



Pathway to Prosperity

Perú Case Study

2021

CREATING THE PATHWAYS FROM POVERTY TO PROSPERITY

ABOUT THE LEGATUM INSTITUTE

The Legatum Institute is a London-based think-tank with a bold vision to create a global movement of people committed to creating the pathways from poverty to prosperity and the transformation of society.

We seek to do this by raising up leaders of character, restoring an ethical vitality to all sectors of society, and developing the practical solutions and data tools that will help build inclusive and peaceful societies with open economies and empowered people.

- Our **Centre for Metrics** creates indexes and datasets to measure and explain how poverty and prosperity are changing.
- Our **Research Programmes** analyse the many complex drivers of poverty and prosperity at the local, national and global level.
- Our **Practical Programmes** identify the actions required to enable transformational change.

ABOUT THE AUTHORS

Dr. Stephen Brien is Director of Policy at the Legatum Institute.

Carlos Montes is a Fellow at the Legatum Institute.

Andrew Tyrrell is a Research Analyst at the Legatum Institute.

ACKNOWLEDGEMENTS

Roxana Barrantes (Instituto de Estudios Peruanos), Eduardo Benavides (Berninzon & Benavides Abogados), Kelli Bissett-Tom (Fitch Ratings), Alfredo Bullard (Bullard, Falla, Ezcurra+), Andres Calderon (Universidad Del Pacifico), Roberto Chang (Rutgers University), Alberto Chong (Georgia State University), Eduardo Dargent (Pontificia Universidad Católica del Perú), Francisco Durand (Pontificia Universidad Católica del Perú), Manuel Gerardo Flores Romero (OECD), Jose Galdo (Carleton University), Gianmarco Leon (Universitat Pompeu Fabra Barcelona), Diego Macera (Instituto Peruano de Economia), Omar Manky (Universidad Del Pacifico), Osmel Manzano (IADB), Alberto Morales (OECD), Elena Panaritis (Thought4Action), Hugo Perea (BBVA), Elizabeth Powers (US Embassy Perú), Jorge Prado (US Embassy Perú), Maria Luisa Puig (Eurasia Group), Esteban Sandoval (US Embassy Perú), Bruce St. John (Independent Scholar), Simeon Tegel (Freelance Journalist), Mario Tello (Pontificia Universidad Católica del Perú), and Cristina Tello-Trillo (US Bureau of the Census).

In addition, we hosted two public round-table discussions on political and judiciary reforms. The panellists included Elena Conterno (IPAE), Pedro Francke (Nuevo Perú, currently Finance Minister), Hernando Guerra García (Fuerza Popular, currently Spokesman for FP in Congress), Patricio Navia (New York University), Rosa Maria Palacios (Journalist and Lawyer), Augusto Alvarez Rodrich (Journalist and Economist), Fernando Tuesta (former President of High Level Commission for Political Reform), and Jose Ugaz (former Chair of Transparency International).



TEMPLETON WORLD
CHARITY FOUNDATION

This publication was made possible through the support of a grant from Templeton World Charity Foundation, Inc. The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of Templeton World Charity Foundation, Inc.

The Legatum Institute would like to thank the Legatum Foundation for their sponsorship. Learn more about the Legatum Foundation at www.legatum.org.

©2021 The Legatum Institute Foundation. All rights reserved. The word 'Legatum' and the Legatum charioteer logo are the subjects of trade mark registrations of Legatum Limited. Whilst every care has been taken in the preparation of this report, no responsibility can be taken for any error or omission contained herein.

The Legatum Institute is the working name of the Legatum Institute Foundation, a registered charity (number 1140719), and a company limited by guarantee and incorporated in England and Wales (company number 7430903)

Cover image: Shutterstock.com

Note on Sources

In carrying out this assessment we have relied on three major sources of information. These sources provided a broad and rich perspective on the challenges facing Perú and some opportunities for reform.

The first source is the Legatum Prosperity Index which uses global datasets from the World Bank, World Economic Forum, and International Monetary Fund. (For a complete list of data sources and Perú's rankings see the appendix.) We use this to benchmark Perú's performance on a wide range of indicators. The second type of source includes academic articles, reports, and news articles that provide an up-to-date evidence base. These are detailed in our literature review.

Thirdly, we interviewed over 25 experts in Perú and around the world. This group consisted of researchers, economists, academics, journalists, lawyers, and others.



CONTENTS

Foreword	2
Introduction: Perú at 200	5
1. Polarisation and The Need of Consensus	11
2. Political Capacity.....	21
3. State Capacity	29
4. Unleashing Productivity and Good Jobs.....	37
5. Enabling Business Environment	47
6. Sectoral Priorities: Mining and Education.....	63
Conclusions	73
Appendix	76

FOREWORD



Stephen Brien
Director of Policy,
Legatum Institute

Our mission at the Legatum Institute is to create pathways to prosperity by fostering inclusive societies, open economies, and empowered people. Our work is focussed on understanding how prosperity is created and sustained. Prosperity means more than material wealth; it encompasses security, wellbeing, freedom, and opportunity. Without an inclusive, open, competitive economy, it is challenging to create lasting social and economic wellbeing where individuals, communities, and businesses are empowered to reach their full potential.

The 200th anniversary of Peruvian independence finds the country with 20 years of strong economic management, an open economy, international recognition from the financial markets, mineral wealth and free and fair elections. At the same time Perú has been hit by severe crises and the extreme political, social, and cultural polarisation of the June 2021 election. It showed a multi-ethnic and diverse population with contested national identity and with little national consensus on the most important issues. This has limited the political capacity of successive governments and undermined the possibility of creating a strong state and civil service.

The election of a new president, who aims to represent the influence of original/indigenous and rural populations, offers the possibility of starting a process of broad-based dialogue and conciliation to underpin a national agreement for political and economic stability. The potential for such conciliation would be to support the conditions for national transformation and prosperity, and the delivery of specific nationally-agreed policies in key areas such as political and judicial reforms, social protection, education, mining and the protection of the environment.

Thus, the 200th anniversary of Peruvian independence finds Perú with enormous economic potential but severe political constraints. A move towards a consensual politics would realise the economic potential and create an inclusive economy for all, opening the road to prosperity.

Our research on how nations succeed finds that national consensus and an inclusive national identity are key pre-conditions for prosperity. It also indicates that countries that are more economically inclusive and open are more productive. By contrast, growth stagnates in uncompetitive markets or those that are not designed to enhance the engagement and wellbeing of all. Under these conditions, protected industries become entrenched and crony capitalism thrives.

Policymakers generally focus on fiscal and macroeconomic policy tools while the institutional and microeconomic factors are often overlooked. This means that their potential to drive prosperity can be underestimated.

With the generous support of the Templeton World Charitable Foundation, we have measured in 150 countries the quality and inclusiveness of their governance system, and their openness to commerce, assessing the environment that enables or hinders their ability to trade both domestically and internationally. As part of this programme, we have undertaken studies of the economic structures of different countries, including this report on Perú.

The goal of this report is to outline a diagnosis of the challenges facing the political capacity, state capacity, and economic governance of Perú, including its openness to trade, investment, competition, and talent. It sets out the basis of a roadmap for transformation that is underpinned by political and social conciliation. Such a conciliation process could involve acknowledging the wrongs of the past, reframing the present, and envisioning a fair, mutually acceptable, and interdependent future. It is likely to require addressing power relations and should extend beyond addressing conflict and polarisation to include the drivers of economic and social wellbeing.

We are hopeful that the new government, the political opposition, and Peruvian society is able to find a national consensus that will lay the foundation for the nation's future prosperity.

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.



INTRODUCTION: PERÚ AT 200

Perú is not only a country rich in history and culture, one of the ten most biodiverse countries in the world, with mineral wealth and high quality cuisine, but in the last 20 years it has transformed itself into a country with one of the strongest investor-friendly environments, excellent macroeconomic management (the president of the Central Bank has been rated as the best of the world), rapid economic growth and 20 years of uninterrupted free and fair elections. This is remarkable given Perú's reputation for terrorism and hyperinflation in the 1980s and the authoritarian nature of the political regime in the 1990s. Recently, the financial markets have regarded Perú as one of the best managed economies in Latin America. This is reflected in the decline of the spread of Peruvian sovereign bonds over US Treasuries.

Despite this, the confidence of Peruvian citizens in their government, politicians, judiciary, and police is among the lowest in the world. In the Legatum Prosperity Index, Perú's ranking for Social Capital is very low at 158th of 167 countries in the world. This reflects very low levels of civic and social participation and institutional trust. In the last 20 years of democracy, wealth generated by the extraction of natural resources has not been shared equitably. The poverty of original/indigenous and rural groups contrasts starkly with the wealth in Lima and among the elite. A significant part of the population is still subject to poor living conditions and lives in fear of crime. This is particularly notable when contrasted with the nation's high overall prosperity ranking, which is 61st. On the 200th anniversary of its independence, Perú has been hit by three severe crises.

1. Political: with three presidents in one week, massive youth-led protests against the political establishment, and the last six presidents indicted or investigated for corruption. This has been compounded by the extreme polarisation in the June 2021 presidential election.
2. Public health: with Perú among the most adversely affected countries by the coronavirus pandemic in terms of mortality (deaths per million) and economic damage.
3. Corruption: exemplified by the *Lavo Jato* case, and by the mafia presence at high levels of the judiciary uncovered by the 'White Collars of the Port' case.

Perú Prosperity Ranking (out of 167 countries)	
Confidence in judicial system and courts	164 th
Judicial independence	118 th
Confidence in national government	158 th
Public trust in politicians	155 th
Confidence in local police	153 rd
Violent crime	149 th

Source: Legatum Prosperity Index 2020.

These crises highlight the urgent need for political and judicial reforms. However, the need for these reforms has historically been overridden by a political system that serves the interests of narrow groups as well as ubiquitous corruption that has become the engine of the political system. This weak political capacity is explained by the contested nature of national identity and the legacy of the colonial past.

The extreme polarisation of the June 2021 election has demonstrated that Perú is a country divided, with little national consensus on the most important issues. In a large part, this also explains the dysfunctionality and lack of legitimacy that characterises Perú's political and judicial systems. This situation risks exacerbating existing social conflicts and acts as an obstacle to prosperity. The contested political settlement and the lack of national consensus undermine political capacity which is needed both for stable leadership and an autonomous and competent civil service capable of delivering public services effectively to the population.

APPROACH

This analysis focusses on key institutional and microeconomic drivers of economic wellbeing. It is organised around four pillars drawn from the Legatum Prosperity Index™ and Perú's performance on them in a global context:

Governance addresses the extent to which governing institutions are accountable to citizens, are subject to the rule of law, act with integrity, and operate effectively. Within Political Capacity, we analyse the extent to which checks and restraints on power exist, whether the political system can reflect the will of the people, and whether the judicial system works effectively. Within State Capacity, we assess whether governments operate effectively and without corruption. The nature of a country's governance has a material impact on its prosperity. The rule of law, strong institutions, and regulatory quality contribute significantly to economic growth, as do competent governments that enact policy efficiently and design regulations that deliver policy objectives without being overly burdensome.

Enterprise Conditions captures the ways business regulation ensures markets are contestable and free from burdensome regulation, to enable entrepreneurship and innovation. We assess how easy it is for businesses to start, compete, and expand in the formal vs. informal sectors of the economy. Contestable markets with low barriers to entry are important for businesses to innovate and develop new ideas. This is essential for a dynamic and enterprising economy, where regulation enables business and responds to the changing needs of society.

Investment Environment measures the extent to which investments are protected adequately through the existence of property rights, investor protections and contract enforcement, and the extent to which domestic and international capital (both debt and equity) are available for investment. The more a legal system protects investments, for example through property rights, the more that investment can drive economic growth.

Infrastructure and Market Access measures the quality of the infrastructure that enables trade (including communications, transport and resources), and the inhibitors on the flow of goods and services to and from a country's trading partners. Where markets have sufficient infrastructure, few barriers to trade, and smooth border clearance, commerce can flourish. Such trade leads to more competitive and efficient markets, enabling new products and ideas to be tested, funded and commercialised, and ultimately benefitting consumers through a greater variety of goods at more competitive prices.

OVERVIEW OF THE REPORT

The first chapter of this report describes how Perú, as a multi-ethnic country with a colonial legacy and high poverty rates among the indigenous and rural populations, has found it difficult to reach national consensus and foster an inclusive national identity. This has weakened the legitimacy of governments and political capacity – helping also to explain the ineffective civil service and state. The polarisation and fears experienced by people on the Left and the Right risk being barriers to any potential good faith discussions or negotiations between these groups. The report recommends starting a process of dialogue and conciliation to underpin a national agreement for political and economic stability.

The goal of conciliation needs to extend beyond addressing political and social polarisation. It should also support the four areas that economist Lant Pritchett identifies as needed for successful national transformation:¹

- Equal treatment under the law (rule of law);
- Government responsiveness (accountability);
- State capacity; and
- Economic productivity.

Minimising political and cultural polarisation, forging a more inclusive national identity and achieving a national agreement through a conciliation process is what enables success in these four areas, which are covered in the rest of the report.

The second chapter discusses the country's Political Capacity including political accountability and the rule of law. Despite free and fair elections, the political system serves the self-interest of narrow groups rather than the population at large. This chapter proposes that a national agreement would allow for political reforms that provide greater stability in the political system as well as political parties that are more accountable to the electorate rather than to their financial backers. It also emphasises the need to establish an independent and honest judiciary through effective judicial reforms. Without the rule of law being applied consistently there is no real prospect for addressing the high levels of corruption in the country.

Chapter three addresses State Capacity in terms of the effectiveness and integrity of the civil service. Lack of political capacity can explain why, despite its strong financial position, the state is inefficient and lacks integrity. Corruption has been pervasive in Perú at the highest levels of government (most of the last presidents are under investigation relating to the *Lava Jato*/Odebrecht scandal) and it is estimated by the Comptroller General that 15% of government expenditure is lost to corruption. The government has failed to complete many long-term investment projects or deliver adequately many basic services such as sanitation and healthcare. The latter has resulted in Perú having a COVID-19 fatality rate of 6,000 per million, the highest in the world.² This chapter concludes with recommendations for a more competent and citizen-centred civil service that supports a more inclusive economy.

Chapter four focusses on Enterprise Conditions, identifying the challenges that companies face in starting operations, competing, and expanding employment, in particular those facing the informal/independent sector – incorporating some of the 'workhorses' of the economy. This group has been pushed into a regulatory no-man's land where they stay small to avoid taxation. The growth and productivity of the 'informal economy' (70% of the workforce) is also constrained by lack of access to finance, lack of skills and corruption. Further, regulatory regimes

are often set up by the 'power brokers' to keep profitable domains of non-tradeables 'reserved'. The growth of the economy, particularly in extractive industries in mining and agriculture, appears to have favoured "insiders", some of whom benefit from highly concentrated markets and preferential access to politicians and government officials. Many of these challenges are the symptoms of political structures characterised by weak accountability. Politicians favour 'closed deals' for enterprises to which they are connected, acting as 'power brokers'. Competition law and environmental regulations are also poorly enforced. It notes what changes are needed in enterprise conditions to encourage a more inclusive economy. An economy that is open to all would unleash productivity and employment in both high productivity companies as well as in the informal/independent sector.

Chapter five focusses on the physical and legal infrastructures needed to foster an enabling business environment that supports investment and commerce for all, covering both the Investment Environment as well as Infrastructure and Market Access. It reviews property rights, investor protections, and contract enforcement. It also discusses the state of communications, transport, and resource infrastructure that enables trade as well as factors inhibiting the flow of goods and services between the country and its trading partners. Many of the challenges stem from weak state capacity reflected in poor infrastructure and communications.

Chapter six considers two critical sectors that can support inclusiveness in Perú's national agreement: mining, and education. Large parts of the mining sector have been able to operate with limited supervision, sometimes resulting in non-compliance with environmental or water-usage norms and paying lower taxes than more capable state institutions would allow. An agreement on taxation of mining, with fair and efficient taxation of corporates, could fund social services for the most disadvantaged. Similarly, all Peruvians can agree on the need to protect the rich biodiversity and environment of the country by effectively enforcing environmental laws in mining. Education policies that improve state education for all and particularly the most disadvantaged (including indigenous people) would not only provide skills and better incomes and support the productivity of the economy, but educational reforms could support the creation of a more inclusive national identity and dignity for all cultures in Perú.

The Appendix contains details of Perú's performance over the last 10 years across 23 discrete policy-focussed elements of four pillars, including its international rankings.

Endnotes

- 1 Pritchett, L., "National Development Delivers: And How! And How?", Center for International Development, Working Papers, 26 April 2021.
- 2 COVID 19 Data Explorer", Our World in Data, N.d.





1. POLARISATION AND THE NEED OF CONSENSUS

A strong social contract lies at the heart of every prosperous nation.¹ The social contract is best understood as an implicit agreement between the people and the state whereby the people willingly surrender certain rights in return for protection and social provisions from the state. Such an agreement binds together a nation's leaders and its population, creating an environment of stability, opportunity, and shared identity.

Perú has found it difficult to foster a shared identity and hence an inclusive social contract. This contested national identity and absence of national consensus has weakened government legitimacy and political capacity, affecting also state capacity and the civil service.

ECONOMIC AND CULTURAL DIVISIONS

Perú is a multi-ethnic country with a colonial legacy and high rates of poverty among the indigenous and rural populations. However, successive administrations have had a patchy record in recognising Perú's cultural and ethnic diversity.

Census 2017: Population 12 Years and Older, Ethnic Self-Perception ²	
Larger ethnic groups	%
Mestizo (mixed heritage)	60.2
Quechua	22.3
White	5.9
Afro-heritage	3.6
Aimara	2.4
Others	2.3
No answer	3.3

Perú's contested national identity and lack of national consensus have been exacerbated by the wealth disparity between original/indigenous and rural populations on the one hand and elite groups and Lima on the other. This persistent inequality undermines the social contract in Perú and constitutes a roadblock to a more prosperous, dynamic, and inclusive society.

Perú's poorest departments ³	Percentage of population indigenous (Rank of departments with highest proportion of population indigenous) ⁴
Ayacucho	81% (2 nd highest proportion)
Huancavelica	81% (3 rd highest proportion)
Puno	57% (5 th highest proportion)
Huánuco	43% (6 th highest proportion)
Pasco	38% (7 th highest proportion)
Cajamarca	6% (18 th highest proportion)
<i>Perú Overall</i>	26%

In 2020, 46% of the rural population was classified as poor compared to 26% of the urban population.^{5,6} Extreme poverty affects 14% of rural areas and 3% of urban areas. The poor life conditions experienced by Perú's indigenous population, including children, is noted in the most recent World Bank country assistance strategy (see box below).

World Bank on Poverty in Perú⁷

Indigenous people represent around one-quarter of Perú's population... They are highly concentrated in two of Perú's poorest areas, comprising a higher share in both the Highlands and the Amazon regions. Indigenous households are on average poorer than non-indigenous (31 vs. 18%), and this difference has widened over the past decade as poverty has fallen relatively less for indigenous as compared to non-indigenous households.

...the stunting rate of children under five years old is three times higher for urban indigenous children than for non-indigenous urban children, and 10 points higher between rural indigenous and rural non-indigenous. At the same time, indigenous children show lower access to education and learning outcomes and are subject to worse job conditions and lower wages. Both deficits in housing quality and access to services are also higher for indigenous households, whether urban or rural. There is evidence that discrimination is a factor that results in fewer opportunities for indigenous people. Studies show that indigenous and female job seekers are discriminated against in the metropolitan Lima labour market. Access to finance is also more limited for the indigenous, as non-indigenous customers are more likely to receive better information and financial services than indigenous customers.

In a July 2021 report, the World Bank also refers to the contradictions of mineral wealth and rural poverty:

"Apurimac, one of the regions in Perú with the highest potential for mining investment, is expected to produce 20% of Perú's annual production of copper in the next ten years... Despite having one of Perú's highest rates of economic growth in 2016, Apurimac exhibits alarming levels of poverty."⁸

The Ministry of Energy and Mines in Perú estimates mining investments totalling \$56,000 million in the next few years, with Cajamarca (one of the poorest departments) topping the list of locations for these investments.⁹ Given this context, it is not surprising that the most repeated campaign slogan by President Castillo, native from Cajamarca, was: "No more poor people in a rich country".

PERÚ AT 200: POLITICAL POLARISATION

President Castillo's election in June 2021 has made the country's political, ethnic and cultural polarisation difficult to miss. Peruvian departments with the highest proportion of indigenous people voted overwhelmingly for Perú Libre (PL – the party of the left founded in Cajamarca, in the highlands). For example, PL won with 85% of the votes in Huancavelica where 81% are indigenous people, 83% in Cuzco where 75% are indigenous people, 83% of the vote in Ayacucho where 81% are indigenous people, and with 81% of the vote in Apurimac where 84% are indigenous people.¹⁰

Similarly, all the departments where the highest proportions of the population live in poverty (between 41%-46%) voted overwhelmingly for PL. These include Puno (89% votes for PL), Huancavelica (85% votes for PL), Ayacucho (83% votes for PL), Cajamarca (71% votes for PL), Huánuco (68% votes for PL), and Pasco (65% votes for PL).¹¹

However, in the June 2021 presidential election, half of the country supported one of two radically different political and cultural options.

President Castillo's symbolic Bicentennial Independence Speech in the Pampas of Ayacucho addressed the ethnic 'taboo' of what he sees as the 500-year-long oppression of indigenous cultures. He said that he was honoured to become the first Peruvian president in 200 years of independence to represent the indigenous ethnic groups oppressed by the Spaniards and republican elites. He presented himself as the President that will restore the power, influence and cultural prestige of the Highlands and rural areas. He also committed himself to revising historical narratives to recognise that Perú is a country of many cultures and not just one. He made a point of naming these cultures within the speech. He also re-named the Ministry of Culture(s) in recognition of this cultural plurality and said that he would not govern from the Palace of Government (Palacio de Pizarro, named for the Spanish conqueror of Perú).

These cultural messages resonate with President Castillo's voters and partly explain his electoral success. However, these messages had little resonance with others who see them as historically inaccurate and promoting conflict. The 2021 election showed that Peruvians hold very different views of the past, their national identity, and the country's future.

LACK OF NATIONAL IDENTITY AND CONSENSUS

Political scientist Francis Fukuyama notes how the issue of national identity "has been pivotal to the fortunes of modern states."¹² A shared national identity provides a 'connective tissue' which allows diverse communities to thrive, steering governments away from the dangers of ethnic division.

However, the 2021 election illustrated Perú's lack of a shared and inclusive national identity and consensus. In fact, different groups in Perú are extremely fearful about the potential harm their opponents would inflict if they gained power. The potential for conflict is high.

The table below identifies some of the fears that may be felt across the Left-Right spectrum in Perú. It does not aim to assess whether these fears are 'real' or if they are likely to occur. Rather, what is relevant is that many people believe in these fears and that these fears are difficult to dislodge, and they are obstacles to discussions and negotiations.

