positions. The political crisis and accusations of corruption against the executive led to the loss of valuable officials with extensive public sector experience, who resigned or decided not to participate in government projects. Likewise, officials who have remained in the public sector face a lot of job insecurity. Moreover, Peru still lacks a proper civil service career, which goes against a competent bureaucracy able to implement public policies.

The coronavirus pandemic exposed with greater clarity these enormous implementation problems. The effects of the epidemic forced the state to respond with a series of measures that, although necessary, could not be implemented efficiently. For example, the government provided a series of economic bonuses for vulnerable populations and independent workers but had serious difficulties distributing the bonuses among the beneficiaries. In addition, the executive designed a health care strategy to contain the epidemic, which included a long and strict quarantine in its first phase. However, Peru ended up top of the world ranking for deaths per one million inhabitants due to COVID-19. Further examples of failed implementation can also be found in areas such as education and public transportation.

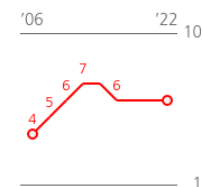
In general, the executive has demonstrated limited policy learning. The executive tried to advance initiatives by reacting to political events, rather than formulating a long-term policy agenda. Several crises in the cabinets – because of the crossfire between the executive and parliament – halted government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

Since 2000, the average stay of a minister in office has barely exceeded 12 months. This trend has continued in recent years. Of all ministries, the Ministry of the Interior has experienced the greatest instability. Over a 20-year period, there were 32 ministers, with an average duration of 228 days (less than eight months). The continuous security crises and problems within the police have affected the stability of this sector. In 2020, there have been eight interior ministers under three different presidents. Moreover, the replacement of a minister often implies a significant shift in policy orientation.

The health emergency has shown, once again, how difficult it is to break institutional inertia in the Peruvian state, which is related to the meager capacity for innovation

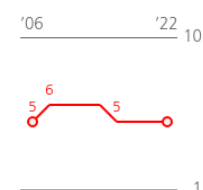
#### Implementation

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#### Policy learning

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among authorities and officials. Strategies that ensure success are not adopted, while misguided strategies continue to be implemented. This implies extreme rigidity with regard to policy learning and the existence of entrenched interests maintaining the status quo. This inflexibility partially explains the problems the country has faced in containing the spread of COVID-19 among the population. Sanitary measures that worked with relative success in other countries could not be replicated in Peru, which led to disastrous results in managing the epidemic.

## 15 | Resource Efficiency

On average, the government uses most available human, financial and organizational resources efficiently, although not evenly. For more than two decades, concern for maintaining fiscal balance and macroeconomic soundness has been embedded in the Peruvian state, which has resulted in comparatively low public deficits and debt. However, the “second generation reforms,” which relate to state reform and using resources more efficiently, have not been fully implemented.

Substantial deficiencies remain in the area of human resources. Despite various attempts at reform, the Peruvian bureaucracy is considered by many observers to be inefficient and corrupt, with an almost complete lack of meritocracy. Government efficiency suffers from a state administration with a low level of professionalization, especially at the regional and local levels. For this reason, the National Civil Service Authority (SERVIR) was created in 2008 to increase the professionalism and transparency of the Peruvian civil service in the medium to long term. However, the centrality of civil service reform has been lost over the years, a problem that has been exacerbated following the installation of the new Congress in 2020. For example, Congress approved a law that would incorporate more than 300,000 public employees indefinitely and without public competition. Some analysts estimate that this new bureaucratic layer will lack performance obligations and will cost more than PEN 2 billion (about \$530 million).

The public sector continues to experience problems with spending capacity. Although it has more financial resources than in previous decades, it does not have the capacity to execute its allocated budget. On the one hand, this is a positive feature because it implies the existence of a minimum level of control and oversight over spending, which prevents the misuse or waste of public resources. On the other hand, this inability shows that there are significant implementation problems within the state. Regardless, the populist tendencies of Congress have prevailed, authorizing the transfer of greater fiscal resources to regional governments and municipalities, even though they do not have the capacity to execute the allocated budget.

Efficient use of assets

6

'06 '22 10



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Recent administrations in Peru have faced problems with conflicting objectives and incoherent policies due to various reasons. For President Humala (2011 – 2016), it was difficult to establish a clear government orientation, because of the changes in the political coalition that supported his administration. He began with a center-left approach, then adopted a center-right and adopted finally an ambiguous centrist-pragmatic orientation. Therefore, the Humala administration's cabinet was one of the most unstable over the previous decade.