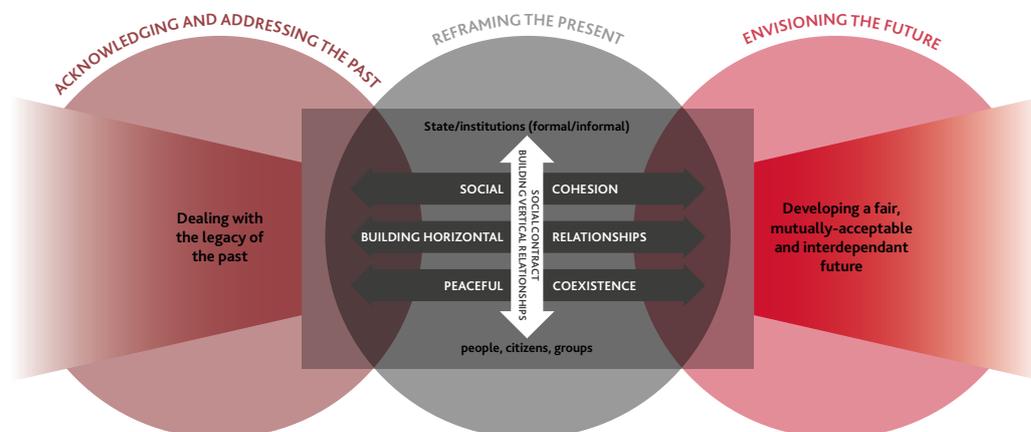
	Perceptions That Make it More Difficult to Reach a Consensus	
	Common Fears on the Left	Common Fears on the Right
Economy	The economic model will continue to be dominated by monopolies and benefit only the elites and Lima.	The current economic model will be replaced by a socialist or communist model, nationalisations with economic chaos following.
Culture	Society will not offer dignity and respect to indigenous/original people. Oppression of indigenous/rural people over the past 500 years will not be recognised and will continue.	Peruvian values will align to the values of the Andean culture, which are anti-modern and damaging to development.
Politics	If the economic interests of the elites are threatened, they will resort to brutal repression.	If the Left takes control of the government, they will establish a communist dictatorship like in Cuba or Venezuela. Shining Path terrorists will be released from prison.
Social sectors	State funded health and education services will continue to be of very poor quality and underpin inequality.	All health and education services will be provided by the state, private services will be banned.

The lack of an inclusive national identity and national consensus has weakened the political capacity (democracy and rule of law) as well as the capacity to build a more effective state and civil service. This situation blocks the road to prosperity. Building national consensus is an important pre-condition for an effective social contract that could pave the way to political, judicial, and state capacity reforms. Cultivating a national shared identity is challenging in nations characterised by ethnic and religious diversity. Nevertheless, this is possible. For example, Indonesia shows that the purposeful cultivation of shared identity improved social cohesion and reduced the risk of conflict.

POTENTIAL FOR DIALOGUE AND CONCILIATION

Given the social and political polarisation and how strongly political fears are felt by Peruvian citizens, a guided process of conciliation may be the best option to support a shared and inclusive national identity and to build a stronger national consensus on the future of the country. Conciliation involves building and/or transforming relationships damaged by conflict and oppression. It focusses on improving horizontal relationships between people and groups in society and vertical relationships between people and institutions.¹³

Working Definition of Conciliation



Source: Conciliation Resources.¹⁴

The diagram above illustrates an effective conciliation framework to address conflicts and the legacy of the past and for managing political conflicts and polarisation.

1. **Acknowledging and addressing the past:** This requires an honest and open dialogue between all the parties. In many cases, this is the most difficult step as it requires all stakeholders to listen and try to understand their opponents' perspectives. Note that in situations of extreme polarisation, nobody wants to sit and negotiate with opposing groups.
2. **Reframing the present:** After reaching an understanding on shared narratives of the past, a space can be created for more positive interactions in the present between people, citizens, and groups.
3. **Envisioning the future:** This involves developing visions of a fair, mutually acceptable, and interdependent future. It requires parties to agree on the rules for respecting the democratic system, to respect minority freedoms, and to reach a national agreement that includes political, judiciary, and state capacity reforms for addressing past injustices.

One of the fundamental causes of polarisation in Perú are inequities in access to political power and economic resources. These are "exacerbated by feelings of hostility, mistrust and fear that become entrenched...These create obstacles to reaching a political settlement and hinder lasting changes beyond negotiations."¹⁵ For these reasons, a successful conciliation process requires real change in the relationship between all agents.

A sustainable conciliation process in Perú requires addressing power relations, patterns of marginalisation, and finding ways in which the narratives of Peruvian ethnic groups are integrated in an inclusive and shared national identity. A successful conciliation process would build relationships between groups of citizens and between citizens and the state, foster inter-group trust and improve attitudes towards co-existence and cohesion. It would also improve the relational aspects of governance, reforming state institutions to be more responsive to citizen needs. This process is critical to address Perú's low Social Capital ranking and levels of institutional trust.

*Typical Activities to Support Conciliation*¹⁶

- **Building vertical relationships and the social contract:** Strengthening rule of law and representative politics, for example by setting up a listening process, a map of grievances, fighting corruption.
- **Developing a fair and inter-dependent future:** Reforming institutions, reforming the economy, creating a space for multiple narratives to co-exist and/or that seek to imagine the future, strengthening activities for handling conflict.
- **Building horizontal relationships:** To achieve social cohesion and co-existence, organising activities that challenge stereotypes and build trust, empower victims, enable dialogue, and joint problem solving.
- **Dealing with the legacy of past conflict or violence:** Truth seeking, seeking accountability.

The dialogue between different groups, facilitated by a conciliation expert, would start by helping each side to understand each other's fears and understandings of the past, as well their vision for the future. This would encourage mutual empathy and more humanised perceptions of opponents. In time, this will build interpersonal trust. The process may require some atonement for historical injustices and a commitment to introduce policies to rectify these historical injustices, for example, by addressing poverty and committing to better social protection and social services for economically deprived groups.

BUILDING ON CONCILIATION AND A NATIONAL AGREEMENT

The dialogue and conciliation process should address the fears held by those on both the Left and the Right (as presented above). The table below presents simple suggestions on where compromises could be reached in Perú in order to reassure both the Left and the Right.

	Landing Zone to Reassure Both the Left and the Right
Economy	An economic model based on markets but one that is regulated to ensure open competition, a focus on consumers, and support for the productivity of small producers and the most economically disadvantaged.
Culture	Dignity and respect for all Peruvian cultures. Recognition of historical injustices to indigenous people and plans to re-set this going forward.
Politics	Political reforms to ensure stability and support national consensus. Judicial reforms for a more competent and less corrupt judiciary.
Social sectors	Strengthen the capacity of the civil service to deliver effective social programmes targeted to those most in need.

This Conciliation for Prosperity should lead to a National Agreement to deliver on:

- Political reforms to ensure political stability, including agreement to respect the rules of the system, democracy and respect for minorities and property rights. Also political reforms to ensure that political competition favours the population, political parties are strengthened, campaign financing is controlled, and stability in executive and legislative relations is promoted, etc.
- Judicial reforms – to ensure the autonomy, competency and integrity of the judiciary, so that corruption does not undermine political competition and the capacity of the civil service.
- Agreement to support building a merit-based and apolitical civil service.

The benefits of this Conciliation for Prosperity process would include:

- Stability that provides the basis for increasing local investment and good jobs.
- A level playing field, without a privileged private sector, such that it will unleash for all companies
- Capacity to effectively deliver infrastructure and a public works programmes for social protection (for example, following the digital model of the Mahatma Gandhi Guaranteed Employment Programme in India).
- Agreement on taxation of mining that would enable fair and efficient taxation of corporates and more revenues to spend on social services in deprived areas. Greater enforcement of environmental laws that will protect Perú's valuable biodiversity and environment.
- Expand education programmes to upskill the most economically disadvantaged but also to promote the more inclusive national identity that would be adopted by the country.

At the beginning of the new administration of President Castillo, it can be difficult to imagine that a successful dialogue and conciliation process to reduce conflict and polarisation in Perú is possible. There is much distrust and fear. However, the historical evidence suggests that it is precisely in those 'unfrozen moments' generated by crises that opportunities for positive transformation occur. Perú can seize this opportunity to work towards consensual politics and prosperity.

Endnotes

- 1 "How Nations Succeed, Analysis of national transformation", Legatum Institute, 2021.
- 2 "Censos Nacionales 2017: XII de Población, VII de Vivienda y III de Comunidades Indígenas", INEI, December 2018.
- 3 "Pobreza monetaria alcanzó al 30,1% de la población del país durante el año 2020", INEI, 14 May 2021.
- 4 "Censos Nacionales 2017: XII de Población, VII de Vivienda y III de Comunidades Indígenas", INEI, December 2018.
- 5 "Pobreza monetaria alcanzó al 30,1% de la población del país durante el año 2020", INEI, 14 May 2021.
- 6 Rural population is about 21% of the total population. "Perú: Perfil Sociodemográfico, 2017 – Capítulo 1: Características de la Población" INEI, 2017.
- 7 "Country Partnership Framework for the Republic of Perú for the Period FY17-FY21", World Bank, 4 April 2017, p.7.
- 8 "Agriculture and Mining for Shared Development: Ayninakuy Agro in Action", World Bank, 27 July 2021.
- 9 "Perú: País Minero", MINEM, N.d.
- 10 "Resultados Presidencial", ONPE, July 2021, <https://resultadoshistorico.onpe.gob.pe/SEP2021/EleccionesPresidenciales/RePres/T>.
- 11 "Pobreza monetaria alcanzó al 30,1% de la población del país durante el año 2020", INEI, 14 May 2021.
- 12 Fukuyama, F., "Why national identity matters", *Journal of Democracy*, Vol. 29, No. 4, 2018, p.7.
- 13 See for example, "Reconciliation in focus: Approaching reconciliation in peacebuilding practice", *Conciliation Resources*, June 2021.
- 14 "Reconciliation in focus: Approaching reconciliation in peacebuilding practice", *Conciliation Resources*, June 2021.
- 15 Ibid.
- 16 Ibid.





2. POLITICAL CAPACITY

This first of two chapters addressing Perú's governance focusses on Political Capacity, which encompasses the nature of executive constraints, political accountability and the rule of law. Overall, the capacity of the Peruvian political system is weak. The levels of trust in government, parliament, and politicians are among the lowest in the world. This results from failures by Peruvian institutions (including the executive, legislature, and judiciary) to respond to citizens' demands for competent and honest government. In a 2019 survey conducted by Transparency International, over 90% of Peruvian respondents reported having little or no trust in the government, courts, or the police.¹ The poor political capacity, the pervasive corruption, and a politicised civil service are the result of a weak social contract, lack of national consensus and contested national identity, together with the 'informal' nature of Perú's political parties.

In the last 20 years, Perú has been able to hold free and fair elections and all political parties have accepted the results of elections, even when the results have been extremely close. The military has not been involved in party politics of any kind. All these are positive developments which, through a conciliation process, could result in more consensual politics. A national agreement with key political and judicial reforms has the potential to unblock the political capacity in the country and its road to prosperity.

EXECUTIVE CONSTRAINTS

Perú's global ranking for executive constraints is 59th. This ranking reflects how the power of the executive is constrained by other branches of the state and that power has been transferred according to the law. However, this ranking does not reflect the fact that the relations between the executive and legislative branches have been marked by conflict and dysfunction. The 1993 constitution provides for a peculiar presidential system with strong parliamentary features and conflicting power centres that produce governance problems.²

As a result of the hybrid presidential system, the conflicting powers of the executive and the legislature limits government effectiveness, placing democracy at risk.³ A combative and unproductive relationship has developed between the legislature and executive. The former has proven that it can remove the president with a simple majority while the latter can shut down congress. This was most clearly demonstrated in November 2020, when Perú had three presidents in the space of a week and widespread public protests abound.

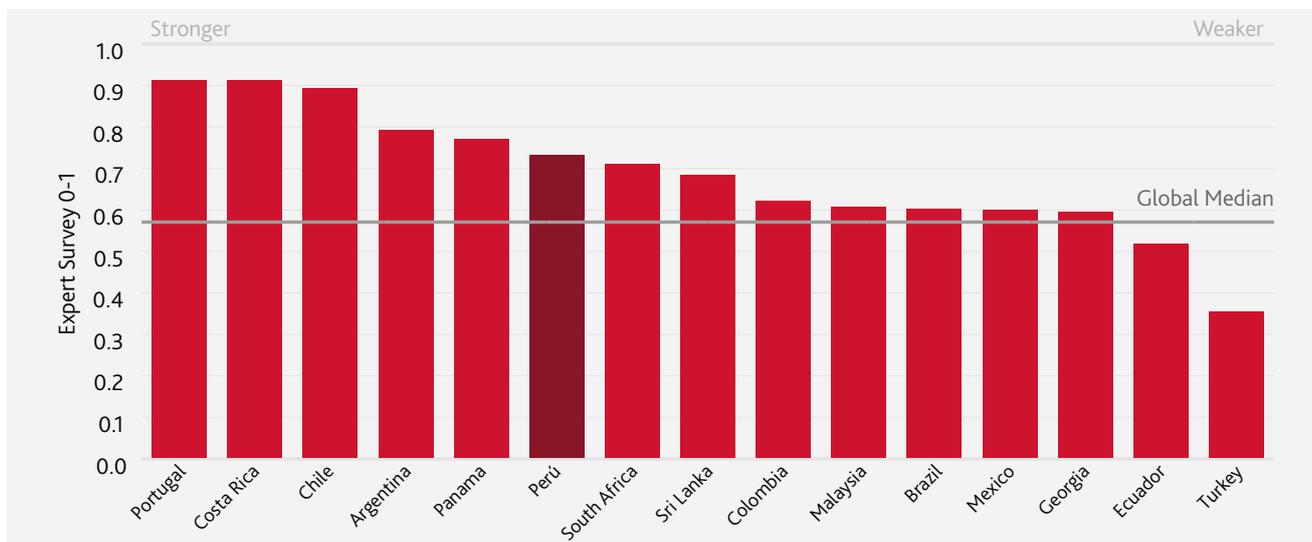
The constraints exercised by the judiciary are also limited given its corruption and weakness. It defers to the executive and does not exercise effective controls on wrongdoing in either the executive or legislature, creating a permissive environment for corruption.

The challenge is not so much about addressing a concentration of power but rather to have executive and legislative powers that work together for the good of all citizens, rather than fight for power and resources. To reduce the potential for conflict between the executive and the legislature, it is important to build bridges between these institutions.

POLITICAL ACCOUNTABILITY

Perú ranks 58th globally for political accountability. It has conducted free and fair elections over the past 20 years and the transitions of power have taken place according to the law. This is one of the longest unbroken periods of democracy in Perú's 200 years of independence from Spain. Moreover, during this period, there has not been any substantial military involvement in Peruvian politics.

Figure 1: Transition of Power is Subject to the Law



Source: World Justice Project.

However, political parties are extremely weak and 'informal', limiting citizens in exercising substantive democratic choice. This has been a concern since President Fujimori demonstrated that candidate-centred organisations can deliver electoral successes, especially after terrorism and hyperinflation in the 1980s had provided ideal conditions for anti-establishment outsiders.⁴ The model of "disposable" political parties included Cambio 90, a party created only for the 1990 election.⁵

Emergence of "Informal" Political Parties

Traditional political parties have been replaced with 'informal' political groupings that often serve as temporary vehicles for political "entrepreneurs" to pursue personal interests using their electoral success to reward financial supporters. This 'informality' has made it easier for politicians in Perú to operate outside the constraints of party discipline such as compliance with internal party rules, adhering to long-term goals, following a collective approach, following a consistent political philosophy, or building broader political coalitions and long-term support.⁶ An absence of internal party elections hampers democracy within parties and makes it harder for principled candidates to rise within them.⁷ Politicians are free to switch parties when they please without sanction, contributing to political instability.

The political system is fragmented with a myriad of highly atomised political parties based around the buying and selling of political favours and positions. Political parties are built on fluid political ideologies and loyalties rather than being underpinned by strong political programmes and philosophies. This makes it more difficult for voters to assess political options as the party "brand" does not convey enough information for them to discern whose interests they are advocating.

Weak Representation of Citizens

In Perú, political parties lack the organisational capacity to produce solid government plans or benefit from a strong technical team or capable legislators. The absence of strong political parties also contributes to the fact that winning candidates do not implement the programmes upon which they were elected. Even when anti-establishment candidates have been elected, they have continued with the implementation of the existing economic model.⁸ It is possible for the head of the executive to have very little representation in the legislature.

Strong political parties can help make the political elite more diverse by opening up their recruitment procedures. They can also contribute to the training of legislators and administrators. The political entrepreneurs will reconsider their decision to exploit 'informal' political parties only if strong political parties emerge and begin to become competitive.

Attempts to Regulate Electoral Financing

The costs associated with running political campaigns have become significant.^{9,10} To get elected, many candidates promise patronage for their supporters. This can range from gifts to employment in key civil service positions or cleaning jobs.^{11,12} In a 2019 poll, 27% of respondents in Perú said they had been offered some kind of bribe in return for their vote.¹³

The lack of transparency around the financing of political parties has left them open to corruption and capture. Influential lobby groups have frequently bought politicians by offering to finance their campaigns.¹⁴ Corporations such as Odebrecht and others have been able to channel illicit funds to political candidates through complex banking procedures and hidden bank accounts.¹⁵ The Law on Political Organisations is meant to control political campaign financing, but implementation is patchy.

Although the electoral framework allows for direct public funding of election campaigns, its implementation has been inconsistent as many oppose giving money to political parties that they assume to be corrupt.¹⁶

Possible Actions for Parliamentary and Party-Political Reform:

- Re-regulate the balance of powers between the executive and parliament in relation to the presidential vacancy, censorship of ministers, and closure of congress.
- Increase the number of parliamentarians so that voters have a more direct relationship with their representatives.
- Stagger elections to parliament, renewing by halves or thirds each time.
- Enable sanctioning of party defectors.
- Ensure the Political Parties Law is fully implemented by strictly monitoring internal democracy and private financing. Close legal loopholes.
- Strengthen transparency in political parties: enforce declarations of transparency and monitor strict compliance with tough sanctions.
- Reform and professionalise the selection of members of the National Electoral Jury (JNE) and consider making some of its functions permanent.

RULE OF LAW

Perú ranks 117th in the world in terms of rule of law. It has not had the capacity, nor the integrity, required to support the rule of law in a substantive way. The confidence of citizens in the judiciary is one of the lowest in the world. There is no equal access to justice for the poor.

The judicial system is weakened by pervasive corruption, reflecting a weak justice system in Perú, particularly in relation to judicial independence.

“Judicial operations are severely undermined by corruption, inefficiency, insufficient territorial and functional reach, limited resources, weak management, a hierarchical culture, and entry and promotion procedures determined by a contested National Judicial Council.”¹⁷

Weak Judicial Professionalism

Being a judge in Perú is considered a low-status job because of systemic corruption and inefficiency. This is despite the fact that salaries for judges have become more attractive. Professional promotions in the justice system have tended to be determined based on seniority rather than ability.¹⁸

There is an absence of capable management and oversight in the judiciary while its reach and resources are limited.¹⁹ Technical work is not guided by goals, outcomes, or efficiency but rather is process oriented.²⁰ This has resulted in very high levels of managerial inefficiency in judicial cases.

Poor Judicial Integrity and Corruption

Perú experienced extremely high levels of corruption in the late 1990s when the head of national intelligence, Montesinos, assigned sensitive cases to judges receiving bribes from the Fujimori regime. “Judicial tribes” were established, where buyers were able to buy sets of results from lawyers and judges. Drug traffickers and organised criminals also used their extensive resources to target the judicial system. After the regime change, a serious attempt was made at judicial reform in 2002. However, it reached only the diagnosis phase and was not implemented. The judicial system continues to be affected both by corruption and organised crime, to the extent that even the Supreme Court and the Constitutional Tribunal are vulnerable.²¹

In 2015, of 2,700 judges, 727 were punished for corruption. In 2018, an illegal network was uncovered where judges and attorneys of all levels exchanged and negotiated favours, especially to reduce sentences and secure job promotions.²² While 155 investigations are still ongoing, a Supreme Court judge, seven members of the National Assembly of Attorneys, and the head of the prosecutor’s office have all been implicated and lost their jobs as a result.^{23,24,25}

While the Odebrecht/*Lava Jato* corruption case resulted in many high-level indictments (including five former presidents), the slowness, inefficiency, and corruption of the judiciary has resulted in few convictions. Prosecutions often failed because of political, legal, or procedural loopholes. Corruption cases at the sub-national level are even more extensive because judges can archive cases and the prosecutors do not call for more investigations.

In this context,

“the institutions responsible for supervising and prosecuting these cases are severely delegitimised. High-level officials in these agencies, including the national prosecutor, have also been investigated and prosecuted in recent years for involvement in corruption cases or for favouring the impunity of elected officials.”²⁶

This situation explains Peruvians very low levels of trust in the judiciary. Citizens are becoming used to a process whereby a big corruption scandal is uncovered by the media, arrests and investigations follow, and a long and slow judicial process results in suspects being set free.

The independence of the judiciary is enhanced by the independent appointment of impartial, competent, and honest judges. To attract professionals of integrity and capability, it will be necessary to change social perceptions of the judiciary.

No Organised Public Demand for Judicial Reforms

Without this vital pillar of a functioning state, there is nothing to ensure that government corruption can be effectively prosecuted. Reforms are needed to deliver a competent and independent judiciary that guarantees everyone, including the state, is subject to the rule of law. However, none of the 2021 presidential candidates made commitments in this area. Effective judicial reform requires not only experts but also citizens to be aware of existing problems and their importance for fighting corruption and organised crime.

Judicial reform requires all key stakeholders, including those involved directly in the judiciary, decision makers, media personnel, and academics, to share a common view of the problems in the judiciary and identify a strategy. Successful reforms would necessitate learning from the experience of other countries, for example, the policy of announcing judicial candidates by name has been found to motivate people to divulge information about the individuals. In the Dominican Republic, the appointment of Supreme Court judges has involved citizen participation. In Chile, an alliance of stakeholders has facilitated bringing about penal process reform.

Possible Actions for Judicial Reform:

- Ensure the autonomy and professional capacity of the Autoridad Nacional de Control del Poder Judicial (the new entity responsible for exercising disciplinary control). This should be kept under close review, leaving open the option of selecting an external disciplinary organ (Ceriajus Plan, 2004).
- Give judges and prosecutors official appointments, replacing all temporary appointments.
- Extend the mandate of the President of the Judiciary to three years, making this renewable.
- Establish minimum standards in Law Faculties and impose strict sanctions for non-compliance.
- Ensure full transparency in all judicial processes and impose severe penalties for corruption.
- Establish a simple and transparent process for disqualifying and removing judges and ensure that disciplinary processes are not subject to term limits.
- Establish results-based management for judicial investigations, to expedite investigations, and improve efficiency.

Endnotes

- 1 Pring, C., and Vrushi, J., "Global Corruption Barometer Latin America & the Caribbean 2019: Citizen's Views and Experiences of Corruption", Transparency International, September 2019, p.11.
- 2 Tuesta, F., Munoz, P., Campos, M., Bensa, J.V., and Tanaka, M., "Hacia la Democracia del Bicentenario: Comision de Alto Nivel Para la Reforma Política", Konrad Adenauer Stiftung, 2019.
- 3 Ibid.
- 4 Levitsky, S., and Cameron, M.A., "Democracy without Parties? Political Parties and Regime Change in Fujimori's Perú", *Latin American Politics and Society*, Vol. 45, No. 3, 2003.
- 5 Observation from Navia, P., "Perú 200 Years: Innovations for Good Leadership", Legatum Institute, Roundtable Discussion Series, 23 March 2021.
- 6 Navia, P., "Perú's Problem is Bigger than Not Having a President", *America's Quarterly*, 16 November 2020.
- 7 For a discussion on internal democracy see, Tanaka, M., "Personalismo e Institucionalisacion, La Reforma de Los Partidos Políticos en el Perú", Konrad Adenauer Stiftung, April 2017.
- 8 Meléndez, C., "The lesser evil: Political ties in Perú after the collapse of the party system", *Institute of Peruvian Studies*, 2019.
- 9 "Integrity Review of Perú: Enhancing Public Sector Integrity for Inclusive Growth", OECD, 2017, p.13-15.
- 10 "Parties, Candidates, and the Eternal Quest for Cash", Perú Support Group, 30 January 2021.
- 11 Nureña, C.R., and Helfgott, F., "Rings of Corruption in Perú", *NACLA Report on the Americas*, Volume 51, No. 2, 2019, p.171.
- 12 Vega Luna, E.E., Rojas Medrano, J.C., Elias Ayay, L.Y., Koechlin Costa, J.G., and Solorzano Salleres, X.d.R., "El Circulo de la Corrupcion en Los Gobiernos Regionales", Universidad Ruiz de Montoya, September 2018, p.68.
- 13 Pring, C., and Vrushi, J., "Global Corruption Barometer Latin America & the Caribbean 2019: Citizen's Views and Experiences of Corruption", Transparency International, September 2019, p.25.
- 14 Vega Luna, E.E., Rojas Medrano, J.C., Elias Ayay, L.Y., Koechlin Costa, J.G., and Solorzano Salleres, X.d.R., "El Circulo de la Corrupcion en Los Gobiernos Regionales", Universidad Ruiz de Montoya, September 2018, p.71.
- 15 "Parties, Candidates, and the Eternal Quest for Cash", Perú Support Group, 30 January 2021.
- 16 "Integrity Review of Perú: Enhancing Public Sector Integrity for Inclusive Growth", OECD, 2017, p.148-149.
- 17 "BTI 2020 Country Report: Perú", Bertelsmann Stiftung, 2020.
- 18 Ibid.
- 19 Ibid.
- 20 Ibid.
- 21 "Perú 200 Years: Innovations for Good Leadership", Legatum Institute, Roundtable Discussion Series, 5 May 2021.
- 22 Quispe, H., "Principales implicados en Los Cuellos Blancos aún no rinden cuentas a la justiciar", *La Republica*, 4 January 2021.
- 23 "BTI 2020 Country Report: Perú", Bertelsmann Stiftung, 2020.
- 24 Nalvarte, P., "Perú's IDL-Reporteros Stands Up to Prosecutors", *GIJN*, 20 July 2018.
- 25 Lasusa, M., "Perú's Judicial Corruption Scandal, Explained", *Insight Crime*, 9 August 2018.
- 26 "BTI 2020 Country Report: Perú", Bertelsmann Stiftung, 2020.



MESA N°

232081

ONPE

ONPE

OFICINA NACIONAL DE PROCESOS ELECTORALES



3. STATE CAPACITY

State Capacity encompasses the operational aspects of Governance. This chapter first diagnoses the nature of government integrity and the associated level of corruption. It then considers government effectiveness and its ability to provide good quality administration and deliver services for citizens. The absence of a national consensus and weak political capacity in Perú have prevented a strong, capable low-corruption state from emerging. Globally, Peruvians are amongst those most dissatisfied with their government, parliamentarians, and politicians. These institutions have not had the capacity, nor the integrity, required to respond to citizen demands for competent and honest government.

Civil service reforms have not been carried out with consistency, given the weak political capacity and the corruption of governments. This has led to the inefficient use of public resources.

At the same time, Perú has been able to create strong capacity in macroeconomic management, particularly in the Central Bank, in such a way that the country's financial management record is one of the best in Latin America. Perú has very talented professionals capable of running complex projects, as demonstrated recently in the running of the Panamerican Games. Therefore, a political settlement that provides for the autonomy of the civil service, merit-based recruitment and a competitive compensation package has the potential to rapidly increase State Capacity in the country.

GOVERNMENT INTEGRITY

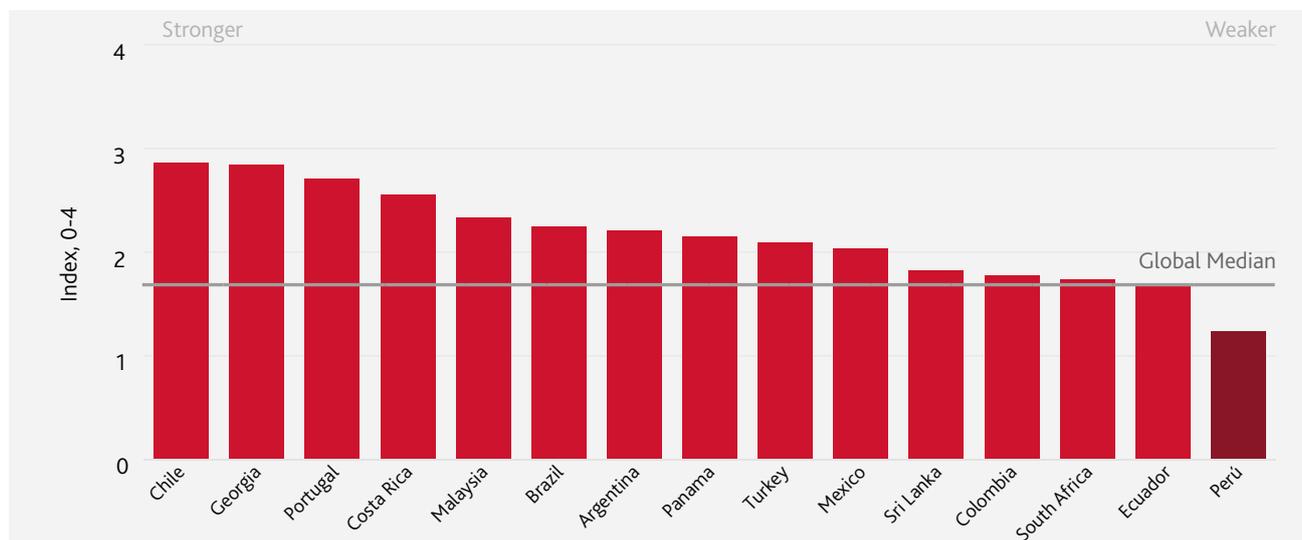
Perú ranks 90th in the world for government integrity. Peruvian citizens consider corruption and crime to be among the most important problems in the country. At 96%, Perú had the highest percentage of respondents who thought government corruption was a big problem in their country. This can be compared to the LATAM average of 85%.¹ When surveyed, 30% of citizens reported having to pay a bribe to a public official within the preceding 12 months. The Comptroller General estimates that every year, about 15% of total public expenditures, (3% of GDP) is lost to corruption.² In a World Economic Forum survey of experts, Perú ranked 137th in the world for the diversion of public funds.

Citizens are becoming used to big corruption cases being uncovered, arrests made, judicial processes dragged out, but no one going to jail.³ In this context, corruption is carried out with impunity. A key means of holding governments to account and reforming the political system is missing.

Former president Toledo was accused in 2017 of accepting \$20 million in bribes from the Brazilian construction firm at the centre of the *Lava Jato* scandal, Odebrecht.⁴ The fallout led to a dramatic drop in construction projects and a reticence among civil servants to sign or approve contracts with otherwise reputable firms for fear of being embroiled in some future scandal.⁵

In the previous Congress, 68 of its 130 members were under investigation for bribery, money laundering, and other crimes.^{6,7} As of December 2020, 19 of the country's 25 regional governors were also under investigation for corruption.⁸

Figure 2: Public Sector Corrupt Exchanges



Source: V-Dem Institute.

In order to bypass the high-levels of corruption that have plagued public private partnerships (PPPs) in Perú and delayed their completion, the government has engaged in a number of government-to-government (G2G) agreements, where the tendering and management of public infrastructure projects are outsourced to foreign governments – an approach typically associated with military cooperation agreements.⁹ For example, the UK oversaw the construction of infrastructure for the Pan American Games held in Lima in 2019, France has agreed a G2G to build hospitals in Perú, and South Korea is building the new international airport near Cuzco.¹⁰ While these have proven a useful alternative to PPPs, there is still a pressing need to address the integrity of public spending.

Anti-Corruption Bodies and Efforts

There have been multiple anti-corruption initiatives, including anti-corruption laws extending criminal liability for bribing domestic or foreign public officials to corporates.^{11,12} However, these have had mixed success. In 2010, the High-Level Anticorruption Commission (CAN) was established.¹³ It has been involved in promoting the creation of a consolidated government digital platform to improve coordination and information-sharing between anti-corruption bodies and the strengthening of public hiring and procurement practices.¹⁴ In addition, CAN has established 25 Regional Anticorruption Commissions, but these operate only sporadically.^{15,16,17} Ultimately, an absence of political will has prevented more effective reforms.

The Office of the Comptroller General (CGR) is an autonomous body charged with carrying out audits of public bodies and drafting monitoring reports. These reports can be used for filing complaints to the judiciary where there is evidence of criminal activity and have helped to reduce some corruption.^{18,19} However, limited funding, capacity, and support, as well as restrictions on its ability to crosscheck information between different authorities, has limited the number of rigorous audits the Comptroller General can carry out.^{20,21,22}

Possible Actions for Anti-Corruption Reform:

- As part of a national agreement, include a commitment for the government to be run for the benefit of all Peruvians, not for party or private gains.
- Each cabinet minister should be responsible for ensuring that their departments have a clear strategy to become corruption-free.
- Ensure that the government does not include members from well-established and resourced “corruption networks”, as described by the Basel Institute of Governance recent report on Perú.²³
- Ensure that corruption in government is fully investigated and prosecuted speedily by independent courts.
- Introduce a “whistle-blower” mechanism in procurement processes, include civil society and the private sector.
- Ensure that the Comisión de Alto Nivel Anticorrupción has the highest political support (and therefore resources and capacity) with participation from the private sector, civil society, and the independent press.²⁴

GOVERNMENT EFFECTIVENESS

Perú ranks 76th in the world for government effectiveness. Political parties have considered the civil service to be part of the prize of winning power. It is regarded as both a means to reward their supporters with posts and to gain economic favours in a highly regulated economy. In this context, civil service reforms promoted by ministers have not been carried out with consistency. As a result, outside the specifically protected areas of macroeconomic and financial management (Central Bank, Superintendency of Banks), the capacity of the civil service in Perú is weak.

High turnover of office holders, poor remuneration and status, poor training and professionalism have stymied the development of a professional civil service capable of designing long term policies or implementing projects effectively.^{25,26} Instead, the focus is on the short term and effectiveness is distorted by incentives for corruption.²⁷ This situation is even more acute in regional and local governments, where levels of corruption are even higher.²⁸

Civil Service Reform

In 2008 and 2013, processes of civil service reform were accelerated.²⁹ In 2008, the National Authority of the Civil Service (SERVIR) was created.³⁰ At the same time, the Public Managers Cadre was formed to create a pool of qualified public managers that were recruited and promoted based on merit. They received a higher remuneration, training, and were assigned to leadership roles across the civil service.³¹ This system was to replace a recruitment and promotion system based largely on political appointments.^{32,33} These reforms had some success and this is reflected in Perú’s improvement in the IADB’s Civil Service Development Index between 2004 and 2015.³⁴ Evidence suggests that in the cases where appropriately qualified managers and teams have been appointed, budget execution has increased by around 90%.³⁵ However, the reach of these reforms has been limited, partly because of weak political support.^{36,37,38}

The effectiveness of the civil service is variable. Over 70% of senior civil service positions are appointed on a political basis, which encourages many civil servants to leave once they have hit the “meritocratic ceiling”.^{39,40} This disrupts institutional knowledge.⁴¹ Poor and politicised leadership, limited space for innovation, and systemic corruption mean that building a career in public administration is not a good option for many.^{42,43}

Perú has a long tradition of depoliticisation in the Central Bank. Employees enjoy higher salaries, more secure contracts, merit-based recruitment, and freedom from the political interference that affects other government departments. This has contributed to Perú’s impressive macroeconomic management in the last 20 years. The key to this has been the implicit political consensus that macroeconomic stability is paramount – a result of the trauma of 1980s hyperinflation.

The lack of a merit-based and professional civil service is felt even more acutely at regional and local levels,⁴⁴ particularly since the start of decentralisation.^{45,46} With over 1,800 subnational governments, it is difficult for them to recruit the necessary talent to carry out their duties effectively.⁴⁷

Compounding the problem of government effectiveness in Perú is the low level of coordination between and across different levels of government. The Presidency of the Council of Ministers (PCM) is charged with outlining government strategy and coordinating departments.⁴⁸ It is made up of different offices and public bodies not related to government strategy, making it unwieldy and hindering coordination.^{49,50} The PCM also has limited oversight and enforcement capabilities.⁵¹ The government has published several ambitious national strategic plans but, generally, these are not linked, binding or prioritised.^{52,53}

The low capacity of the state undermines its effectiveness in service delivery and fair regulation of the economy. Poor state capacity in the delivery of health services became clear during the recent COVID-19 crisis. Poor state capacity is also revealed in its inability to enforce government policies, leaving markets open to excesses and anti-competitive practices. Environmental laws are flouted in mining and other sectors and taxes are left uncollected. Given the devastating effects of the COVID-19 pandemic in Perú, the frequent socio-environmental conflicts, and the country’s poor education system, there are strong reasons to seek political consensus so that capacity in these key areas is strengthened.

Possible Actions to Strengthen Government Effectiveness:

- A national consensus would provide the social agreement needed for supporting the autonomy, citizen-centred focus, and merit-based recruitment of the civil service.
- Departmental leaders should be directed to give priority to understanding the key needs of citizens, particularly the most vulnerable (including the indigenous population), and to identify ways to make the provision of services to vulnerable people easier, more accessible, and corruption free.
- Leaders should be responsible for embedding and fostering a new civil service ethos that demonstrates a commitment to service, empathy, and transparency, to bring public services closer to all citizens.
- Establish a merit-based process for appointing 30-40 leaders of departments and agencies.
- Empower and delegate responsibility. Departmental leaders and their teams should be given autonomy in achieving the government's key priorities.
- Each department leader should be able to appoint 10-20 officials to support their departmental or agency delivery. They should also be responsible for the regular reporting of their progress to Cabinet and the public.
- Appointments should be based on proven integrity, focus on the public good, public services as well as professional experience and competence, not just guided by political affiliations.
- A strengthened Public Service Commission in the Presidencia de Consejo de Ministros should monitor these appointments, proposing a temporary salary structure and recording the reform experiences of different departments to identify best practices.
- Introduce a digitisation and simplification agenda to allow the civil service to implement changes that immediately benefit citizens, service users, and to reduce corruption.

Endnotes

- 1 Pring, C., and Vrushi, J., "Global Corruption Barometer Latin America & the Caribbean 2019: Citizen's Views and Experiences of Corruption", Transparency International, September 2019, p.10.
- 2 Shack, N., Perez, J., and Portugal, L., "Calculo del Tamano de la Corrupcion y La Inconducta Funcional en el Perú: Una aproximacion Exploratoria", CGR, August 2020, p.48.
- 3 "BTI 2020 Country Report: Perú", Bertelsmann Stiftung, 2020.
- 4 Stein, P., "How Rampant Corruption Has Brought Perú to its Current Political Crisis", GAB, 20 November 2020.
- 5 Long, G. "Perú tries to emerge from shadow of corruption scandal", The Financial Times, 12 March 2020.
- 6 Dube, R., "Under Shadow of Corruption, Perú's Congress Fuels Crisis", The Wall Street Journal, 25 November 2020.
- 7 Stein, P., "How Rampant Corruption Has Brought Perú to its Current Political Crisis", GAB, 20 November 2020.
- 8 "¡Preocupante! Investigan por corrupción a 19 gobernadores regionales", Andina, 9 December 2020.
- 9 Sumar, M.M., "G2G Agreements as a Mechanism for Infrastructure Development: The Peruvian Experience", Chambers and Partners, 19 October 2020.
- 10 Ibid.
- 11 Figaredo, C., "Tackling corruption in Perú (2010-2018)", Centre for Public Impact, 30 October 2018.
- 12 Chavez Bravo, V, and Tovar, T., "The Anti-Bribery and Anti-Corruption Review: Perú", The Law Reviews, 30 November 2020.
- 13 Figaredo, C., "Tackling corruption in Perú (2010-2018)", Centre for Public Impact, 30 October 2018.
- 14 Ibid.
- 15 Ibid.
- 16 "Integrity Review of Perú: Enhancing Public Sector Integrity for Inclusive Growth", OECD, 2017, p.13-15.
- 17 Ibid.
- 18 "The Weak Link: The Role of Local Institutions in Accountable Natural Resource Management, Perú", Oxfam, 2017, p.36-37.
- 19 A point raised by expert interviewees.
- 20 "The Weak Link: The Role of Local Institutions in Accountable Natural Resource Management, Perú", Oxfam, 2017, p.36-37.
- 21 "Integrity Review of Perú: Enhancing Public Sector Integrity for Inclusive Growth", OECD, 2017, p.13-15.
- 22 A point raised by expert interviewees.
- 23 Costa, J., "Revealing the networks behind corruption and money laundering schemes: an analysis of the Toledo–Odebrecht case using social network analysis and network ethnography ", Basel Institute on Governance, Working Paper 36, July 2021.
- 24 Consider the model of a private sector ombudsman, as in Ukraine.
- 25 "BTI 2020 Country Report: Perú", Bertelsmann Stiftung, 2020, p.33.
- 26 A point raised by expert interviewees.
- 27 A point raised by expert interviewees.
- 28 Dammert, L., and Sarmiento, K., "Corruption, organized crime and regional governments in Perú", in book: Corruption in Latin America. How Politicians and Corporations Steal from Citizens, Springer, January 2019.
- 29 "BTI 2020 Country Report: Perú", Bertelsmann Stiftung, 2020, p.32.
- 30 Ibid.
- 31 Lafuente, M., and Manning, N., "Liderazgo y desarrollo de capacidades de los directivos del sector público", IADB, Discussion Paper No. IDB-DP-432, March 2016, p.21.
- 32 Velarde, J.C.C., Lafuente, M., and Schuster, C., "Serving Citizens: A Decade of Civil Service Reforms in Latin America (2004-13)", IADB, 2014, p.82-85.
- 33 Lafuente, M., and Manning, N., "Liderazgo y desarrollo de capacidades de los directivos del sector público", IADB, Discussion Paper No. IDB-DP-432, March 2016, p.21-22.
- 34 "Civil Service Development Index", IADB, 28 July 2020.
- 35 Lafuente, M., and Manning, N., "Liderazgo y desarrollo de capacidades de los directivos del sector público", IADB, Discussion Paper No. IDB-DP-432, March 2016, p.21-22.
- 36 Gonzales Tinoco, F., "Hablemos Sobre La Reforma del Servicio Civil en el Estado", IPE, 13 April 2021.
- 37 Torres Balcazar, V., "La reforma del servicio civil en el Estado Peruano: analisis de los factores que explican los avances de un proceso que sigue constituyendo un desafio", Journal of Political Science, Vol. 2, No. 17, 2018, p.162.
- 38 "BTI 2020 Country Report: Perú", Bertelsmann Stiftung, 2020, p.33, p.40.
- 39 Velarde, J.C.C., Lafuente, M., and Schuster, C., "Serving Citizens: A Decade of Civil Service Reforms in Latin America (2004-13)", IADB, 2014, p.82-85.
- 40 Lafuente, M., and Manning, N., "Liderazgo y desarrollo de capacidades de los directivos del sector público", IADB, Discussion Paper No. IDB-DP-432, March 2016, p.21-22.
- 41 "Public Governance Reform: Perú Highlights", OECD, 2017, p.5.

- 42 Ibid.
- 43 A point raised by expert interviewees.
- 44 "BTI 2020 Country Report: Perú", Bertelsmann Stiftung, 2020, p.32.
- 45 Gonzales Tinoco, F., "Hablemos Sobre Los Retos de La Descentralizacion", IPE, 18 May 2021.
- 46 Abusada, R., "El Grave Estado Del Estado", IPE, 20 August 2020.
- 47 A point raised by expert interviewees.
- 48 "Perú: Integrated Governance for Inclusive Growth", OECD, 2016, p.86.
- 49 "Regulatory Policy in Perú – Assembling a Framework for Regulatory Quality", OECD, 2016, p.60.
- 50 "Perú: Integrated Governance for Inclusive Growth", OECD, 2016, p.86.
- 51 "Regulatory Policy in Perú – Assembling a Framework for Regulatory Quality", OECD, 2016, p.60.
- 52 "Perú: Integrated Governance for Inclusive Growth", OECD, 2016, p.95.
- 53 A point raised by expert interviewees.



4. UNLEASHING PRODUCTIVITY AND GOOD JOBS

This chapter analyses Enterprise Conditions in Perú, describing the extent to which regulations enable business creation, competition, and expansion. In Perú, the absence of national consensus, low political capacity and the lack of a competent state partly explain how privileged industries have been able to avoid compliance with environmental or water usage norms (as in mining and agriculture), to abuse their market power, and to pay lower taxes than they should.

A roadmap to prosperity would unleash the productivity of all Peruvians to support employment both in the high productivity and 'informal'/independent sectors. In addition to political and judicial reforms, providing macroeconomic stability, the protection of investment rights and private property, and a fair competitive environment, would ensure the conditions required for high productivity companies to create new jobs.