The Kuczynski administration (2016 – 2018) seemed to handle these problems efficiently. Despite facing a similar political weakness as its predecessor, the orientation of his government as a center-right administration seemed rather clear and coherent. Important decisions, such as economic policy, were discussed collaboratively between the president, the minister of economy and the head of the cabinet. However, the belligerent relationship between the executive and the opposition in Congress came to redefine the government's priorities. Kuczynski could not resolve the contradiction between negotiating with and confronting the Fujimorista party. His indecision affected the internal coherence of the executive, preventing optimal coordination of cross-sectorial policies.

Martín Vizcarra, the second vice-president, unexpectedly became president (2018 – 2020) and inherited many of the problems that Kuczynski had to face. In addition, he lacked the support of a political party and proper representation in Congress. Therefore, more than contradictions within the executive, the Vizcarra administration's main difficulty was located in the confrontation with the legislative. This conflict, which subsided for a few months after the dissolution of the parliament, was renewed following the election for the new 2020 Congress and finally led to the president's impeachment.

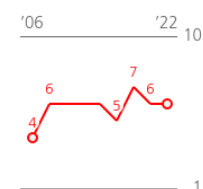
In this sense, the problems of the Vizcarra administration, as well as the current Sagasti one, bear less relation to problems of incoherence and coordination, and are better explained by weak implementation capacity and the executive–legislative confrontation.

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

There is no central institution responsible for investigating corruption, with elements of this task delegated to the Attorney General's Office, the National Police, and government enforcement agencies such as the Ministry of Justice. In addition, several specialized prosecutors have been installed to investigate cases of grand corruption.

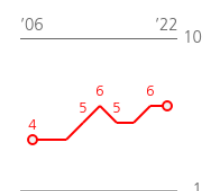
#### Policy coordination

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#### Anti-corruption policy

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The Office of the Comptroller General has the power to issue provisions and regulate procedures against administrative corruption, and the High-Level Anti-Corruption Commission (CAN) was created in 2013 to oversee government anti-corruption efforts and strategies. However, CAN is no more than a space for articulation and coordination between public, private and civil society actors. Its objective is to propose short-, medium- and long-term policies aimed at preventing and combating corruption in the country. It is an entity attached to the Presidency of the Council of Ministers.

Integrity mechanisms have been strengthened over time, at least on paper. Government expenditures are audited by the Comptroller General's Office, although the labyrinth of Peru's administration (there are about 1,500 public institutions) often prevents transparent auditing, especially of expenditures at the regional and local levels. The Law on the Declaration of Interests requires high-ranking public officials to file asset declarations. More recently, the system of private financing of politics and election campaigns was modified as part of President Vizcarra's anti-corruption strategy. In September 2020, Congress passed a law requiring political organizations to submit two financial reports on revenues and expenditures, one of them during the election campaign. It also stipulates that serious violations of the Political Party Financing Law will result in the suspension of the party's electoral registration. Political groups are required to provide the ONPE with access to their bank accounts in order to verify the reports submitted. In the area of public procurement, the law provides for the criminal liability of corrupt companies and corrupt individuals cannot enter into contracts with the state. Public and media access to information on state activities has been improved thanks to the Law on Access to Information and other regulations that aim to strengthen transparency.

However, despite its centrality, anti-corruption policy has faced problems due to political instability, delays in fiscal investigations and its use as a political weapon. The political crisis has created significant levels of instability, which has negatively affected investigations into former authorities and officials. Anti-corruption policy has become politicized in recent years, both in the justice system and in the media, a dynamic that has hampered the development of investigations. Finally, the special team of the prosecution has been criticized by various sectors due to the excesses of preventive prisons, the slow pace of investigations and litigation, and alleged leaks of information about ongoing investigations to the press.