Achieving inclusive growth would require establishing a level playing field for all companies and eliminating privileges for politically connected companies. The focus should be on creating opportunities that have been blocked by political arrangements that privilege "closed order deals" accessible only to a few and "power brokers" or privileged companies that create regulations designed not to be enforced but to discriminate. These procedures have operated along with the maxim that "for my friends, anything, for my enemies, the law".¹

Perú's entrepreneurs have been constrained by the "closed order deals" nature of the economy. A move towards a more inclusive economy has the potential to increase substantially the productivity of the economy and the creation of good jobs.

THE INDEPENDENT/INFORMAL SECTOR

The independent sector in Perú (also referred to as the 'informal' sector) is the backbone of the economy. This is where most people earn their living. It provides space for basic income-generating activities and small-scale businesses. It includes all economic or productive activities that are obscured from official authorities for financial (tax, social security contributions), regulatory (burden of regulation, bureaucracy), or institutional reasons (corruption, weak rule of law). The sector is constrained in its productivity and informal workers are left unprotected by national labour laws and social security programmes, facing worse working conditions.²

Approximately 70% of Peruvian labour is informal, higher than in peer countries.^{3,4} Informality affects vulnerable groups the most. It is as high as 95% for those with less than a high school education, 99% for low-income workers, and 97% for agricultural workers.^{5,6} In the poorer and more rural areas of Perú, such as in Huancavelica, Ayacucho, Puno, and Cajamarca more than 90% of workers are informal, while in Lima and Callao informality is only 56%.⁷

Through Hernando de Soto,⁸ Perú introduced to the world the importance of unleashing the productivity associated with the 'informal market' and property rights. Thirty-five years later, the Peruvian 'informal' economy continues to struggle, and there is no political party to champion this sector.⁹ Few governments have considered policies to support the independent sector, even though improving its productivity is central to development that

favours the economically disadvantaged.

The causes of high informality are multifaceted. They include issues such as poor education, corruption, excessive bureaucracy, and limited economic diversification. Entrepreneurs are weighed down by excessive regulations and burdensome bureaucracy, widespread corruption, inefficient tax regimes, and poor access to finance. The “workhorses” (small often informal producers of non-tradeables) have been pushed into a regulatory no-man’s land where they stay small to avoid taxation and the impact of a regulatory regime that has been influenced by ‘power brokers’ to protect their own profitability. This burdensome regulatory environment constrains the productivity of companies and discourages others from formalising.¹⁰ One of the key factors explaining this process is the weaknesses of state capacity. The state is unable to build an inclusive and productive economy for all.^{11,12,13} Political and business elites have promoted policies that favoured large, politically-connected companies in the formal sector. Previous administrations have sought to reduce informality in the Peruvian economy.¹⁴ However, they failed due to their focus on forcing “formalisation” rather than supporting the productivity of the independent/“informal” sector.

The key to addressing this is to pursue an “inclusive growth” agenda designed to build a vibrant and job-creating economy that reduces both barriers to entry and to growth. The policies that hurt the independent sector directly and indirectly hurt the rest of the economy as well. The formal economy is impacted by the same issues of excessive regulation, bureaucracy, corruption, etc. Excluding the majority of the country’s workforce leaves a huge source of potential growth untapped.

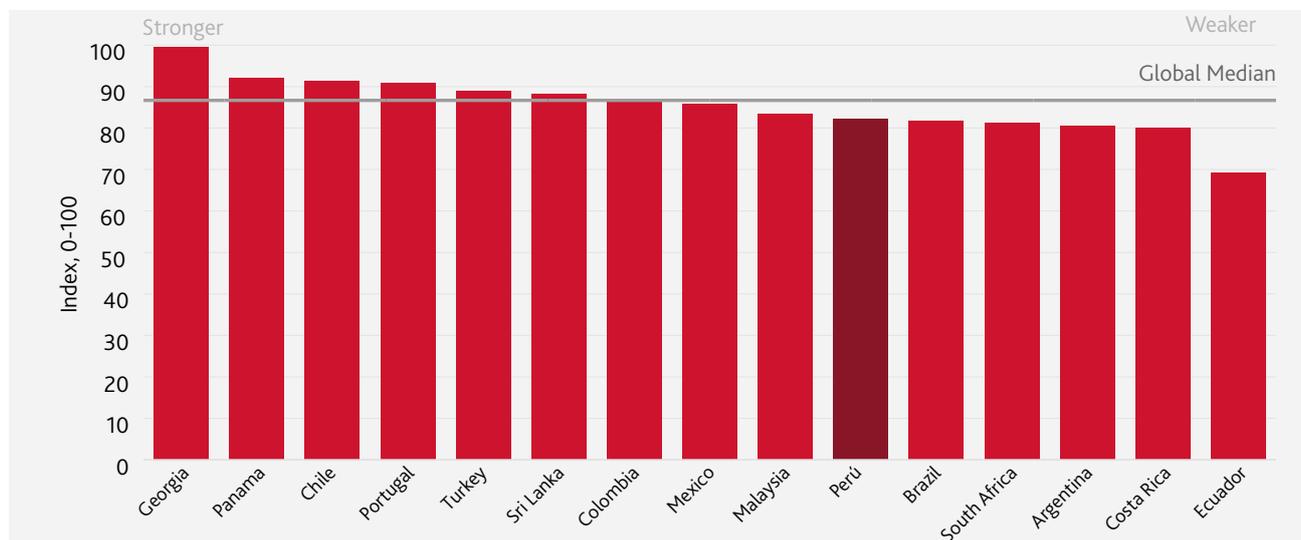
ENVIRONMENT FOR BUSINESS CREATION

The environment for business creation is plagued by regulations. Perú ranks 115th for ease of starting a business.¹⁵ It takes 26 days and eight procedures to open a business at a cost of 9.5% of income per capita.¹⁶ This contrasts with the OECD average of nine days, five procedures, and a cost of 3% of income per capita.¹⁷ There are also vast variances in the time and cost associated with opening a business from region to region. For example, it can take as long as 71 days in Chiclayo or cost as much as 26% of income per capita in Huancayo.^{18,19}

The decentralisation process gave regional governments authority to regulate local market entry and investment but this occurs without sufficient checks and balances.^{20,21} In 2013, INDECOPI processed 613 complaints relating to bureaucratic barriers and regulations; 76% related to barriers imposed by subnational governments and decentralised bodies and most were found to be illegal.²² In 2014, almost a third of municipalities failed to comply with the legal framework on operational licenses for establishments.²³

Small businesses are either unable to navigate the bureaucratic red tape or else lack the time required to enter the formal economy.

Figure 3: Ease of Starting a Business



Source: World Bank Doing Business Indicators.

Cluster Development

Perú has five industrial parks and has designated seven Special Economic Zones (SEZ), although currently only four are in operation: a Free Zone in Tacna and Special Development Zones in Ilo, Matarani, and Paita.^{24,25} Companies operating within these zones are entitled to tax benefits and customs advantages, making it easier to start and grow a business.²⁶

The SEZs are underdeveloped by regional standards with limited integration into global value chains.^{27,28} While in 2018, Perú's four SEZs generated 1,500 jobs and \$33m in exports, Colombia had over 100 SEZs providing 70,000 jobs and generating \$2 billion in exports.²⁹ In December 2019, a new National Strategy for Industrial Parks was launched with the aim to address some of the shortcomings.^{30,31,32} A new industrial park in close proximity to the port of Chancay has been announced.³³

BURDEN OF REGULATION

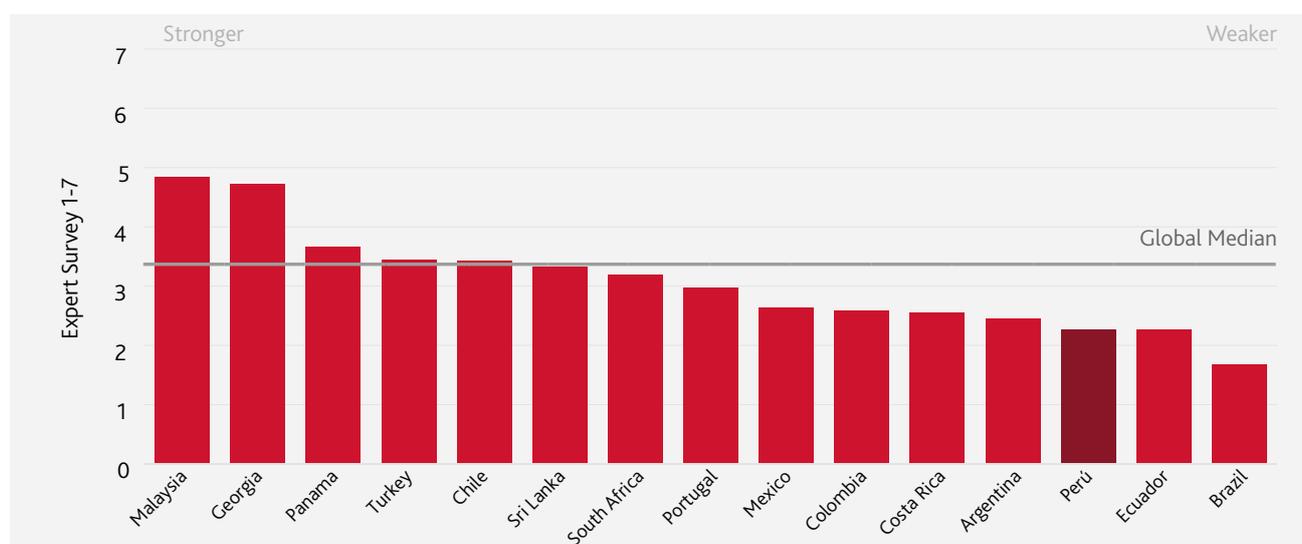
Despite some progress, the burden of regulation continues to be high and discretionary. In Perú, regulations have become an obstacle to harnessing the productivity of all. Only large businesses have the resources to deal with the burden of regulations and the pervasive corruption attached to it. Businesses in Perú face one of the most burdensome regulatory environments in the world, ranking 161st for Burden of Government Regulation.³⁴

Businesses in Perú must comply with costly and time-consuming regulations. Senior management in Perú spend about 12% of their time dealing with government regulation, ranking the country 124th globally. This compares to 2% in Georgia, 3% in Malaysia, and 10% in Chile.³⁵ The National Institute for the Protection of Competition and Intellectual Property (INDECOPI) has the authority to block regulations that impose burdens. However, large regulatory obstacles remain, especially at the subnational level.^{36,37}

Taxation procedures have been simplified somewhat by introducing an online registry, improving electronic filing, and payment options for major taxes.^{38,39} The annual number of hours spent on taxation has dropped from 424 hours a year to 260. However, the General Regime of taxation is still demanding and costly.⁴⁰

Large and profitable corporations can manage this system, but smaller firms are discouraged from formalising and growing altogether.⁴¹

Figure 4: Burden of Government Regulation



Source: World Economic Forum.

DOMESTIC MARKET CONTESTABILITY

Low state capacity and the political influence of well-connected groups has also resulted in weak oversight by state authorities over key markets, resulting in concentrated markets in several sectors from banking to pharmacies to media to food.⁴² Key markets are dominated by a small number of economic groups that are politically well-connected.⁴³

Twelve economic conglomerates play a particularly central role in the Peruvian economy, namely Romero, Brescia, Benavides, Ferreyros, Rodríguez-Pastor, Graña y Montero, Rodríguez, Añaños, Huancaruna, Acuña, Dyer, and Flores. These groups have built up significant influence over many years, with 280 of their subsidiaries providing roughly 50% of the income tax intake during the period 2003-2015.⁴⁴

The influence of industrial groups on politicians has often constrained competition and raised barriers to entry for other companies. A relatively small number of economic agents have used their position of wealth and influence to carve out dominant positions in the formal non-tradeable sector (at the high end these include banks, hotels, and infrastructure).⁴⁵ This has squeezed small producers out of the formal economy and induced them to operate informally beyond the reach of taxation and regulatory regimes that have not been designed with them in mind.⁴⁶

The formal competition framework in Perú is strong and in line with good international best practices.^{47,48,49,50} Perú's main competition authorities are INDECOPI and OSIPTEL (telecommunications),^{51,52} However, the application of competition law is weak. INDECOPI's activity is low key, and it takes a long time to resolve cases with Perú lagging regional

peers.^{53,54} There is no enforcement against bid-rigging and coordination between relevant public procurement bodies is weak.⁵⁵ Considering the importance of PPPs in Perú, the failure of the Peruvian state to address collusion in public procurement could have significant long-term negative effects for investment in the country.⁵⁶

Professional Service Regulation

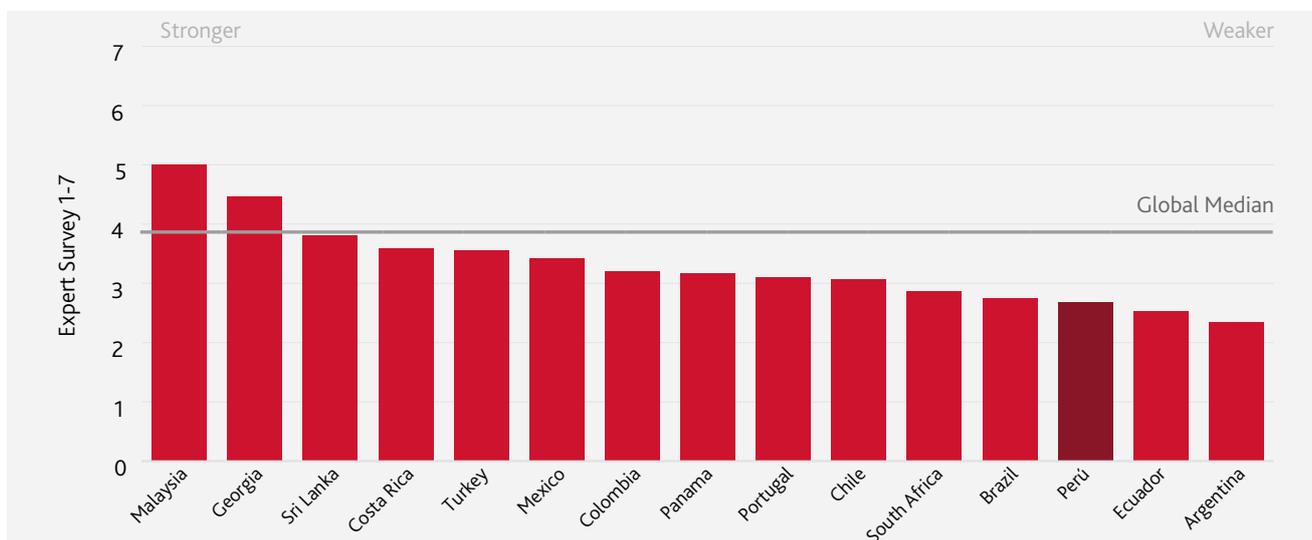
Professional service providers in Perú self-regulate entry conditions for new participants.⁵⁷ Lawyers, accountants, architects, and engineers are licensed by professional bodies whose membership is mandatory for entering these professions.⁵⁸ This may result in higher prices, lower quality, and a reduction in overall economic productivity.⁵⁹ Removing these regulations is estimated to increase value added across the Peruvian economy by the equivalent of 0.2% of GDP.⁶⁰

LABOUR MARKET REGULATION

Labour protection legislation offers social protection only for formal workers. Perú's labour laws offer generous protections to workers but apply to only a minority of people.⁶¹ In 2016, about half of all informal sector employees earned less than the minimum wage while formal workers earn on average almost twice the hourly wages of 'informal' sector employees.^{62,63,64}

Perú ranks a low 160th in the world for flexibility of hiring and firing practices. Labour costs discourage formal firms from hiring additional employees, capping their productivity. The dismissal of an employee with five years of service requires 225 days severance pay which is higher than in Chile, Colombia and Brazil.⁶⁵ Other costs include profit sharing for companies with more than 20 employees.^{66,67} Short contracts are how most new jobs are created in the formal sector.^{68,69} While these contracts provide flexibility, they increase turnover within companies.

Figure 5: Flexibility of Hiring Practices



Source: World Economic Forum.

Wage and Non-Wage Cost of Employment

The statutory minimum wage is 930 soles (around \$228 at August 2021) per month.^{70,71} This minimum wage is enforced only in the formal sector. Formal workers earn on average almost twice the hourly wage of informal workers.^{72,73,74} The OECD found that half of informal workers are not able to cover the cost of formality, as the income they generate is less than the statutory minimum wage.⁷⁵

The non-wage costs applicable under the General Labour Regime (covering firms of 100 employees or more) account for 68% of the basic wage, which is the highest in the region. At 30 days paid annual leave, Perú has the joint second highest annual leave in the LATAM region.⁷⁶ Employees have two gratuities (bonuses) a year, each equivalent to their monthly wage.⁷⁷ This can be compared to Colombia (one month), Mexico (half a month), and Chile (none).⁷⁸

REFORMING ENTERPRISE CONDITIONS

The opportunity exists for using the “informal”/independent sector to test local solutions and support their growth, as a space where people start their journey into entrepreneurship. Government can provide upskilling and better access to finance. This would also require a reform of taxation and regulations to reduce the costs of “formalisation”, blurring the difference between the independent sector and the “formal” economy. Under this scenario, entrepreneurs would be assessed in terms of their productivity rather than their “formality”.

The government should support an inclusive economy by eliminating ‘closed deals’ and preferential treatment. This would unleash the productivity of all companies and individuals. An agenda to unleash productivity and job creation for all requires that large economic groups are prevented from undermining competition or the autonomy of the state through bribes that favour their businesses at the expense of citizens. This is currently done through political campaigns, lobbying, and offering lucrative jobs to key people in government.⁷⁹

An inclusive growth programme should target regulatory reform to unleash the productivity of the “workhorses” (companies without privileged political connections). A transformation programme would allow all companies to benefit from a lower burden of regulations, diminishing the advantages of the politically connected ‘power brokers’. The government could use market incentives, innovative financing, competition policy, the simplification of administrative burdens and digitisation to ensure that employment is created in both the formal and the “informal” sectors while eliminating abuse of market power in key industries such as pensions and banking.

Possible Actions to Support the Informal/independent Sector:

- Explicitly recognise the important role of the informal/independent sector and announce a policy of not forcing formalisation.
- Engage with the informal/independent sector to learn the obstacles they face.
- Incentivise larger businesses to include informal economy participants in their value chains.

Possible Actions to Facilitate Business Creation:

- Require local authorities to provide facilities and trading areas for vendors and traders, allowing them ready access to customers and markets.
- Establish administrative codes of conduct to protect informal/independent workers from unscrupulous officials and administrative harassment.
- Establish training skills programmes to help informal/independent workers to scale their businesses. The programmes should cover financial literacy, the benefits of collective networks to improve productivity or gain access to credit.
- Invest in Productivity. Government should announce a commitment to prioritising policies that support the productivity of the informal/independent sector in agriculture, agro-industry, mining, services, etc.
- The goal should be improving productivity rather than "formalisation."

Possible Actions to Reduce the Burden of Regulations:

- Accelerate delivery of digital government services to ease processes, provide transparency, and remove the possibility of requesting bribes.
- Use citizen-friendly public service innovations that simplify Government and brings it closer to citizens (as A2i in Bangladesh which has saved \$8 billion in costs).⁸⁰

Possible Actions to Increase Market Contestability:

- Strengthen the autonomy of INDECOPI and increase its resources, following a capacity model similar to that of the Central Bank.
- Increase powers of coordination with the bodies overseeing public procurement to prevent bid-rigging and collusion.

Endnotes

- 1 Pritchett, L., Sen, K., and Werker, E., "Deals and Development: The Political Dynamics of Growth Episodes", Oxford Scholarship Online, December 2017.
- 2 "Multi-dimensional Review of Perú – Chapter 2", OECD, Vol. 3, 10 September 2019.
- 3 "Labour force participation rate, total (% of total population ages 15+) (modelled ILO estimate)", World Bank, N.d.
- 4 "Informal Sector Work Force Survey Report, Malaysia, 2019", Department of Statistics Malaysia, 23 July 2020, p.3.
- 5 "Economía informal en Perú: Situación actual y perspectivas", CEPLAN, No. 8, 11 May 2016, p.16.
- 6 Finn, K., "The Informal Economy in Perú: A Blueprint for Systemic Reform", Leveraging Perú's Economic Potential, Vol. 35, 2017, p.56.
- 7 "Economía informal en Perú: Situación actual y perspectivas", CEPLAN, No. 8, 11 May 2016, p.24.
- 8 Soto, H.d., "The Other Path: The Invisible Revolution in the Third World", Harper & Row, 1989.
- 9 "COVID-19 in Latin America and the Caribbean: Regional socio-economic implications and policy priorities", OECD, 8 December 2020.
- 10 "Perú: Systematic Country Diagnostic", World Bank, February 2017, p.133.
- 11 Finn, K., "The Informal Economy in Perú: A Blueprint for Systemic Reform", Leveraging Perú's Economic Potential, Vol. 35, 2017, p.57.
- 12 "Perú: Systematic Country Diagnostic", World Bank, February 2017, p.132.
- 13 Post, C. "Perú's formalisation plan does not touch labour regulation", Perú Reports, 25 August 2016.
- 14 Finn, K., "The Informal Economy in Perú: A Blueprint for Systemic Reform", Leveraging Perú's Economic Potential, Vol. 35, 2017, p.60.
- 15 "Ease of Doing Business in Perú", World Bank, N.d.
- 16 Ibid.
- 17 Ibid.
- 18 "Ease of Doing Business in Chiclayo – Perú", World Bank, N.d.
- 19 "Ease of Doing Business in Huancayo – Perú", World Bank, N.d.
- 20 "Perú: Systematic Country Diagnostic", World Bank, February 2017, p.138.
- 21 A point raised by expert interviewees.
- 22 "Perú: Systematic Country Diagnostic", World Bank, February 2017, p.138.
- 23 "Perú: Systematic Country Diagnostic", World Bank, February 2017, p.140.
- 24 "2020 Investment Climate Statements: Perú", US Department of State, 2020.
- 25 "The Report: Perú 2019", Oxford Business Group, 2019, p.107.
- 26 "2020 Investment Climate Statements: Perú", US Department of State, 2020.
- 27 "The Report: Perú 2019", Oxford Business Group, 2019, p.107, p.109.
- 28 "World Investment Report 2019: Special Economic Zones", UNCTAD, 12 June 2019, p.183.
- 29 "The Report: Perú 2019", Oxford Business Group, 2019, p.107.
- 30 "Programme for Country Partnership: Perú", UNIDO, N.d.
- 31 "The Report: Perú 2019", Oxford Business Group, 2019, p.107.
- 32 "World Investment Report 2019: Special Economic Zones", UNCTAD, 12 June 2019, p.149.
- 33 "The Report: Perú 2019", Oxford Business Group, 2019, p.107.
- 34 Schwab, K., "The Global competitiveness Report 2019", WEF, 2019.
- 35 "Enterprise Surveys: Compare economics and topics", World Bank, N.d.
- 36 "2020 Investment Climate Statements: Perú", US Department of State, 2020.
- 37 "Doing Business in Perú 2020: Comparing business regulations for domestic firms in 12 Peruvian cities with 189 other economies", World Bank, 2020, p.2-3.
- 38 "Perú: Systematic Country Diagnostic", World Bank, February 2017, p.135.
- 39 "Enterprises Surveys: Perú", World Bank, 2017.
- 40 A point raised by expert interviewees.
- 41 "Multi-dimensional Review of Perú – Chapter 4", OECD, Vol. 2, 14 October 2016.
- 42 Salazar Vega, E., "Oligopolies: State targets more than 50 economic groups for concentration", Ojo Publico, 25 February 2020.
- 43 Tello, M.D., "Political Economy Approach of Trade Barriers: The Case of Perú's Trade Liberalisation", PUCP, Documento de Trabajo 486, February 2020, p.19.
- 44 Ibid.
- 45 Pritchett, L., Sen, K., and Werker, E., "Deals and Development: The Political Dynamics of Growth Episodes", Oxford Scholarship Online, December 2017.

- 46 Ibid.
- 47 "Perú: Systematic Country Diagnostic", World Bank, February 2017, p.135-136.
- 48 "BTI 2020 Country Report: Perú", Bertelsmann Stiftung, 2020, p.20.
- 49 "OECD-IDB Peer Reviews of Competition Law and Policy: Perú", OECD, 2018, p.104.
- 50 "Perú: The Regulation of the new Merger Control Law has been officially published", Garrigues, 5 March 2021.
- 51 The OECD noted that there was a risk of inconsistent interpretations of competition law. "OECD-IDB Peer Reviews of Competition Law and Policy: Perú", OECD, 2018, p.104, p.111.
- 52 Espinoza Lozada, J.E., "Perú: INDECOPI", Global Competition Review, 19 October 2020.
- 53 "BTI 2020 Country Report: Perú", Bertelsmann Stiftung, 2020, p.20.
- 54 "OECD-IDB Peer Reviews of Competition Law and Policy: Perú", OECD, 2018, p.117.
- 55 Ibid. p.123.
- 56 Ibid. p.123.
- 57 "Perú: Systematic Country Diagnostic", World Bank, February 2017, p.22
- 58 Ibid. p.136.
- 59 Ibid. p.22, p.67, p.136.
- 60 Ibid. p.136.
- 61 Roch, F., "Perú's Future Growth Can be Lifted Through Structural Reforms", IMF, 28 June 2017.
- 62 "Multi-dimensional Review of Perú – Chapter 2", OECD, Vol. 3, 10 September 2019.
- 63 "Economía informal en Perú: Situación actual y perspectivas", CEPLAN, No. 8, 11 May 2016, p.22.
- 64 Alaimo, V., Bosch, M., Gualavisi, M., and Villa, J.M., "Measuring the Cost of Salaried Labour in Latin America and the Caribbean", IADB, July 2017, p.9.
- 65 Ibid. p.14-15.
- 66 "Perú: Systematic Country Diagnostic", World Bank, February 2017, p.131.
- 67 "2018 Article IV Consultation - Press Release; Staff Report; and Statement by the Executive Director for Perú", IMF, July 2018, p.15.
- 68 "Perú: Systematic Country Diagnostic", World Bank, February 2017, p.41-42.
- 69 "2020 Investment Climate Statements: Perú", US Department of State, 2020.
- 70 Ibid.
- 71 "Live Dollar to Peruvian Nuevo Sol Exchange Rate (USD/PEN) Today", Exchange Rates, 16 August 2021.
- 72 "2020 Investment Climate Statements: Perú", US Department of State, 2020.
- 73 "Economía informal en Perú: Situación actual y perspectivas", CEPLAN, No. 8, 11 May 2016, p.22.
- 74 Alaimo, V., Bosch, M., Gualavisi, M., and Villa, J.M., "Measuring the Cost of Salaried Labour in Latin America and the Caribbean", IADB, July 2017, p.9.
- 75 "Multi-dimensional Review of Perú – Chapter 2", OECD, Vol. 3, 10 September 2019.
- 76 Alaimo, V., Bosch, M., Gualavisi, M., and Villa, J.M., "Measuring the Cost of Salaried Labour in Latin America and the Caribbean", IADB, July 2017, p.10, p.14-15.
- 77 "Labour regime of private activity in Perú", ProInversion, N.d., p.2.
- 78 Alaimo, V., Bosch, M., Gualavisi, M., and Villa, J.M., "Measuring the Cost of Salaried Labour in Latin America and the Caribbean", IADB, July 2017, p.9, p.14-15.
- 79 Tello, M.D., "Political Economy Approach of Trade Barriers: The Case of Perú's Trade Liberalisation", PUCP, Documento de Trabajo 486, February 2020, p.18.
- 80 "Inclusive Innovation Series: Stories Across the Ecosystem — Field Notes from Bangladesh", Regional Innovation Centre UNDP Asia-Pacific, Medium, 14 April 2020.0



5. ENABLING BUSINESS ENVIRONMENT

This chapter focusses on the legal and physical infrastructures needed to foster an enabling business environment that supports investment and commerce for all. It addresses both the Investment Environment in Perú, as well as its Infrastructure and Market Access. Long-established businesses and new entrepreneurs alike need investment, and investors need the protection and confidence to back them. If investors do not have secure property rights, investment becomes scarce. A good investment environment will ensure that domestic and foreign financing is available for commercial ventures.

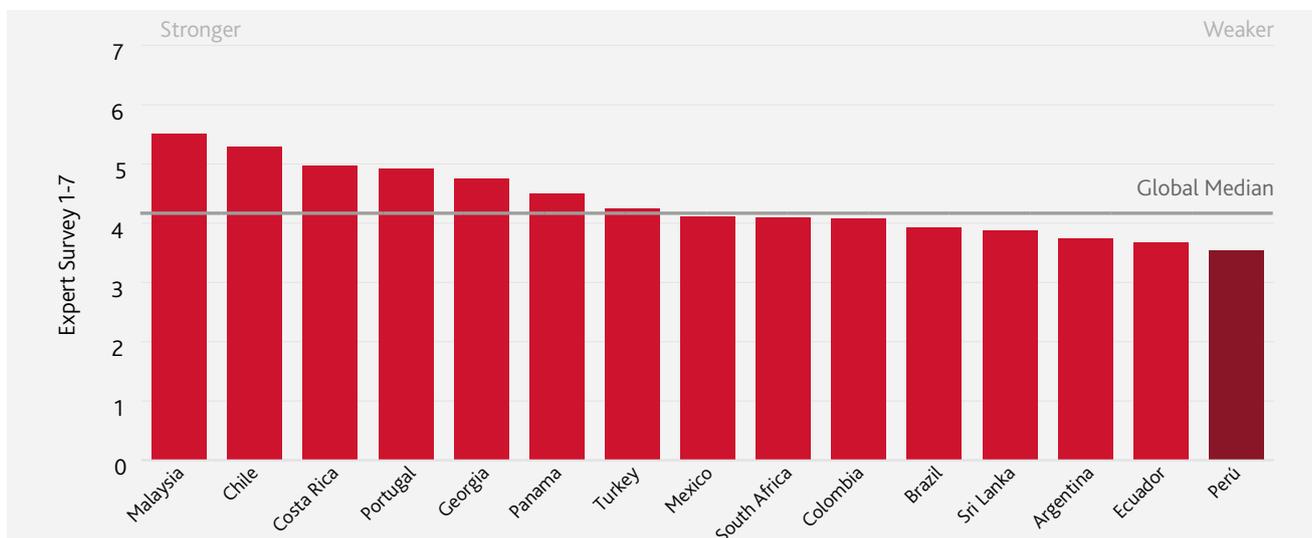
Improved infrastructure in terms of communication systems, transport and access to resources can create many new jobs. A strong infrastructure is also a key foundation for the development of a state that serves all citizens. Where markets have sufficient infrastructure for all, commerce can flourish. The inability of the state to provide sufficient infrastructure provision to rural areas in Perú is one of the factors that have contributed to the poverty of the indigenous population.

A combination of a national agreement and increased State Capacity would allow substantial infrastructure improvements, particularly in relation to communications and transport that would support the inclusive economy. Greater competition in the financial sector would also result in gains for small and medium entrepreneurs, supporting productivity and jobs in the economy.

PROPERTY RIGHTS

Perú ranks 140th in the world for the protection of property rights.¹ Property rights administration is still incomplete. Of an estimated 8.5 million properties with entry in the registry, around half lack cadastral information.^{2,3} Only Lima has an official cadastre that meets regulatory standards and a system of universally archiving property transactions electronically.^{4,5} The lack of geographic information for many titles results in overlapping

Figure 6: Protection of Property Rights



Source: World Economic Forum.

records in land rights.^{6,7} Also, titling and demarcation of land belonging to indigenous communities has been slow, undermining their legal position. The inability of the state to enforce its own regulations and the perception that it sides with big business (particularly in relation to mining) has weakened property rights in the country.⁸

There is also poor harmonisation across government agencies that grant concessions or certificates of possession. There have been cases where the Ministry of Energy and Mining has granted a concession on the same land that the Ministry of Agriculture had granted rights of property, and many occasions of regional governments granting certificates of possession over environmentally protected areas. This creates conflicts and uncertainty, deterring investment and disrupting business.⁹

Property Rights and Administration

Article 70 of the constitution guarantees the right to private property – for Peruvians and foreigners alike – recognising a wide range of tenures (including ownership) that may be jointly, individually, or communally held.^{10,11}

The law recognises the traditional rights of indigenous and peasant communities to communal land and has established quorum requirements for the sale of this land.¹² In 2011, the government enacted the Prior Consultation Law which stipulates that indigenous people must be consulted before projects that may affect them are begun.¹³ However, the General Mining Law does not require prior consultation before concession rights are granted.¹⁴

Land can be expropriated only in exceptional circumstances, for example, to meet a public need or national security crisis, and only after fair compensation and damages have been paid to the property owner.¹⁵

Through the National Superintendency of Public Registries (SUNARP), the government guarantees the defence and enforcement of private property and applies strict rules around the registering of real estate transactions to ensure accuracy in records and assure security.¹⁶

While registering a property title grants the greatest security, other than for mortgage applications, it is optional.¹⁷ The Organisation for Formalisation of Informal Property (COFOPRI) had important successes in titling urban land plots and ensuring around 60% of urban residents received formal and registered property titles.¹⁸ This occurred mainly through the use of a special registry (RPU) which, in parallel to the traditional registry (RPI), was a streamlined and lower cost system targeted at households that had been recently titled, helping to ensure the registry was kept up-to-date and accurate.¹⁹ The RPU was scrapped in 2004 under lobbying pressure from notaries who campaigned for the RPI to once again be the only land registry in the country. The RPU allowed for the registration process to be legalised by any lawyer, unlike the RPI which has a more complicated and expensive process requiring notary authorisation.²⁰ A study by RAND showed that the increased costs and complexity of registering a property transaction after the RPU was abolished led to a more than 50% drop in the probability that a property transaction would be registered within a year of the transaction date.²¹

Land conflicts are common in Perú. There are frequent clashes between extractive industries and indigenous or peasant communities in areas where land tenure may be weaker, boundaries less clearly defined, and concerns exist around the potentially negative impacts for communities and the environment.^{22,23,24,25} While the Prior Consultation Law has had a positive effect in terms of reducing social conflicts, there have been reports that communities are simply informed after key decisions have been made, rather than truly being consulted prior to this stage.^{26,27}

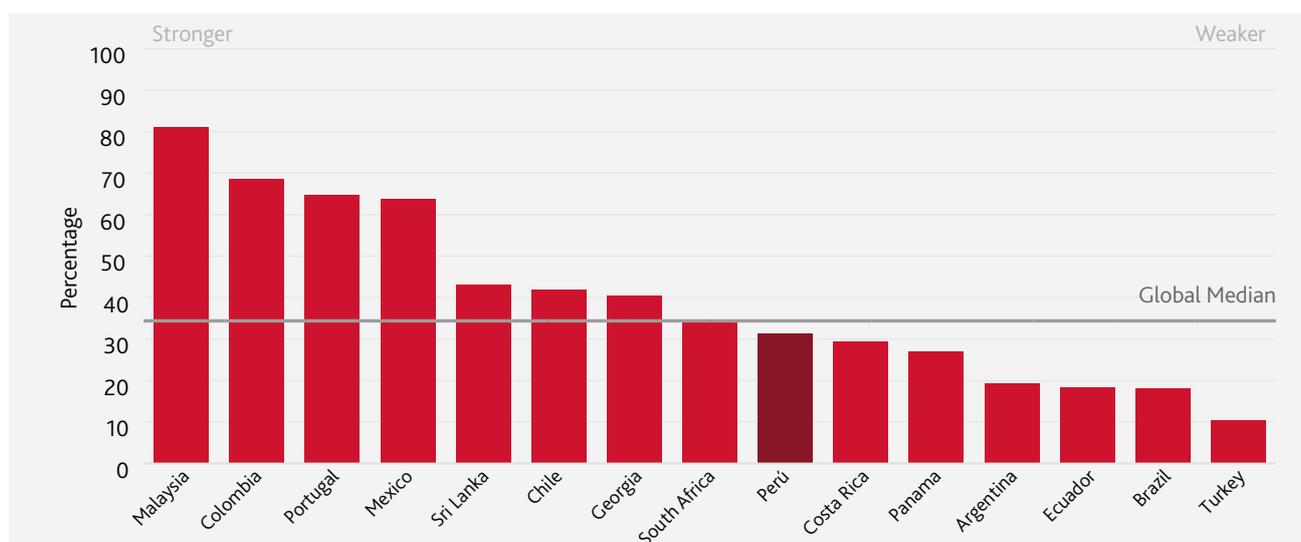
There currently exists no out-of-court compensation mechanism for land disputes and they can take from two to three years to resolve.²⁸ In certain parts of the country, this has led to the emergence of a parallel informal judicial system as an alternative to the formal one.²⁹

The partial protection of property rights impacts individuals, businesses, and the government by raising transaction costs, deterring investment, sparking conflicts, delaying projects, and creating unplanned urban centres. It also directly hits government revenues. In combination with weak tax administration capacity at the municipal level, a lack of cadastral information has made Perú one of the countries with the lowest levels of property tax revenue in the region.³⁰ Just 4% of municipal income in Perú comes from property taxes, whereas the figure is between 25 and 30% in Chile and Brazil respectively.^{31,32}

INVESTOR PROTECTION

Investor protection in Perú is weak, ranking 75th in the world. The system encourages liquidation, and the current legal framework does not provide space for insolvent companies to secure potentially critical loans. Financing provided to a company after the insolvency procedure has begun is ranked last in the priority of payments – regardless of whether it is secured or not.³³ This discourages potential lenders to keep a company afloat while it is restructured.³⁴ As a result, there is a very low (albeit improving) insolvency recovery rate of 31 cents in the dollar,³⁵ significantly worse than Chile (42 cents), Mexico (64 cents), Colombia (69 cents), and Malaysia (81 cents).^{36,37} Drawn out administrative procedures and bureaucratic delays within INDECOPI means it takes three years to resolve insolvency in Perú.^{38,39,40,41,42} The organisation process requires a capacity to negotiate with multiple creditors in a short time to return the company to profitability. While businesses can turn to professionals to help devise a workable plan, this approach is expensive and thus not widely accessible.^{43,44}

Figure 7: Insolvency Recovery Rate



Source: World Bank Doing Business Indicators.

CONTRACT ENFORCEMENT

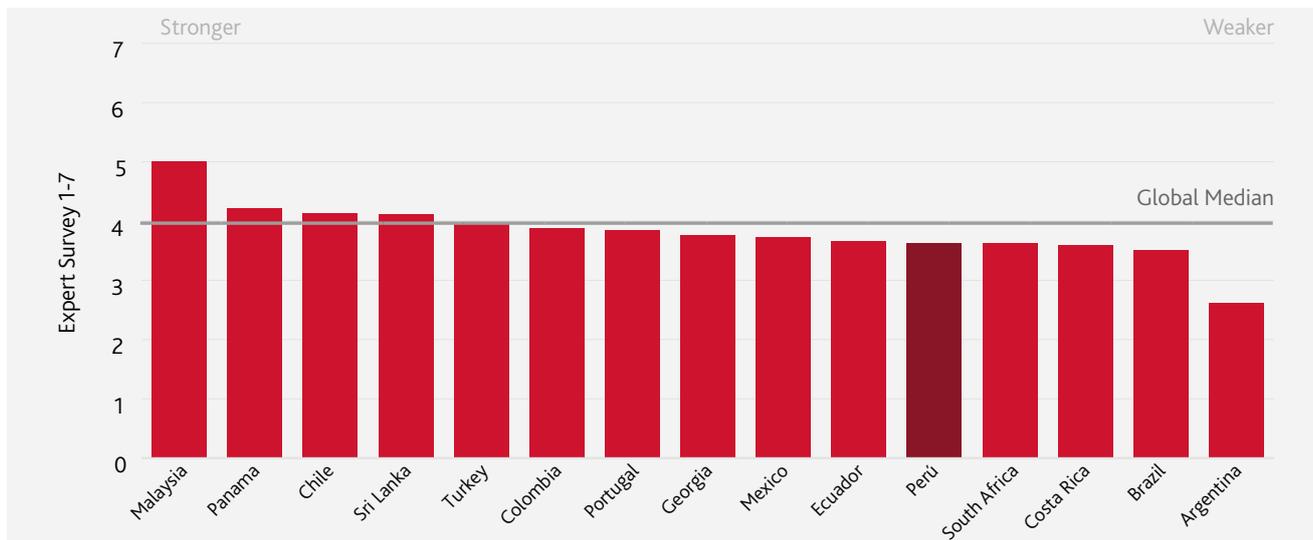
Contract enforcement in Perú is inefficient, and as a result the use of arbitration has increased substantially. Enterprises deal with a slow, inefficient, and corrupt judicial system to enforce contracts. Firms report that they would be willing to invest more if they had greater confidence in the courts.⁴⁵ Commercial courts suffer from the same problems that impact the rest of the judiciary.^{46,47}

The Arbitration Act established a modern framework that provides a convenient alternative to the country's judicial system for resolving business disputes, with awards not subject to appeal.^{48,49,50} Perú has one of the highest numbers of arbitration cases per capita in the world.⁵¹ The government promoted arbitration by mandating it as a tool for resolving public procurement disputes.^{52,53} However, enforcement still requires the use of courts.⁵⁴ Arbitration is accessible mostly for large businesses because of its high costs.⁵⁵ This solution still leaves small entrepreneurs struggling in the inefficient and corrupt judicial system.

FINANCIAL SYSTEM

The financial system in Perú is geared towards the formal economy. Large corporates enjoy good access to finance in Perú and the country ranks 46th for this globally. However, access to finance is difficult for SMEs (ranking 117th globally).⁵⁶ The main source of investment financing for small and medium enterprises is internally generated funds or informal borrowing, whereas large firms rely on banks.⁵⁷

Figure 8: Financing of SMEs



Source: World Economic Forum.

The four largest banks hold nearly 80% of deposits in Perú. This high degree of concentration has supported high profitability and relatively high costs of financing.⁵⁸ Data from the Latin American Federation of Banks (FELABAN) shows that in 2018 and 2019, Perú's banks had an average return on assets of 2.2%, compared to a regional average of 1.43% and 1.57% respectively.⁵⁹

The spread between lending rates charged to corporates and SMEs in Perú is large at 13.7%.⁶⁰ This contrasts with 4.6% in Colombia, 4.5% in Chile, and 2.2% in Malaysia.^{61,62,63} However, the solution to this problem is not a simple cap on interest rates as this will result in a further reduction in lending to SMEs.^{64,65}

Informal borrowing is preferred by many in the informal/independent sector. It offers reduced transaction costs, allowing businesses to bypass an expensive and rigorous loan application process which may make the effective cost less than a formal loan. It also makes finance more readily available. Informal lending gives greater contract flexibility in terms of repayment schedules and conditions in case of default and proximity to the lender which increases trust. Moreover, informal lenders often personally know their customers while formal institutions are widely mistrusted in Perú.^{66,67}

SME Financing

The government has made some efforts to promote financing for SMEs and since 2011 direct government lending to SMEs has increased by more than 10 times.⁶⁸

In 2015, the government established the National Innovation Programme for Competitiveness and Productivity (Innovate Perú) with a budget of \$100 million to provide loans and funding to SMEs and start-ups to support innovation in the economy.^{69,70,71} This was followed up in 2017 with an announcement that state-owned banks, as well as the national development bank (COFIDE), would centralise resources from various state-sponsored SME support programmes to create a single fund that would act as collateral for making almost \$1 billion worth of loans at favourable rates to SMEs.^{72,73}

The National Strategy for Financial Inclusion (ENIF) focusses on encouraging competition among private-sector participants, introducing interoperable payment systems, and improving financial literacy and consumer protection.⁷⁴ However, uptake has remained limited. At the beginning of 2020, just 44% of Peruvian adults had some type of formal financial product. However, as the government sought to find ways of providing COVID-19 cash support while eliminating the need for people to queue up in person, it authorised the creation of deposit accounts for all adults who had not previously received subsidies into a bank account.⁷⁵ Financial inclusion is a key problem in Perú. A 2018 study found that in rural areas of Perú – where it takes an average of 1.5 hours to reach the nearest financial access point – the greater the distance to the nearest financial institution, the greater the probability that an individual would not have a deposit account.^{76,77} The low levels of internet coverage, particularly in rural areas, present difficulties in promoting mobile payments and digital banking in the country.⁷⁸

Possible Actions to Improve Land Administration:

Reintroduce a streamlined and more cost-effective alternative to the national land registry (such as the RPU) to encourage property owners to register property transactions and keep the registry up to date.

Strengthen the institutions responsible for land titles and accelerate the ongoing land formalisation process while working with local communities to better understand their concerns.^{79,80} This should minimise conflicts between industries and the local community.

Possible Actions to Improve Investor Protections:

Follow through with proposals to privilege post-insolvency financing in the case of liquidation.

Introduce pre-packaged reorganisation plans for companies engaging in the insolvency process, such as those in Colombia and Mexico, to make reorganisation more likely.^{81,82}

Possible Actions to Improve the Financial System

Encourage financial institutions to increase their presence and offerings in rural areas and investigate ways of reducing transaction costs for loan applicants such as simplifying application processes, allowing less traditional savings-in-kind to be included in risk assessments, and allowing more flexibility in loan contracts.^{83,84}

Provide training and guidance for SMEs to promote better credit management and record-keeping, to aid lenders in carrying out risk assessments and improve the interest rates offered on loans.