## 16 | Consensus-Building

Until the first months of 2020, virtually all significant political and social actors seemed to agree in principle that establishing a stable democracy and market economy should be a strategic, long-term goal, albeit with diverging views on strategic priorities. This consensus originated in the 1990s, and was noteworthy considering historic instability in Peru, the weakness of the political system and the regional context. However, the political conflicts around Kuczynski, Vizcarra and the Fujimorista majority in Congress have weakened this consensus. In order to advance positions, the Fujimorista block supported initiatives of a populist nature, and conflicts between Congress and the executive severely stressed democratic institutions. After the election of the new Congress in January 2020, a renewal of the consensus seemed probable. Yet, the proliferation of particularistic interests, in the context of the pandemic, has strengthened populist and opportunistic discourses. In run up to the 2021 general elections, several parties proposed the drafting of an entirely new constitution, while other groups demanded the incorporation of authoritarian measures (e.g., the death penalty).

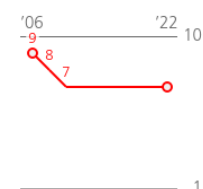
Since the 1990s, there has been a broad consensus among Peru's most relevant political, social, and economic elites about the need to promote a market economy. After Alberto Fujimori's resignation in 2000, the democratic process continued along orthodox market lines, despite some initial criticism from Alan García (2006 – 2011) and Ollanta Humala (2006 – 2011). During these years, Fujimori supporters in Congress sought to preserve the economic model of the 1990s. They backed García and controlled Humala, but since 2016 their opposition to Kuczynski and Vizcarra endangered the model's continuity by weakening orthodox governments, which departed from the consensus that continued to prevail among most relevant social, political and economic actors. Furthermore, in 2020, the populist rhetoric of Congress has revived what seemed outdated debates. In the economic sphere, the pro-market consensus has weakened and demands for greater state intervention in the economy have increased.

In general terms, the government successfully integrates potential veto powers such as the military and the business community into its fold. The military seems to be subordinate to civil authorities; the government has been eager to cultivate civil-military relations, given the importance of the armed forces in Peru's political landscape. Regarding the business sector, the continuity of economic liberalization policies has secured the support or at least the neutrality of this sector.

A problem that generates increasing concern is the emergence of powerful interest groups related to illegal and informal activities, especially at subnational levels (e.g., informal miners in Madre de Dios), which infiltrate political parties and obtain representation in Congress. Furthermore, extremely conservative groups are gaining

Consensus on goals

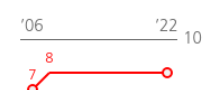
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Anti-democratic actors

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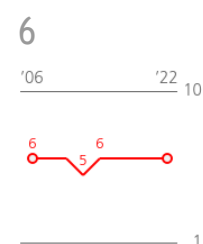
representation. These interests have achieved greater influence in recent years, obtaining a degree of veto power and the capacity to define key political positions for significant political actors. The other side of the weakening of the political parties is the increasing influence of particularistic interests, which are able to block reform initiatives.

Given the potential for severe conflicts arising from unfulfilled demands and historical structural exclusions, Peru's political leadership has been partially successful in managing social cleavage-based conflicts. However, it has failed to resolve some of the most 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 major social cleavages have not created more divisive conflicts has more to do with social fragmentation and less to do with the ability of political leaders.

In recent years, the political dynamic has experienced two kinds of political conflicts: one around structural issues and another around a more political issue. The 2011 and 2016 elections presented a country divided along regional, urban-rural and social class cleavages. For example, President Pedro Pablo Kuczynski in 2016 won more support in coastal and urban areas, and among middle and high social sectors. The second cleavage focuses on political support or rejection for the Fujimorista legacy, leading to an acute political crisis between 2016 and 2019.

The 2020 Congressional election led to the appearance of a relatively novel cleavage, in terms of its importance, centrality and generalized nature among different political groups. This cleavage reflects an anti-establishment-establishment cleavage, which follows traditional populist discourses. Thus, the populist discourse of Congress has managed to create a division between the people and their parliamentary representatives on the one hand, and the "establishment" (i.e., economic, social and political elites, as well as technocrats and mainstream media outlets) on the other hand. This populist discourse is not unknown in the country, although it was somehow subordinated by the appeal of the market-oriented consensus over the last 25 years among the political elites. This new type of discourse may become a significant political cleavage in the coming years.

Cleavage /  
conflict  
management



Peruvian politics has long been marked by the neglect of many social demands and a failure to deliver on promises. Rather than purposefully addressing civil society demands, the state is still in the habit of reacting to protests. The political culture among Peruvian elites is one of mistrust of and disregard for civil society participation, with Peruvian elites reluctant to accept the legitimacy of social leaders and their organizations.