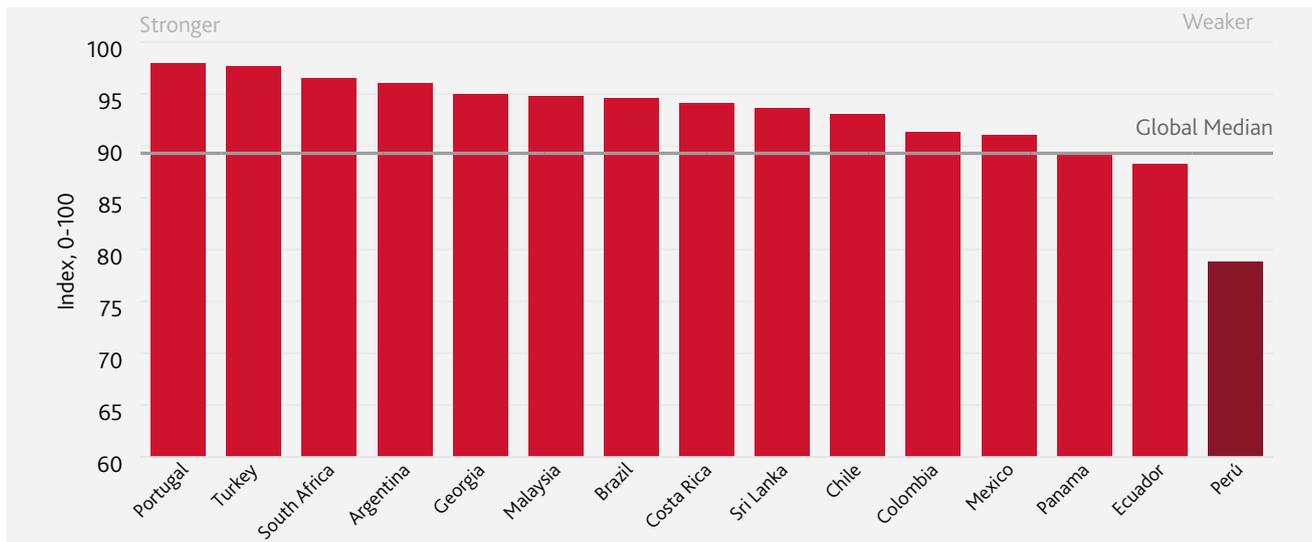
Accelerate the introduction of digital finance, particularly in rural areas.



COMMUNICATIONS

Perú ranks 112th in the world for its network coverage.⁸⁵ Connectivity grew initially sharply from a low baseline, but this has since slowed down.⁸⁶ Internet coverage expansion over the past decade has been at a relatively slower rate than in other countries. Today, 76% of Peruvian households have access to the internet – up from 20% in 2010 – and around 79% of the population are covered by either 3G or 4G networks.⁸⁷

Figure 9: 2G, 3G and 4G Network Coverage



Source: GSMA.

In rural areas, internet connectivity and coverage are weak. According to GSMA, 80% of localities in Perú lack internet coverage, most of which are rural.⁸⁸ Although 91% of households in Lima have access to a mobile internet connection, that figure is just 38% for rural households.⁸⁹ Download speeds in rural regions are also well below the national average with many not even reaching half the speeds found in Lima.⁹⁰

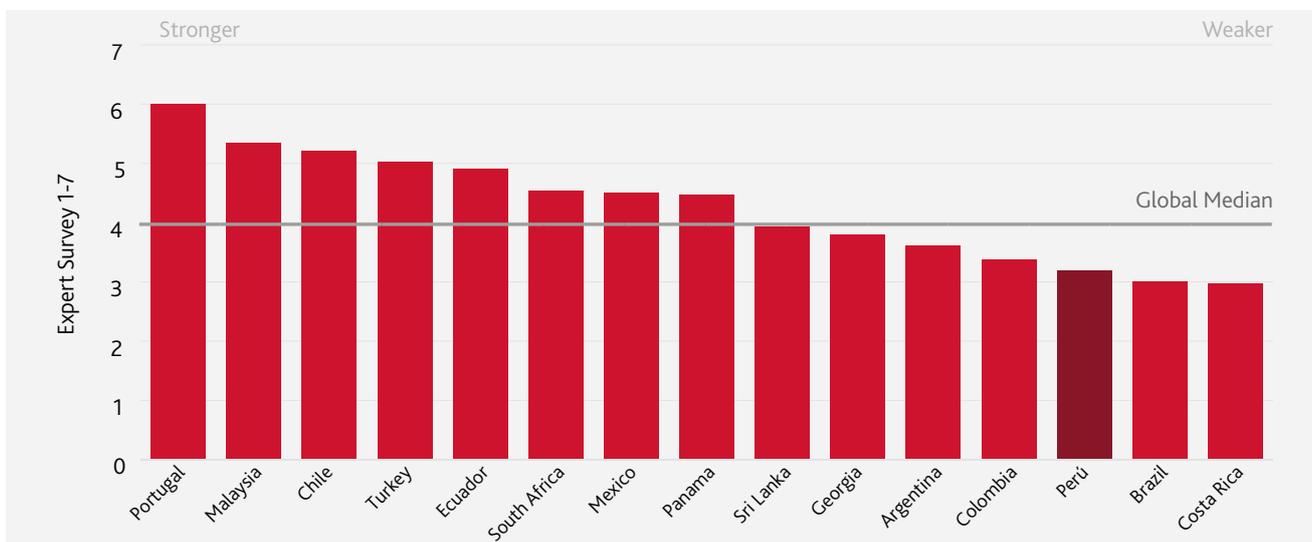
This is an important issue, because given the isolation of rural areas they can particularly benefit from better communications connectivity. Studies have shown that for each percentage point increase in mobile broadband penetration, a country can increase its GDP by up to 0.1%.⁹¹

Government capacity to coordinate large investments in communications is weak.⁹² The private public partnership National Fibre Optic Backbone has not been successful in connecting the country's regional capitals and providing a core network which could later be expanded on.^{93,94}

TRANSPORT

Perú faces geographical connectivity challenges due to its limited transport network. This has been exacerbated by the choice of large investments together with low state capacity and corruption.^{95,96} Despite the heavy reliance on domestic cargo being transported by road, less than 20% of the country's roads are paved and with many structures such as bridges being unsuitable for the passage of heavy vehicles.^{97,98,99} Consequently, Perú ranks 121st in the world for road quality.¹⁰⁰ Furthermore, no priority has been given to roads that would allow small towns and rural areas better access to markets.

Figure 10: Quality of Roads



Source: World Economic Forum.

The Ministry of Transport launched the Subnational Transportation Support Programme (PATS), to improve coordination with sub-national governments and improve and maintain existing infrastructure.^{101,102,103} In relation to port logistics, the World Bank estimated that avoidable costs could amount to \$649 million per year.¹⁰⁴ The OECD noted that reducing transport costs in Perú is critical in further diversifying its economy.^{105,106} Lack of available space around Callao port is driving up costs and hindering efficiency, while the absence of public dry ports means there is no alternative.^{107,108,109}

ENERGY

Energy has favoured large investments, but 1.6 million people still do not have access to electricity. The emphasis on energy investment has been towards generation capacity. From 2009 to 2019, the country almost doubled its installed capacity of electricity.¹¹⁰ As a result, the country is currently oversupplied in generating capacity.¹¹¹ This has impacted prices for generators, discouraging private investment and plans for developing regional networks.^{112,113,114}

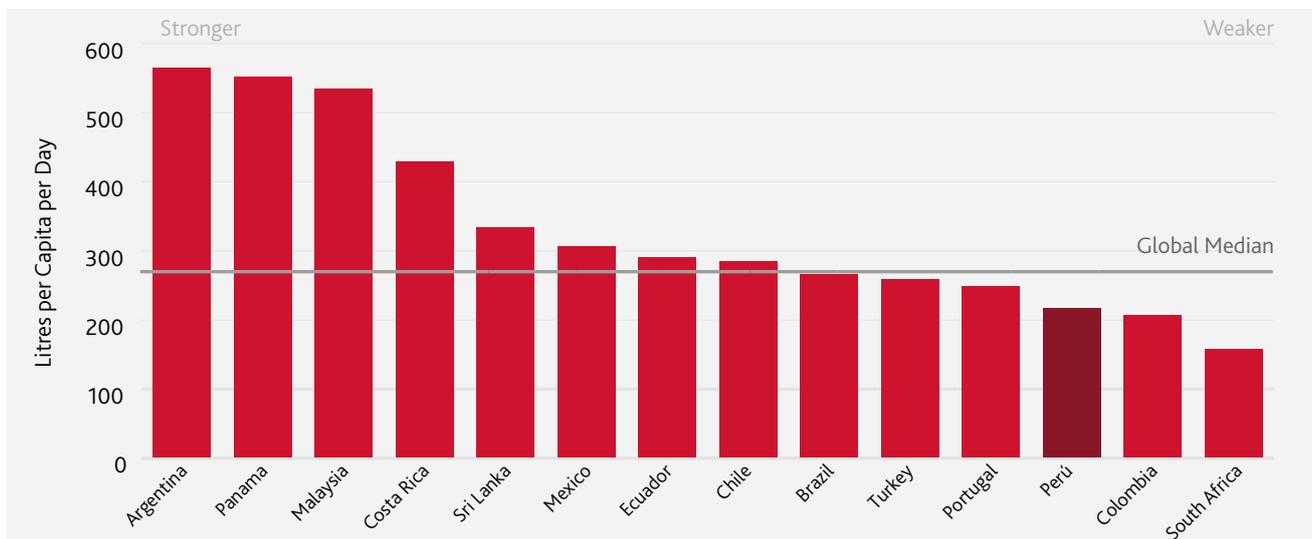
Access to electricity in rural areas is 82% (up from 55% in 2009).¹¹⁵ 1.56 million people do not have access to electricity.¹¹⁶ Rural Electrification Projects have brought electricity to over half a million people in recent years.^{117,118} The government has also encouraged the use of Solar Home Systems to supply hard to reach communities, promoted the adoption of electrical equipment by rural producers, and incentivised existing electricity distribution companies to expand their coverage.^{119,120,121}

WATER

Investment in water and sanitation has delivered improvements in these services over the past decade. However, the poor provision of water and sanitation services – especially in rural areas – and the inability of the government to build and maintain the critical infrastructure, remains a weakness. As of 2019, only 76% of the rural population had access to safe water.^{122,123} Nationally, only 42% of homes were supplied directly with water with just 4% of these in rural areas.¹²⁴

Perú is categorised as a medium- to high-water-stressed country by the World Resources Institute, despite having substantial water resources.^{125,126} The stress is particularly acute in mining areas, increasing tensions with local communities.^{127,128} This is also the case along the coast where industrial centres are concentrated.^{129,130} Politically connected companies have been able to flout conservation laws to create profitable agricultural export businesses and exploit local water resources.

Figure 11: Water Production



Source: IBNET.

Irrigation maintenance has been challenging given the extensive informal property in the agricultural sector and the large number of small-scale farmers that have neither the know-how nor the financing to properly manage their canals.¹³¹ The government has launched a campaign to promote diversification and efficiency among smallholders that discourages the cultivation of thirsty crops.¹³²

Recently, the government has quantified and prioritised the water and sanitation infrastructure gap.^{133,134} Following through on this plan would improve the health, wellbeing, and productivity of the Peruvian people.

Given low state capacity, the Peruvian government could focus on building infrastructure for those most in need. The infrastructure should help these groups access the market and key services. The government public-private partnership framework could support the ambition to build this infrastructure.^{135,136,137} However, as always, effective implementation is the key constraint.

Possible Actions to Improve Communications:

- Promote the creation of online content in indigenous languages by, for example, providing tax incentives to national media outlets or international companies operating in Perú.
- Utilise the impetus of the COVID-19 pandemic to further efforts to promote eCommerce and eGovernment in the country, particularly focussing on speeding up the digitisation of government agencies.
- Increase the powers of oversight and enforcement at the Ministry of Transport and Communications to ensure sub-national governments are properly implementing national regulations and large infrastructure operators are doing enough to make their infrastructure available.¹³⁸

Possible Actions to Strengthen Transport:

- Follow through on the existing programme to coordinate the management of the country's road networks between the various responsible agencies and consider linking budget allocations to performance carrying out maintenance.
- Create and sufficiently fund and empower a single entity with responsibility for coordinating national infrastructure projects to address the issues of poor interconnectivity and quality in the existing network.
- Prioritise investment in roads that link rural towns to markets.

Possible Actions to Increase Energy Connectivity:

- Pursue a third Rural Electrification Project as a priority to continue bringing connectivity to Perú's rural regions.

Possible Actions to Improve Water Services:

- Ensure commitments made in the PNIC are adhered to.
- Promote dialogue between local communities and mining companies in relation to water usage.¹³⁹
- Strengthen ANA (National Water Authority) and the use of Environmental Impact Assessments to better assess the impact of mining projects on water and the environment and enforce restrictions on their preservation.¹⁴⁰
- Examine the feasibility of redeveloping pre-Incan systems of canals and ponds in the mountains to regulate the flow of water during the wet and dry seasons.¹⁴¹

Endnotes

- 1 Schwab, K., "The Global competitiveness Report 2019", WEF, 2019.
- 2 "National Urban Cadaster and Municipal Support Project", World Bank, 13 November 2017, p.6.
- 3 Endo, V., "Marco de evaluación de la gobernanza de la tierra en el Perú LGAF 2013", World Bank, 1 January 2017, p.5.
- 4 "Doing Business in Perú 2020: Comparing business regulations for domestic firms in 12 Peruvian cities with 189 other economies", World Bank, 2020, p.2-3.
- 5 "National Urban Cadaster and Municipal Support Project", World Bank, 3 December 2019, p.7.
- 6 Ibid..
- 7 Endo, V., "Marco de evaluación de la gobernanza de la tierra en el Perú LGAF 2013", World Bank, 1 January 2017, p.5.
- 8 Crabtree, J., Gomez Perochena, T., Hurtado Sipion, E., Paredes Gonzales, M., Reyes-Hurt, A., Thorp, R., and Zambrano Chavez, G., "Dialogue and Human Rights in the Mining Sector – Learning from Perú", Perú Support Group, 2019, p.29.
- 9 Endo, V., "Marco de evaluación de la gobernanza de la tierra en el Perú LGAF 2013", World Bank, 1 January 2017, p.4.
- 10 Obeng-Odoom, F., and McDermott, M., "Valuing unregistered land", RICS, May 2018, p.25.
- 11 "The Report: Perú 2019", Oxford Business Group, 2019, p.194.
- 12 "Land Tenure and Property Rights: Perú", USAID, September 2016, p.6-7.
- 13 Ibid.
- 14 "The Right of Indigenous Peoples to Prior Consultation" Oxfam, 5 May 2011, p.13.
- 15 "The Report: Perú 2019", Oxford Business Group, 2019, p.194.
- 16 Ibid.
- 17 Obeng-Odoom, F., and McDermott, M., "Valuing unregistered land", RICS, May 2018, p.25.
- 18 "Hawley, Z., Miranda, J.J., and Sawyer, W.C., "Land Values, Property Rights, and Home Ownership: Implications for Property Taxation in Perú", Regional Science and Urban Economics, March 2018, p.7.
- 19 Gutierrez, I.A., and Molina, O., "Reverting to Informality: Unregistered Property Transactions and the Erosion of the Titling Reform in Perú", RAND, WR-1156-1, September 2016, p.3.
- 20 Ibid.
- 21 Ibid.
- 22 "BTI 2020 Country Report: Perú", Bertelsmann Stiftung, 2020, p.22.
- 23 "Land Tenure and Property Rights: Perú", USAID, September 2016, p.6-7.
- 24 Endo, V., "Marco de evaluación de la gobernanza de la tierra en el Perú LGAF 2013", World Bank, 1 January 2017, p.66.
- 25 "Reporte Mensual de Conflictos Sociales N° 141", Defensoría del Pueblo, November 2015.
- 26 "Prior Consultation: How has it worked in practice?", Perú Support Group, 17 February 2018.
- 27 "Right to Free, Prior, and Informed Consultation and Consent in Latin America", Oxfam, 17 February 2016.
- 28 Djankov, S., Glaeser, E., Perotti, V., and Shleifer, A., "Measuring Property Rights Institutions", DECRG Kuala Lumpur Seminar Series, 22 October 2020, p.10.
- 29 "Land Tenure and Property Rights: Perú", USAID, September 2016, p.2.
- 30 "National Urban Cadaster and Municipal Support Project", World Bank, 3 December 2019, p.7.
- 31 Ibid.
- 32 Ibid.
- 33 Jimenez, J, and Gonzales, D., "Is Debtor-In-Possession Financing Even Possible in Perú?", Emerging Markets Restructuring Journal, No. 2, Autumn 2016, p.40.
- 34 Ibid.
- 35 Beca, M., and Nisulescu, I.A., "The impact of economic crisis on the corporate insolvency's evolution in Romania", Procedia, Vol. 109, 2014, p.895.
- 36 "Economy Profile: Perú", Doing Business 2020, World Bank, 2020, p.62.
- 37 "Economy Profile: Malaysia", Doing Business 2020, World Bank, 2020, p.61.
- 38 "2020 Investment Climate Statements: Perú", US Department of State, 2020.
- 39 "Latin America Insolvency Regime Scorecard", Cleary Gottlieb, February 2020, p.56-57.
- 40 Beca, M., and Nisulescu, I.A., "The impact of economic crisis on the corporate insolvency's evolution in Romania", Procedia, Vol. 109, 2014, p.895.
- 41 Jimenez, J, and Gonzales, D., "Is Debtor-In-Possession Financing Even Possible in Perú?", Emerging Markets Restructuring Journal, No. 2, Autumn 2016, p.40.
- 42 "Economy Profile: Perú", Doing Business 2020, World Bank, 2020, p.62.

- 43 Djankov, S., and Koch-Saldarriaga, K., "Data on trends in insolvency reform", World Bank Blogs, 17 March 2020.
- 44 Jimenez, J, and Gonzales, D., "Is Debtor-In-Possession Financing Even Possible in Perú?", Emerging Markets Restructuring Journal, No. 2, Autumn 2016, p.40.
- 45 "Enforcing Contracts", Doing Business, World Bank, 2020.
- 46 "Perú – Country Commercial Guide: Market Challenges", ITA, 10 October 2020.
- 47 A point raised by expert interviewees.
- 48 Ventura, M., and Zegarra-Ballon, I., "A 'Transparency Lighthouse' for Arbitration in Perú", Kluwer Arbitration Blog, 15 August 2020.
- 49 "Perú Corruption Report: Judicial System", GAN, September 2020.
- 50 Bedoya, A., "Lessons from Perú's Legacy in Public Procurement: A Successful Approach to Follow and Mistakes to Avoid", Kluwer Arbitration Blog, 14 December 2018.
- 51 A point raised by expert interviewees.
- 52 Bedoya, A., "Lessons from Perú's Legacy in Public Procurement: A Successful Approach to Follow and Mistakes to Avoid", Kluwer Arbitration Blog, 14 December 2018.
- 53 Guzman-Barron Sobrevilla, C., and Zuniga Maravi, R., "Tendencias del Arbitraje de Contratacion Publica: Analisis de Laudos Arbitrales", PUCP, 22 May 2018, p.14.
- 54 Villacorta, D.M., and Rodriguez, E.H., "Peruvian Arbitration System Before and After the Covid-19 Pandemic", Global Arbitration Review, 13 October 2020.
- 55 A point raised by expert interviewees.
- 56 "Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard – Perú", OECD, 22 April 2020.
- 57 "Enterprise Surveys: Perú", World Bank, N.d.
- 58 "The Report: Perú 2019", Oxford Business Group, 2019, p.36-37.
- 59 "ROA / Porcentaje %", FELABAN, N.d.
- 60 "Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard – Perú", OECD, 22 April 2020.
- 61 "Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard – Malaysia", OECD, 22 April 2020.
- 62 "Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard – Chile", OECD, 22 April 2020.
- 63 "Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard – Colombia", OECD, 22 April 2020.
- 64 Aldaya, F., "Peruvian interest rate caps could undermine financial inclusion efforts", S&P Global Market Intelligence, 26 January 2021.
- 65 "Perú's central bank caps consumer interest under protest", Central Banking, 30 April 2021.
- 66 Guirking, C., "Understanding the Coexistence of Formal and Informal Credit Markets in Piura, Perú", Center of Research in the Economics of Development, University of Namur, 2 July 2007.
- 67 Sotomayor, N.L., Talledo, J., and Wong, S., "Determinants of financial inclusion in Perú: Recent Evidence from the Demand Side", SBS, SBS Working Paper DT/06/2018, June 2018, p.14.
- 68 Comolli, L., "SME Financing Gap in Latin America", NESST, 3 December 2019.
- 69 "Historia", Innóvate Perú, N.d.
- 70 "The Report: Perú 2019", Oxford Business Group, 2019, p.106.
- 71 Stunt, V., "Perú is on a bid to catch up with its innovative Latin American neighbours", 10 August 2017.
- 72 "Increasing financing options for Perú's small and medium-sized enterprises", Oxford Business Group, 2017.
- 73 Mitchell, G., "Perú's startup scene is ready for more", Tech Crunch, 12 February 2020.
- 74 "Global Microscope 2018: The enabling environment for financial Inclusion", EIU, 2018, p.60.
- 75 Aldaya, F., "Perú forces bank accounts onto millions, a potential financial inclusion boon", S&P Global Market Intelligence, 14 September 2020.
- 76 Sotomayor, N.L., Talledo, J., and Wong, S., "Determinants of financial inclusion in Perú: Recent Evidence from the Demand Side", SBS, SBS Working Paper DT/06/2018, June 2018, p.19.
- 77 "Global Microscope 2018: The enabling environment for financial Inclusion", EIU, 2018, p.60.
- 78 "Watchdog outlines obstacles for Perú's digital banking, financial inclusion", Bnamericas, 23 March 2021.
- 79 "Environmental Performance Reviews: Perú 2016", OECD, 2016, p.62.
- 80 "Land Tenure and Property Rights: Perú", USAID, September 2016, p.2.
- 81 "Latin America Insolvency Regime Scorecard", Cleary Gottlieb, February 2020, p.56-57.
- 82 Olivares-Caminal, R., and Frigerio, G., "Expedited Debt Restructuring in Latin America: A Regional Overview", IADB, IDB Working Paper Series No.113, 2009, p.19.
- 83 Guirking, C., "Understanding the Coexistence of Formal and Informal Credit Markets in Piura, Perú", Center of Research in the Economics of Development, University of Namur, 2 July 2007.
- 84 Sotomayor, N.L., Talledo, J., and Wong, S., "Determinants of financial inclusion in Perú: Recent Evidence from the Demand Side", SBS, SBS Working Paper DT/06/2018, June 2018, p.14.
- 85 "Perú – Details and Analysis", GSMA, N.d.

- 86 A point raised by expert interviewees.
- 87 "Cada Año Mas Hogares Conectados", OSIPTEL, Boletín No. 30, September 2020, p.5-7.
- 88 "GSMA Connected Society - Closing the Coverage Gap: How Innovation Can Drive Rural Connectivity", GSMA, July 2019, p.37.
- 89 "PUNKU", OSIPTEL, N.d.
- 90 Nedescu, D., "Only Callao and Lima Province beat Perú's averages in mobile experience", OpenSignal, 6 December 2019.
- 91 "Cómo superar las barreras al despliegue de servicios de Comunicaciones móviles: Hoja de ruta Perú", Analyses Mason, CAF, 2017, p.9.
- 92 A point raised by expert interviewees.
- 93 Lucas, N., "Red Dorsal de Perú Atrajo a Menos de 30 Clientes en Cuatro Años", El Economista, 6 January 2020.
- 94 "Perú Ad portas de Día D en Negociación con Azteca por Concesión de Red Dorsal", Bnamericas, 12 January 2020.
- 95 "Plan Estratégico Sectorial Multianual: Sector Transportes Y Comunicaciones PESEM 2018-2022", MTC, March 2019, p.5.
- 96 A point raised by expert interviewees.
- 97 Barbero, J.A., Fiadone, R., and Millan Placci, M.F., "El Transporte Automotor de Cargas en América Latina", IADB, February 2020, p.22-24.
- 98 "Flooding in 2017 spurs further investment in Perú's transport infrastructure", Perú, Oxford Business Group, 2017.
- 99 "Plan Estratégico Sectorial Multianual: Sector Transportes Y Comunicaciones PESEM 2018-2022", MTC, March 2019, p.5.
- 100 Schwab, K., "The Global competitiveness Report 2019", WEF, 2019.
- 101 "Plan Estratégico Institucional PEI 2020-2023", MTC, May 2020, p.13.
- 102 "MTC: Se invertirán S/ 577 millones en el mejoramiento de más de 1,320 kilómetros de carreteras a través del programa Pro Región en Puno", Noticias, MTC, 14 September 2018.
- 103 "Plan Estratégico Sectorial Multianual: Sector Transportes Y Comunicaciones PESEM 2018-2022", MTC, March 2019, p.5.
- 104 Cited in Padilla, D., "Sociedad Nacional de Industrias Y Cámara de Comercio de Lima Remarcan Su Apoyo DL 1492", Logística360, 1 June 2020.
- 105 "Lima entre las ciudades con mayor costo logístico de transporte de América Latina", SNI, 23 June 2017.
- 106 "Multi-dimensional Review of Perú – Chapter 3", OECD, Vol. 2, 14 October 2016.
- 107 "Promoting Open and Competitive Markets In Road Freight and Logistics Services", World Bank, December 2018, p.16, p.ix-xii.
- 108 "La Logística Latinoamericana: En Contexto", ALALOG, 14 March 2019, p.18.
- 109 "Port of Callao had 6th biggest container throughput in Latin America in 2017", Perú Telegraph, 13 September 2018.
- 110 "Anuario Ejecutivo de Electricidad 2019", Dirección General de Electricidad, March 2020, p.32.
- 111 Ibid.
- 112 "An Energy Roadmap for Perú: Fundamental issues for the new government to consider", Institute of the Americas, 2016, p.2.
- 113 "Snapshot: Perú power generation capacity", Bnamericas, 17 December 2018.
- 114 "Anuario Ejecutivo de Electricidad 2019", Dirección General de Electricidad, March 2020, p.64.
- 115 "Access to electricity – Perú", World Bank, N.d.
- 116 4.8% of 32,510,453: population of Perú as per "Perú", Data Commons, N.d.
- 117 "Perú", ESMAP, Issue 15, April 2019, p.1-3.
- 118 "Promoting Rural Electrification in Perú", World Bank, Results Brief, 13 May 2019.
- 119 "Perú", ESMAP, Issue 15, April 2019, p.1-3.
- 120 "Promoting Rural Electrification in Perú", World Bank, Results Brief, 13 May 2019.
- 121 "Anuario Ejecutivo de Electricidad 2019", Dirección General de Electricidad, March 2020, p.23.
- 122 "Objetivos de Desarrollo Sostenible de las Naciones Unidas: ODS 6: Garantizar la disponibilidad y la gestión sostenible del agua y el saneamiento para todos", ANA, 2020, p.1-2.
- 123 "The Perú Country Brief", Sector Ministers' Meeting 2019, Leave No One Behind, 5 April 2019, p.2.
- 124 "Objetivos de Desarrollo Sostenible de las Naciones Unidas: ODS 6: Garantizar la disponibilidad y la gestión sostenible del agua y el saneamiento para todos", ANA, 2020, p.1.
- 125 "Perú: Systematic Country Diagnostic", World Bank, February 2017, p.109.
- 126 "Aqueduct: Country Rankings", Perú, WRI, N.d.
- 127 DuPee, M.C., "As Anti-Mining Protests Escalate, Perú's Vizcarra Sides With Mining Companies", WPR, 11 December 2019.
- 128 A point raised by expert interviewees.

- 129 "Perú: Systematic Country Diagnostic", World Bank, February 2017, p.109.
- 130 Brogan, C., "Ancient intervention could boost dwindling water reserves in coastal Perú", Imperial College London, 24 June 2019.
- 131 "Irrigation key to agricultural expansion in Perú, Oxford Business Group, 2019.
- 132 Ibid.
- 133 "Plan Nacional de Infraestructura para la Competitividad", Government of Perú, July 2019, p.60-61.
- 134 Bonifaz, J.L, Urrunaga, R., Aguirre, J., Quiquezana, P., "Brecha de Infraestructura en el Perú", IADB, February 2020, p.59, p.74.
- 135 "New Approach to Rural Connectivity: The Case of Perú", Telefonica, 2018, p.3.
- 136 "Plan Nacional de Infraestructura para la Competitividad", Government of Perú, July 2019, p.20.
- 137 Bonifaz, J.L, Urrunaga, R., Aguirre, J., Quiquezana, P., "Brecha de Infraestructura en el Perú", IADB, February 2020, p.59.
- 138 "Cómo superar las barreras al despliegue de servicios de Comunicaciones móviles: Hoja de ruta Perú", Analyses Mason, CAF, 2017, p.20-22.
- 139 A point raised by expert interviewees.
- 140 Monge, C., "Water Management, Environmental Impacts and Perú's Mining Conflicts", Natural Resource Governance Institute, 7 November 2016.
- 141 Brogan, C., "Ancient intervention could boost dwindling water reserves in coastal Perú", Imperial College London, 24 June 2019.





6. SECTORAL PRIORITIES: MINING AND EDUCATION

This Chapter presents two examples in which a national agreement and the move towards a more inclusive economy could result in substantial benefits to the most economically disadvantaged groups. We focus on mining and education for their potential role in being able to bring people from different political positions together, in relation to protecting the environment, capturing more resources for social spending, and increasing the skills, incomes, and dignity, especially of original/indigenous groups.

Mining companies generate large revenues and bring in international expertise. There is potential for a more capable Peruvian state to pursue an inclusive growth agenda that promotes sustainability, the efficient sharing of profits, and the joint development of communities and industry. In Asia, countries have used the capacity of mining companies to support the development of local communities while protecting the national environment. An agreement on the taxation of mining with fair and efficient taxation of corporates would provide additional resources for social services for the indigenous population and other disadvantaged Peruvians, offering stability to mining companies as well as better relations with their local communities. A more capable Peruvian state could also better enforce environmental regulations and the protection of biodiversity, a goal that can bring Peruvians together.

A good education allows individuals to achieve their potential, opening new opportunities, and granting greater autonomy in their lives. A well-educated workforce is an invaluable resource that boosts productivity and is an essential foundation for developing more complex industries and promoting economic diversification.¹ Of many sectors of Peruvian society, education offers a prime opportunity for developing a political consensus that prioritises development as a means of generating prosperity for all. This would require expanding education programmes, especially in rural areas, to allow indigenous people and the most disadvantaged populations to receive a high-quality education that provides skills and reinforces the value and dignity of all the different cultures in Perú.

MINING

The mining sector is a key industry in Perú (see box below). It offers opportunities to access financial resources that can be deployed to deliver social services. Yet it is also a sector that illustrates the contrasts of wealth and poverty. Cajamarca, one of the poorest departments in the country, also tops the list of regions with more planned mining investments. Perú's experience with mining has been mixed, mainly a result of the poor state capacity. Many communities have accused mining companies of breaching environmental regulations and infringing upon their property rights. The weak and corrupt judiciary has made it difficult to resolve these issues peacefully. Mining companies have generally provided only modest support for the development of the local communities in which they operate. Finally, high international prices for minerals may have resulted in a situation where mining companies pay a lower share of their profits to the Peruvian state than in other countries.

The Mining Sector

The mining industry generated roughly 10% of GDP and around two-thirds of exports in 2019 and 8% of government revenues and employs 1.4 million people (190,000 directly).^{2,3,4,5} The leading mining exports are copper, which accounts for roughly 30% of total exports, followed by gold at 15%, and zinc with 5.5%.⁶ Perú is the second greatest producer of copper, silver, and zinc worldwide.⁷

The country has been attractive to international investors due to its stable macroeconomic environment, investor-friendly policies, and low production costs including for energy.⁸ In 2018, Perú had a portfolio of 48 mine construction (mainly in copper) and expansion projects, with the amount invested in such projects totalling \$59 billion.^{9,10} The main mine-building investor countries are the United Kingdom (20%), China (17%), Canada (15%), Mexico (15%), and the United States (13%).¹¹

Artisanal miners, mostly in the informal sector, employ an estimated 100,000 to 500,000 workers predominantly in gold mining.^{12,13} Approximately 20% of gold production comes from the artisanal and small-scale sector while roughly a third of the country's gold exports are illegally sourced.^{14,15} Illegal gold mining has been particularly prevalent in the Madre de Dios region in the Amazon basin.¹⁶ Its mining boom partly resulted from the building of the 2,600km Interoceanic Highway.¹⁷ It has caused serious degradation in the fragile Amazon basin and a proliferation of organised crime.¹⁸

Operation Mercury was launched in February 2019. It deployed thousands of police and military officers and established a fund to support local residents in finding other means of employment. It has succeeded in reducing illegal mining and deforestation significantly.¹⁹ However, many expect that when the military and police leave, the illegal mining will return.²⁰

The costly formalisation process can take years to complete, making informality an appealing option.²¹ Some regions have been more successful in enforcing artisanal and small-scale mining legislation, as well as overseeing the formalisation process,²² but not Madre de Dios.²³ Since December 2016, the formalisation of small-scale and artisanal mining activities has been declared to be a national interest and priority.^{24,25}

Growth in the last 20 years has left the country even more reliant on the extraction of finite resources.²⁶ Perú's economy has become relatively less complex over the past ten years as manufactures, textiles, chemicals, and machinery have not grown and now make up a smaller share of overall exports.^{27,28} Moreover, mining growth has not contributed significantly to employment.²⁹ There has also been a failure to translate the extensive revenues generated by the mining sector into tangible benefits for Peruvian citizens.

In the context of Perú's resource-intensive economy, economic policies have been shaped to enable the extraction and exports of raw materials, while neglecting opportunities for a more diversified economic development.

Taxation of the Mining Industry

The taxation of the mining industry is complex and subject to many exemptions. Perú's corporate tax rate of 29.5%, in conjunction with the profit-sharing requirement of 8% for companies with more than 20 employees, gives the country a high basic tax rate for mining companies.³⁰ Perú also has a mining royalty and special mining tax – or special mining contribution for companies with stability agreements.³¹

However, despite these high tax rates, mining companies have been able to reduce their tax liabilities significantly through agreements, exemptions, incentives, and refunds. In one example of this, refunds paid to mining companies in 2016 amounted to approximately

\$1.8 billion, exceeding the amount of corporate income tax owed by mining companies that year.^{32,33} Moreover, the Work for Taxes scheme, which allows companies to benefit from an income tax deduction by investing in infrastructure projects for public use, benefit mining companies significantly as investments often go into roads to and from mines.^{34,35}

Revenue sharing with local governments has been patchy. Taxes collected from mining companies are redistributed to municipal and regional governments through the *Canón Minero*,³⁶ which comprises 50% of corporate income tax retrieved from mining companies and 100% of the mining royalties.³⁷ However, as noted above, the amount of paid taxes can be small, affecting subnational government budgets.^{38,39} The perceived and real failures in translating mining revenues into tangible benefits for local communities has created mixed feelings about the benefits of the mining industry.

Environmental Impact

There have been socio-environmental conflicts in the mining industry, partly a result of the weak capacity of the Peruvian state. The relationship between local communities and mining companies in some parts of the country has been fraught. As of May 2021, there were 60 active socio-environmental conflicts in Perú related to mining, accounting for 63% of all active socio-environmental conflicts.⁴⁰ These conflicts have disrupted production and new projects (worth \$18 billion by some estimates) which in some cases have resulted in violence, deaths, and injuries.^{41,42,43}

Those protesting are concerned about the impact of mining operations on scarce water supplies, pollution, and the environment in general, as well as a sense that they are being displaced while seeing few tangible improvements for their communities.^{44,45,46} This is often the result of poor engagement between mining companies and local communities.⁴⁷ A number of these conflicts result from a lack of transparency from mining companies that unilaterally change previously settled agreements or fail to follow through on commitments.^{48,49} A state lacking the capacity to enforce environmental and property right regulations has exacerbated these conflicts.⁵⁰

In 2019, the government launched its 2030 Mining Vision which promoted a socially and territorially inclusive industry that is environmentally sustainable.⁵¹ A core feature is its emphasis on promoting dialogue between communities and mining companies and involving the former in project planning.^{52,53}

Mining Sector Reform

New fiscal and legal arrangements should provide a long-term framework for mining companies and the state to share mining rents through carefully worked-out revenue and risk-sharing agreements. Mining companies in Perú should get more involved in promoting inclusiveness and the development of the local community in their projects. Conflicts need to be resolved and more attention needs to be given to water scarcity and environmental degradation.^{54,55}

International mining companies could become partners in Perú's development, by building or rehabilitating the infrastructure they need, by providing social benefits and employment to the local community and by creating value-added in their extraction and supply chains. Furthermore, artisanal miners should receive training and support from the government that allows them to increase their productivity and comply strictly with key environmental norms that protect the Amazonia.

Possible Actions for Reforming the Mining Sector:

- Professionalise leadership of the mining sector. Recruit for high level technical and leadership capacity for the government to manage the sector efficiently and with probity.
- Accelerate implementation of mining investments, to ensure that greater fiscal resources are available.
- Negotiate in good faith a framework to share mining rents, with investors. The simplification of tax regimes and establishing long term agreements will contribute to transparency.
- The granting of mining concessions could be dependent on the company's environmental and socio-developmental record,⁵⁶ including their past experience negotiating impact benefit agreements with local communities, supporting employment, local infrastructure, climate resilient infrastructure, extension services, eco-tourism, protection of the environment and environmental remedial action.
- Government commitment to enforce the law fairly.⁵⁷
- Support artisanal miners, licensing, providing training (including to comply with environmental legislation) and monitor environmental compliance.
- Support mining value-added creation and integration of artisanal miners in the supply chain.⁵⁸
- Strengthen environmental agencies. Strengthen agencies such as ANA (National Water Authority) and Environmental Impact Assessments to assess the impact on water and the environment.

EDUCATION

There is a pressing need to close the education gap in Perú as a critical means of reducing poverty and inequality. The new government of President Castillo has committed to prioritising education and providing a good quality state education for all. The Peruvian state is not currently able to provide education of high quality to all its citizens. For a prosperous Perú, there will need to be a national consensus to use the education system to provide skills for all, and particularly to the indigenous and most disadvantaged, and provide an education that reinforces the value and dignity of the different cultures of Perú.

Education Access

Nationally, access to education in Perú is in line with the OECD but these figures hide significant divisions within the country.^{59,60} Indigenous people are currently not well-served by the existing system. The highest percentage of children not involved in the education system belong to indigenous groups, while UNICEF has outlined that the chances of succeeding in Perú's education system are most elusive for rural students, indigenous students, and those speaking languages of Amazonian origin.⁶¹

Indigenous people are far less likely to have completed either secondary or tertiary education and are more likely to have incomplete primary education.⁶² In addition, while further education generates positive returns (in terms of the likelihood of finding formal employment) for all Peruvians, indigenous individuals with secondary education are 6.7% more likely to be in the informal sector than their equally educated non-indigenous peers – suggesting they are receiving poorer education at this level (there is a minimal difference for primary and tertiary education).⁶³

Education Quality

Although Perú's OECD PISA evaluation scores have improved by the largest margin of any Latin American country in recent years, they are still at low levels.^{64,65} While the illiteracy rate in the country fell from 6.2% in 2013 to around 5% in 2019, illiteracy is two to three times higher in certain rural regions – 14% in Apurímac, 13% in Huánuco, and 12.5% in Huancavelica, for example.⁶⁶ At the same time, the rate of pupils completing their primary and secondary education on time stood at around 91% and 80% in urban areas, while the same figures were 79% and 52% in rural areas, respectively.⁶⁷

The education system perpetuates inequalities in Perú and fails to produce a workforce with the necessary skills demanded by the formal labour market. Perú ranks 82nd in the world for adult literacy.⁶⁸ In the latest World Bank Enterprise Survey, 29% of Peruvian firms identified an inadequately educated workforce as being a major business constraint, ranking 126th in the world in this regard and 139th for the availability of skilled workers.⁶⁹

The Value of Education

Education is an essential building block to achieve a prosperous society, providing the opportunity for individuals to exercise their rights, reach their potential and lead a fruitful life. High levels of literacy and numeracy amongst the labour force are essential prerequisites for the long-term diversification and sophistication of national economies. Building human capital contributes to increased productivity and higher rates of economic growth. A highly skilled labour force also has the capacity to continually refresh or learn new skills.

Equally important is the transformative effect of education on the lived experience of individuals. Those who are educated tend to earn considerably more over the course of their lives and enjoy notably higher living standards and longer life expectancy than those who are not.

Better education also improves social outcomes. It leads to more equal societies with greater civic engagement and lower crime rates. These form a virtuous circle in which true prosperity can be grown and passed on to subsequent generations.

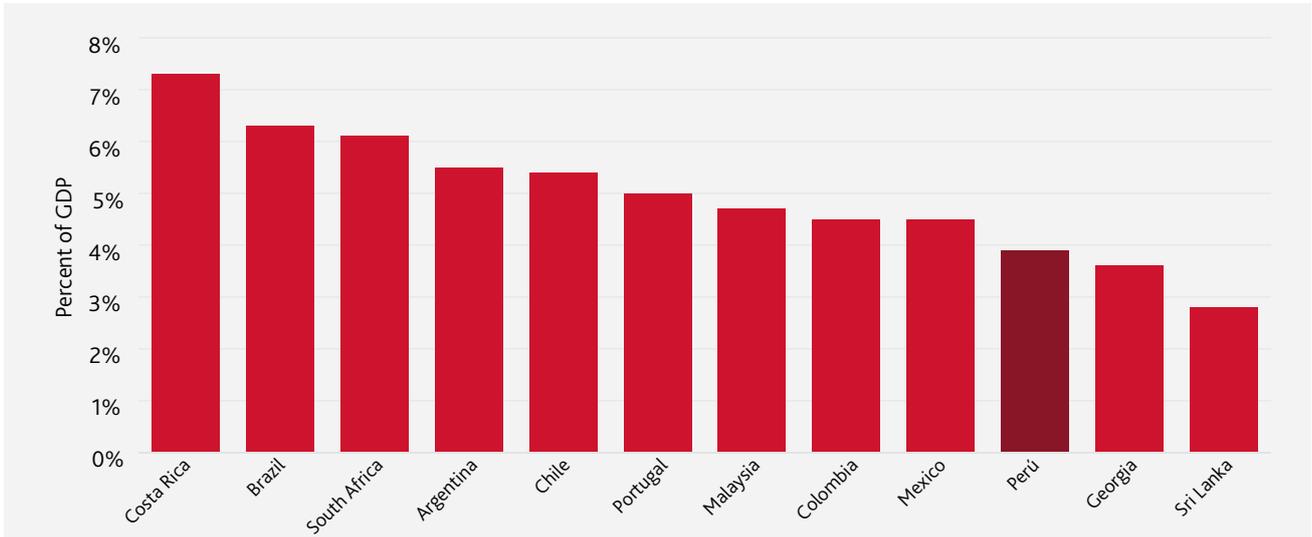
Education Investment

The education sector in Perú has been persistently undermined by a lack of investment relative to peers in the region and the OECD. Although there has been a significant uptick over the past decade, the promises made during the first year of President Kuczynski's administration to raise public spending on education to 6% of GDP have not been met.⁷⁰

In 2019, the proportion of the public budget allocated to the education sector amounted to 4.2% of GDP for that year,⁷¹ whereas in 2017, Brazil spent 6.3%, and Chile and Argentina each spent 5.5%.⁷² However, while Perú allocates less money to education, this problem is compounded by the weak capacity of the Peruvian state to spend effectively.⁷³ Without more and better spending, it will be difficult for Perú to address many of the key challenges it faces.⁷⁴

There is also a large gap in education infrastructure.⁷⁵ With too few schools, particularly in rural areas, and too many schools with insufficient infrastructure and facilities, the educational prospects of all state students in Perú are limited.⁷⁶ COVID-19 has particularly affected poor students, as they have been required to carry on their studies from home, the low level of internet coverage across the country and the limited number of home computers has made this difficult for many; further exacerbating inequality in the country.

Figure 12: Government Expenditure on Education (2017)



Source: World Bank Development Indicators.

Education Reforms

In January 2019, the national and regional governments signed the Bicentennial National Pact in Education.^{77,78} While these are important and worthwhile commitments to deliver high quality education, the challenges are on implementation. Teachers in Perú have been impeded by low wages and poor infrastructure.⁷⁹ Teachers and principals are given little autonomy to tailor their methods and objectives to local needs or customs.⁸⁰ The organisational structure of the public education system is heavily centralised and is not well-equipped to adjust itself based on the real-world experience of teachers and local schools



across such a culturally rich and diverse country as Perú.⁸¹ The impetus for educational reform has waned.⁸² Previous reforms were not successful.^{83,84} In the absence of a firm political consensus and commitment, progress in education has been constrained.

Developing a quality education system that serves all Peruvians would not only boost productivity for the entire country but would provide the base from which a more inclusive society can be built. However, achieving this challenging goal is made difficult if teachers and principals must operate within an underfunded environment and preside over a rigid curriculum in much need of modernisation.⁸⁵ Addressing these shortcomings presents unrivalled opportunities for the country.