Given their political weakness, both Kuczynski and Vizcarra's administrations tried to legitimize their decisions by incorporating prestigious civil society actors into the policymaking process. President Vizcarra, for example, created the Reform Commission of the Justice System (July 2018), which was charged with proposing reforms to the judiciary, and installed the High-Level Commission for Political Reform (January 2019), a working group that proposed various political reform initiatives. Vizcarra assumed most of the recommendations of both commissions. The executive also continued to maintain a certain degree of openness toward civil society, as demonstrated by the convening of the Commission for Sustainable Mining Development and the different commissions formed to face COVID-19 (e.g., the Grupo Prospectiva and Grupo temático de Ciencias Sociales). With the aim of establishing and proposing concrete lines of action, these commissions submit reports to key government authorities.

The 2020 Congress, on the other hand, has become less open to civil society, refusing to deliberate with civil society actors. Previously, parliamentary commissions typically invited experts from NGOs and civil society organizations to provide input on particular issues. However, the current Congress legislates without the input or recommendations of experts and technocrats, reaching decisions on its own without sufficient expertise.

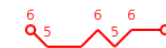
Reconciliation is still a contested issue in Peru given that sectors related to the major perpetrators of human rights violations exert important political influence. The legacy of this conflict continues to shape the government's deliberations. The political elite and large parts of the public are not very eager to touch this issue; thus, progress is very slow. By 2010, most of the victims of the 1980–2000 armed conflict had been identified and included into the victims' registry. Reparation payments coordinated by a special commission (High Level Multisector Commission, CMAN) have begun through the financing of projects in several communities identified as victimized by the armed conflict.

During the review period, the executive and the political elite in general have shown little interest in reconciliation. The political crisis and the COVID-19 emergency have subordinated this subject. However, the work of the Dirección General de Búsqueda de Personas Desaparecidas (DGBPD) of the Ministry of Justice must be recognized. The DGBPD has quietly searched for people who disappeared during the internal armed conflict. Although the creation of this office can be traced back to the last months of the Ollanta Humala government, it was only during the Martín Vizcarra

#### Civil society participation

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#### Reconciliation

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administration that the DGBPD acquired importance in the search for missing persons. Through a humanitarian approach, which does not encourage or hinder the determination of criminal responsibilities, the DGBPD seeks to alleviate the suffering of and provide answers to the families of the thousands of missing persons.

## 17 | International Cooperation

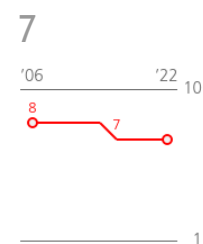
The political leadership has worked with bilateral and multilateral international donors, and has tried to make efficient use of international assistance. In significant sectors, it makes well-focused use of international aid to implement its long-term development strategy. As outlined above, this strategy aims predominantly at economic and social development and to a lesser degree at strengthening the institutional framework of democracy.

In recent years, the weakness of political actors and civil society organizations has become more evident, especially in the lack of technical expertise and the executive's lack of programmatic agendas. International cooperation helps to fill this void by proposing government projects and public policies. The influence of international donors helps to explain the existence of "pockets of efficiency" within the state, which have contributed to recent economic growth and advances in progressive agendas. The administrations of Vizcarra and Sagasti have maintained close links with international assistance. A more recent strategy is the reliance on G2G projects to expand and maintain infrastructure, especially the successful G2G initiative with the United Kingdom for the 2019 Pan American Games. Other G2G initiatives aim to support the reconstruction of the northern region (the United Kingdom), Cusco Airport (South Korea) and the construction of state hospitals (France). In July 2020, Vizcarra announced several additional projects worth \$14 billion, including the construction of two new Lima Metro lines, lines 3 and 4.

Despite the significant political crisis, Peruvian foreign policy has been handled with its traditional seriousness. The Ministry of Foreign Affairs has operated with autonomy and professionalism, acting as a credible and reliable partner in its relations with the international community. In addition to the country's close relations with bilateral and multilateral donors, the web of free-trade agreements established with actors all over the world represents an additional sign of trust in the Peruvian leadership. Between 2008 and 2009, Peru obtained investment-grade status from all three major rating agencies and was further upgraded in 2011 and 2012. The rise in its rating was attributed to the significant decrease in Peru's fiscal and external vulnerabilities; broad and diversified sources of growth; low levels of inflation; and improved macroeconomic fundamentals.

Peru's commitment to democracy and a market economy is quite firm in general terms, but there are some concerns regarding specific issues. The emphasis placed on promoting private investment occasionally conflicts with other international

Effective use of support



Credibility

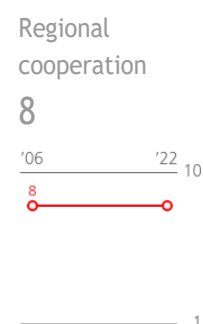


commitments. For example, ILO Convention 169 protects indigenous communities, but is seen as an obstacle to mining and oil projects. As a result, implementation of Convention 169 is quite slow. There is also occasional opposition to Inter-American Court of Human Rights decisions from conservative sectors in Peru, but the government has so far resisted them. Another illustration of Peru's commitment to follow international standards is the initiative to become a member of the OECD, following Mexico, Chile and Colombia.

The COVID-19 emergency has opened a space for populist, conservative and anti-establishment discourses. This includes the rejection of "international agendas," which may undermine the reliability of the Peruvian state in the future.

Peruvian foreign policy can be characterized as pragmatic and friendly with other countries in the region. All recent Peruvian administrations succeeded in maintaining friendly relations with neighboring states in Latin America, participating in binational cabinets with Chile, Colombia, Ecuador and Bolivia. Peru's political leadership cooperates with most neighboring states and complies with the rules set by regional and international organizations (e.g., the Organization of American States). The Ministry of Foreign Affairs is one of the few state agencies that works with professionalism, efficiency and autonomy.

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





## Strategic Outlook

After five years of political instability, four presidents and a disastrous COVID-19 record, Peru faces an uncertain future. This situation was further exacerbated by the 2021 elections, which took place after the review period. The 2021 elections resulted not only in another newcomer being elected president, but were accompanied by dirty campaigns on both sides, which further damaged Peru's democratic institutions. Like other countries in the region, Peru is at a crossroads. However, Peru lacks clearly formulated alternatives. This period of political instability has occurred amid the coronavirus pandemic, which has ruthlessly exposed the social, economic and regulatory deficiencies of the Peruvian model. Meanwhile, the recent parliamentary elections led to an even more fragmented Congress, leaving President Castillo facing a difficult majority in the parliament. Due to the prevailing political power relations and depending on whether relevant political actors will adhere to the established rules of the game, political observers vacillate in their prognosis between ungovernability, chaos and, in the best case, stagnation.

As outlined in this report, the new government faces several difficult challenges that have not been consistently addressed over the years. In addition to strengthening welfare mechanisms, these include expanding and modernizing the health care and education systems, significantly reducing the informal sector, remedying administrative weaknesses at the regional and local levels, and completing political reforms. At the time of writing (a few days before Castillo took office), it remains unclear what policies the new government will pursue. While Castillo proposed radical changes ("popular economy with markets," nationalization of key sectors, reshaping of key institutions) of the left Bolivarian type in the first round in April 2021, Castillo has since tempered his discourse (new contracts with big oil and mining companies, higher spending on and reforms to the education, health care and pension systems, and a new constitution with a stronger role for the state). Any proposal deemed too leftist will face fierce opposition in the parliament, and from elites and economic actors. The worst-case scenario would be further political polarization, which has been evident in and after the elections, and which at its core juxtaposes the "two Perus" (the "official" Lima-centric Peru, and the "deep" indigenous Peru of the Andes and Amazon). Regardless of the thrust of the necessary reforms, they will only be sustainable if there is sufficient willingness to negotiate and compromise.

Added to these problems are the effects of COVID-19, which has had a devastating impact on the Peruvian economy. After the steep contraction in 2020 (-12.9%), economic growth is expected to rebound strongly in 2021 (9.0%), but this momentum will not be enough to return to pre-crisis levels. The improvement will depend on the behavior of demand-side factors, as the effects of production and export restrictions are already fading. In any case, the pace and quality of labor market recovery will be crucial, as the increase in underemployment and informality could lead to a decline in worker productivity, and consequently to a reduction in potential GDP. A decisive factor will be the further development of the COVID-19 pandemic. By mid-2021, a second wave had subsided sharply, while the vaccination program seemed to be gaining momentum after a very hesitant start. At the time of writing, 11% of the population is fully vaccinated – similar to Argentina (11%) and Brazil (14%), but far behind Chile (60%) and Uruguay (55%).