Possible Actions for Reforming Education:

- A national agreement to improve educational outcomes for all children.
- Appoint a minister that can gain the trust of teachers and implement the education reform that is needed.
- Increase resources for education. Meet the minimum spending of 6% of GDP on education, as approved by Congress in the constitutional reform law.⁸⁶ Focus on equalising educational resources, including for teachers, across the country and reduce the quality gap between urban and rural schools.
- Build and renovate schools. Construct new schools and renovate existing ones with a focus on reducing the gap between urban and rural Perú, ensuring schools are adapted to each geographic region. Government-to-government agreements could be used to deliver these much-needed projects at pace.
- Expand internet connectivity. Prioritise public investment projects that expand internet connectivity across the country, particularly in favour of indigenous populations and rural areas.
- Improve pay and conditions. Create a working environment for teachers that attracts some of the most qualified professionals to join the teaching profession.
- Invest in teacher training. Increase training of teachers. Review the educator training curriculum to incorporate realistic ICT training for all educators, retrain, and upskill educators already in practice to improve educator delivery and to enable more remote learning in light of the pandemic.
- Provide autonomy. Reform the organisational structure of public education institutions, placing teachers and local schools at the centre of the decision-making process.⁸⁷
- Strengthen management information systems. Use education management information systems to guide the reform process focussing on results and education quality. Track progress and publish a range of education outcomes, showing year-on-year progress.
- Consolidate the curriculum. Ensure teachers are involved in curriculum development, trained in the curriculum, and have access to the required materials.

Endnotes

- 1 Finn, K., "The Informal Economy in Perú: A Blueprint for Systemic Reform", *Leveraging Perú's Economic Potential*, Vol. 35, 2017, p.57.
- 2 Delgado, A., and Baracco, D., "Mining in Perú: Overview", *Thomson Reuters Practical Law*, 1 September 2020.
- 3 "Trade Policy Review – Report by the Secretariat – Perú", WTO, WT/TPR/S/393, 27 August 2019, p.12, p.134.
- 4 "Séptimo Informe Nacional de Transparencia de las Industrias Extractivas (Séptimo Estudio de Conciliación Nacional – EITI Perú) Periodos 2017 y 2018 Consultoría para la Comisión Multisectorial Permanente del EITI Perú", EITI, prepared by BDO and LQG Energy and Mining Consulting, 28 February 2021, p.63.
- 5 "Annual Report 2019", Central Reserve Bank of Perú, 31 December 2019, p.68.
- 6 "Trade Policy Review – Report by the Secretariat – Perú", WTO, WT/TPR/S/393, 27 August 2019, p.12.
- 7 Ibid.
- 8 "Local Content Policies in Minerals-Exporting Countries: The Case of Perú", OECD, December 2017, p.3.
- 9 "Trade Policy Review – Report by the Secretariat – Perú", WTO, WT/TPR/S/393, 27 August 2019, p.135.
- 10 Delgado, A., and Baracco, D., "Mining in Perú: Overview", *Thomson Reuters Practical Law*, 1 September 2020.
- 11 "Trade Policy Review – Report by the Secretariat – Perú", WTO, WT/TPR/S/393, 27 August 2019, p.135.
- 12 Bird, L., and Krauer, N., "Case Study: Illicit Gold Mining in Perú", *The Global Initiative Against Transnational Organised Crime*, 2017, p.2.13 Ibid.
- 14 Smith-Roberts, A., "All that glitters is not gold: the effects of the COVID-19 pandemic on artisanal and small-scale gold mining and supply chains in Perú", *Journal of Energy & Natural Resources Law*, 7 April 2021, p.6.
- 15 Moloney, A., Collins, D., Baring, M., "Perú's 'Wonder Woman' battles illegal gold mining in the Amazon", *Reuters*, 24 September 2020.
- 16 Fevrier, V., "The Surge of Illegal Mining in Perú", *Intelligence Fusion*, 11 March 2019.
- 17 Moloney, A., Collins, D., Baring, M., "Perú's 'Wonder Woman' battles illegal gold mining in the Amazon", *Reuters*, 24 September 2020.
- 18 Fevrier, V., "The Surge of Illegal Mining in Perú", *Intelligence Fusion*, 11 March 2019.
- 19 Lang, C., "Illegal gold mining inside the REDD Project in Brazil Nut Concessions in Madre de Dios, Perú", *REDD*, 20 May 2021.
- 20 Ibid.
- 21 Smith-Roberts, A., "All that glitters is not gold: the effects of the COVID-19 pandemic on artisanal and small-scale gold mining and supply chains in Perú", *Journal of Energy & Natural Resources Law*, 7 April 2021, p.24.
- 22 Ibid.
- 23 Ibid.
- 24 "Trade Policy Review – Report by the Secretariat – Perú", WTO, WT/TPR/S/393, 27 August 2019, p.137.
- 25 Ibid.
- 26 "Perú: Systematic Country Diagnostic", World Bank, February 2017, p.10-14.
- 27 "Perú: Economic Complexity", OEC, N.d.
- 28 "Perú Products by SITC Rev2 Groups exports and imports 2018", World Bank, World Integrated Trade Solution, N.d.
- 29 Tello, M.D., "Political Economy Approach of Trade Barriers: The Case of Perú's Trade Liberalisation", *PUCP, Documento de Trabajo 486*, February 2020, p.21.
- 30 "Analysis of Tax Regimes: Comparative Analysis of Tax Regimes and Land-Based Mining in 15 Countries", *RMG Consulting*, 12 October 2020, p.33.
- 31 "Doing Business in Perú 2020: Mining Chapter", PwC, 2020, p.20.
- 32 Mule, D., "The Peruvian paradox: surging mineral production, lagging tax revenues", 2 August 2018.
- 33 "SUNAT: Devolución de impuestos a mineras supera a los tributos pagados", *Minería Perú*, 10 May 2017.
- 34 Landa, Y., "Revenue from the Extractive Industries and Copper Mining in Perú", *University of Lima*, 6 January 2017, p.21-22.
- 35 Mule, D., "The Peruvian paradox: surging mineral production, lagging tax revenues", 2 August 2018.
- 36 Lasa Aresti, M., "Mineral Revenue Sharing in Perú", *Natural Resource Governance Institute*, April 2016, p.5.
- 37 Ibid.
- 38 Mule, D., "The Peruvian paradox: surging mineral production, lagging tax revenues", 2 August 2018.
- 39 "SUNAT: Devolución de impuestos a mineras supera a los tributos pagados", *Minería Perú*, 10 May 2017.
- 40 "Reporte de Conflictos Sociales N.º 207", *Defensoría del Pueblo*, May 2021, p.21.
- 41 Fevrier, V., "The Surge of Illegal Mining in Perú", *Intelligence Fusion*, 11 March 2019.
- 42 Castellares, R., and Fouche, M., "The Determinants of Social Conflicts in Mining Production Areas", *Peruvian Economic Association, Working Papers 2017-100*, June 2017, p.2.
- 43 "Social conflicts keep battering Perú's mining sector", *Bnamericas*, 17 March 2021.

- 44 Monge, C., "Water Management, Environmental Impacts and Perú's Mining Conflicts", Natural Resource Governance Institute, 7 November 2016.
- 45 Lo Lau, J., Perú's Environment Minister: 'Chinese investors have to be clearer'", *Dialogo Chino*, 29 April 2021.
- 46 Fevrier, V., "The Surge of Illegal Mining in Perú", *Intelligence Fusion*, 11 March 2019.
- 47 Castellares, R., and Fouche, M., "The Determinants of Social Conflicts in Mining Production Areas", Peruvian Economic Association, Working Papers 2017-100, June 2017, p.15-16.
- 48 Monge, C., "Water Management, Environmental Impacts and Perú's Mining Conflicts", Natural Resource Governance Institute, 7 November 2016.
- 49 "Social conflicts keep battering Perú's mining sector", *Bnamericas*, 17 March 2021.
- 50 Castellares, R., and Fouche, M., "The Determinants of Social Conflicts in Mining Production Areas", Peruvian Economic Association, Working Papers 2017-100, June 2017, p.15-16.
- 51 Fevrier, V., "The Surge of Illegal Mining in Perú", *Intelligence Fusion*, 11 March 2019.
- 52 Ibid.
- 53 Ibid.
- 54 DuPee, M.C., "As Anti-Mining Protests Escalate, Perú's Vizcarra Sides With Mining Companies", *WPR*, 11 December 2019.
- 55 A point raised by expert interviewees.
- 56 For examples of best practice, see "Sustainable minerals Development: Best Practices in ASEAN", ASEAN Secretariat, November 2017.
- 57 Crabtree, J., Gomez Perochena, T., Hurtado Sipion, E., Paredes Gonzales, M., Reyes-Hurt, A., Thorp, R., and Zambrano Chavez, G., "Dialogue and Human Rights in the Mining Sector – Learning from Perú", Perú Support Group, 2019, p.29.
- 58 Gankhuyag, U., and Gregoire, F., "Managing Mining for Sustainable Development: A Source Book", UNDP, 2018.
- 59 "BTI 2020 Country Report: Perú", Bertelsmann Stiftung, 2020, p.27.
- 60 "Making Development Happen: Avanzado Hacia una Mejor Educacion para Perú", OECD, 2016, p.8.
- 61 "BTI 2020 Country Report: Perú", Bertelsmann Stiftung, 2020, p.10.
- 62 Montes, J.G.D., Corrales, J., and Singh, P., "The 'Informality Gap': Can Education Help Minorities Escape Informal Employment? Evidence from Perú", IZA, Discussion Paper No. 10389, November 2016, p.13, p.37.
- 63 Ibid.
- 64 "BTI 2020 Country Report: Perú", Bertelsmann Stiftung, 2020, p.27.
- 65 "Country Note: Perú", OECD, 3 December 2019, p.3.
- 66 "The Report: Perú 2019", Oxford Business Group, 2019, p.167.
- 67 Ibid.
- 68 "Perú – Education and Literacy", UNESCO, Sustainable Development Goals, N.d.
- 69 "Enterprises Surveys: Perú", World Bank, 2017.
- 70 "Perú – Country Commercial Guide: Education", ITA, 10 March 2020.
- 71 Ibid.
- 72 "Government expenditure on education, total (% of GDP)", World Bank, N.d.
- 73 "Perú – Country Commercial Guide: Education", ITA, 10 March 2020.
- 74 Ibid.
- 75 "Increased investment in Perú's education sector underpins improved outcomes", Oxford Business Group, 2018.
- 76 "Reforms and investments help overhaul Perú education", Oxford Business Group, 2016.
- 77 "The Report: Perú 2019", Oxford Business Group, 2019, p.166.
- 78 Ibid.
- 79 "Perú: Systematic Country Diagnostic", World Bank, February 2017, p.124.
- 80 "The Report: Perú 2019", Oxford Business Group, 2019, p.168.
- 81 Ibid.
- 82 Alfonso, M., Busso, M., Nopo, H.R., and Yentzen, T., "Civil Service Reform and Self-Selection into Teaching", IADB, Technical Note No. IDB-TN-01725, August 2019, p.6-7.
- 83 Ibid.
- 84 Pighi Bel, P. "Perú: ¿por qué en un país con mal rendimiento escolar el ministro más popular es el de Educación?", *BBC*, 28 July 2016.
- 85 "BTI 2020 Country Report: Perú", Bertelsmann Stiftung, 2020, p.27.
- 86 "Perú – Country Commercial Guide: Education", ITA, 10 March 2020.
- 87 "The Report: Perú 2019", Oxford Business Group, 2019, p.168.



CONCLUSIONS

Perú's economic growth and democratic continuity in the last 20 years is unparalleled in its 200 years of independence. Perú has much to build on. However, the collapse of nearby Venezuela, once an investment grade-rated democracy, provides a stark warning. Like Perú, Venezuela had a strong economy and many years of democratic rule before descending into a severe crisis, in large part due to the failure of elites to respond to national problems.

The election of President Castillo on Perú's 200th anniversary of independence has made it difficult to ignore the country's political and cultural polarisation. President Castillo's Bicentennial Independence Speech in the Pampas de Ayacucho signalled the huge divergences in how Peruvians understand the past, see their identity, and imagine the future of their country. The polarisation and fears currently experienced by people on the Left and the Right of the political spectrum are likely to block any potential good faith discussions or negotiations between these groups. In this context, only a guided process of reconciliation offers the best way to reach a shared national identity and a greater national consensus on the future of the country.

The reconciliation process could include acknowledging and addressing the past, reframing the present and envisioning a fair, mutually acceptable and interdependent future. It may require addressing power relations and should extend beyond addressing conflict and polarisation and engage with key areas for national transformation, including a responsive government, rule of law, a capable state, and a productive economy.

Successful reconciliation would allow choices to be made over whether to continue with the existing informal political arrangements and a weak judiciary or to introduce reforms so that the political system delivers leadership that focusses on the public interest, has integrity, and delivers competent management. Such political reforms can underpin more widespread economic development.

Strengthening political parties is a critical step in making recruitment to the political elite more diverse and contribute to the training of more experienced legislators and administrators. Only the emergence of strong, competitive political parties will discourage Perú's "political entrepreneurs" from relying on "informal" political parties and pursuing their "Caesarism". Citizens will not easily accept political reforms that increase the capacity and strength of political parties given the poor reputation of politicians. However, it is important to emphasise that while people mistrust other intermediaries such as estate agents, they still recognise their necessity. Paying commissions to estate agents and brokers is often the most effective way to buy a house and obtain the best price. Similarly, the existence of well-functioning political parties with transparent funding is the best way to ensure that citizens select the most public-spirited and honest politicians to avoid the hidden costs of corruption such as misdirected public expenditure.

Building broad-based citizen consensus around political and judicial reforms would help engineer corruption out of state institutions and establish minimal conditions in which to build the Perú that most of the population wants. These minimal conditions also include reform of economic governance such that the independent /informal sector can flourish. This will mean moving away from a world of 'closed deals' for connected enterprises and poor enforcement of competition law towards a more inclusive economy. Both high productivity companies and productive informal/ independent sector companies can provide good employment. Market incentives, innovative financing, competition policy, the simplification of administrative burdens, and digitalisation can all ensure that employment is created in both the formal and the informal/independent sectors while eliminating excesses of market power in industries (including in banking).

In such an economy, regulations would focus on necessary requirements and would be designed to facilitate SMEs and entrepreneurs rather than protect incumbents.

The physical and legal infrastructures that supports investment and commerce also need to be strengthened, especially to support independent/informal workers. This includes simplifying administrative procedures for property, increasing access to capital for SMEs, and focussing on last mile infrastructure to increase access, especially in rural areas.

Finally, an agreement on taxation of mining with fair and efficient taxation of corporates would help fund social services for the most disadvantaged. Similarly, all Peruvians can agree on the need to protect the rich biodiversity and environment of the country by effectively enforcing environmental laws in mining.

In addition, education policies that improve state education for all and particularly the most disadvantaged (including original/indigenous people) would not only provide skills and better incomes and support the productivity of the economy, but educational reforms could support the creation of a more inclusive national identity and dignity for all cultures in Perú.

The challenge of securing impetus on reform should not be underestimated. Nearly all dimensions of reform, including those that would benefit most of the population, are opposed by powerful interest groups.

Nevertheless, a purposeful conciliation process would support a pathway to prosperity. This would include providing an enabling environment for the independent/informal sector that offers tools to improve the productivity of the most vulnerable.

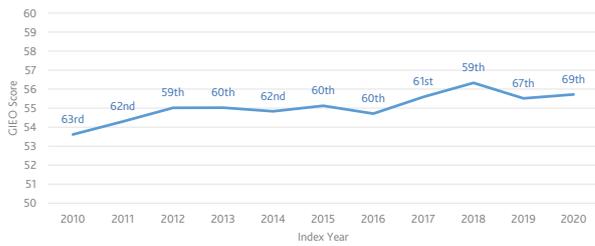


APPENDIX





Economic Openness over time



Pillar Performance

Pillar	Rank - Global (1 to 167) 2020	Score 2010	Score 10-year trend	Score 2020
Market Access and Infrastructure	74	51.5		57.8
Investment Environment	68	57.9		58.8
Enterprise Conditions	67	55.4		56.9
Governance	69	49.7		49.3

Breakdown of performance

Category	2010 Score	Score 10-year trend	2020 Score	Rank - Global (1 to 167) 2020	10-year rank change
Economic Openness	53.6		55.7	69	6
Market Access and Infrastructure	51.5		57.8	74	11
Communications	50.3		66.3	92	22
Resources	50.5		53.2	79	3
Transport	37.9		43.0	88	13
Border Administration	44.4		43.6	97	26
Open Market Scale	55.7		94.4	2	33
Import Tariff Barriers	83.3		83.7	43	6
Market Distortions	67.5		58.6	76	19
Investment Environment	57.9		58.8	68	9
Property Rights	48.9		54.1	84	5
Investor Protection	51.8		52.9	75	10
Contract Enforcement	52.4		52.6	72	12
Financing Ecosystem	67.1		67.1	53	9
Restrictions on International Investment	89.1		80.9	15	10
Enterprise Conditions	55.4		56.9	67	5
Domestic Market Contestability	62.2		60.7	55	5
Environment for Business Creation	58.7		61.5	89	23
Burden of Regulation	44.4		51.0	96	3
Labour Market Flexibility	49.9		50.3	80	12
Price Distortions	59.3		55.3	70	30
Governance	49.7		49.3	69	-
Executive Constraints	55.0		54.4	59	2
Political Accountability	76.0		75.4	58	6
Rule of Law	34.6		37.0	117	14
Government Integrity	42.7		42.5	90	2
Government Effectiveness	51.5		49.4	76	6
Regulatory Quality	40.3		39.4	87	5



Italics: Indicator contains imputed values

	Source	Unit	Weight	Value 2010	10-yr trend	2020	Global Rank 2010	2020		Source	Unit	Weight	Value 2010	10-yr trend	2020	Global Rank 2010	2020	
Communications (92nd)			25%	50.3		66.3	70	92		Resources (79th)		20%	50.5		53.2	76	79	
International internet bandwidth	ITU	kilobits per second per capita	1.0	42.0		54.3	93	85		Installed electric capacity	UNESD	kilowatts per capita	1.5	0.2		0.5	98	91
2G, 3G and 4G network coverage	CSMA	index, 0-100	2.0	70.0		78.8	71	112		Ease of establishing an electricity connection	WB-DB	index, 0-100	1.0	74.2		74.5	59	78
Fixed broadband subscriptions	ITU	number /100 population	1.0	2.5		7.9	72	87		Reliability of electricity supply	WB-DB	index, 0-7	1.0	5.0		5.0	50	62
Internet usage	ITU	percentage	1.0	30.6		55.1	61	92		Gross fixed water assets	IBNET	USD per population served	1.0	241.8		241.8	56	56
										Water production	IBNET	litres per capita per day	0.5	216.5		216.5	100	100
										Reliability of water supply	WEF	expert survey, 1-7	1.0	4.2		4.5	96	82
Transport (88th)			25%	37.9		43.0	101	88		Border Administration (97th)		5%	44.4		43.6	71	97	
Logistics performance	WB-LPI	index, 1-5	1.5	2.8		2.7	68	89		Efficiency of customs clearance process	WB-LPI	survey, 1-5	1.5	2.7		2.5	50	89
Airport connectivity	WEF	index, 0-100	2.0	39,197.0		76,200.0	75	64		Time to comply with border regulations and procedures	WB-DB	hours	1.0	60.0		48.0	87	85
Efficiency of seaport services	WEF	expert survey, 1-7	2.0	3.4		3.8	102	83		Cost to comply with border regulations and procedures	WB-DB	USD (current)	0.5	367.3		365.0	118	120
Liner shipping connectivity	UNCTAD	index, rebased to 100 in 2004	0.5	21.4		38.9	70	45										
Quality of roads	WEF	expert survey, 1-7	1.0	2.9		3.2	111	121										
Road density	FAO	km per 100 sq km of land area	0.5	6.5		10.0	137	128										
Rail density	LIC	km per sq km of land area	0.5	0.0		0.0	130	131										
Open Market Scale (2nd)			5%	55.7		94.4	35	2		Import Tariff Barriers (43rd)		5%	83.3		83.7	37	43	
Domestic and international market access for goods	WTO	percentage of global GDP	1.5	27.8		75.2	49	1		Share of imports free from tariff duties	WEF	percentage	1.5	73.7		74.0	57	62
Domestic and international market access for services	WTO	percentage of global GDP	2.0	26.6		73.3	36	1		Average applied tariff rate	WEF	percentage	2.0	1.8		1.8	34	35
Trade-weighted average tariff faced in destination markets	WEF	percentage	0.5	3.4		2.7	22	28		Complexity of tariffs	WEF	index, 1-7	0.3	5.8		6.0	93	82
Margin of preference in destination markets	WEF	index, 1-100	0.5	48.8		54.8	39	33										
Market Distortions (76th)			15%	67.5		58.6	57	76										
Extent of liberalisation of foreign trade	BTI	expert survey, 1-10	1.0	9.0		9.0	48	48										
Prevalence of non-tariff barriers	WEF	expert survey, 1-7	1.0	4.9		4.3	43	86										
Non-tariff measures	UNCTAD	number	0.3	3,285.0		3,285.0	163	163										



Italics: Indicator contains imputed values

	Source	Unit	Weight	2010	Value	2020	Global Rank	2020		Source	Unit	Weight	2010	Value	2020	Global Rank	2020	
				48.9	10-yr trend	54.1	89						84	51.8	10-yr trend	52.9		65
Property Rights (84th)			30%															
Protection of property rights	WEF	expert survey, 1-7	1.0	3.8		3.5	118	140		WB-DB	index, 0-16	1.0	9.5		9.5	50	73	
Lawful process for expropriation	WJP	expert survey, 0-1	1.0	0.63		0.63	50	45		WB-DB	percentage	1.5	25.4		31.3	103	93	
Intellectual property protection	WEF	expert survey, 1-7	2.0	2.5		3.2	150	146		WEF	expert survey, 1-7	2.0	4.8		4.6	65	76	
Quality of land administration	WB-DB	index, 0-30	1.0	17.0		18.0	60	62		WB-DB	index, 0-10	1.0	5.3		5.7	68	81	
Procedures to register property	WB-DB	index, 0-100	1.0	71.3		72.1	51	51		WB-DB	index, 0-10	0.5	7.0		7.0	16	28	
Regulation of property possession and exchange	BTI	expert survey, 1-10	1.0	6.0		7.0	87	59										
Contract Enforcement (72nd)			20%	2,010.0	Value	2,020.0	Global Rank	2020					2,010.0	Value	2,020.0	Global Rank	2020	
Quality of judicial administration	WB-DB	index, 0-18	1.5	9.5		9.5	44	53		WB-ES	percentage	1.0	14.3		11.4	36	46	
Time to resolve commercial cases	WB-DB	days	1.0	142.7		159.3	42	45		WEF	expert survey, 1-7	1.0	3.7		3.6	91	117	
Legal costs	WB-DB	percentage	0.5	13.7		13.7	130	132		WEF	expert survey, 1-7	1.0	3.2		3.0	56	66	
Alternative dispute resolution mechanisms	WJP	expert survey, 0-1	1.0	0.64		0.67	81	70		BTI	expert survey, 1-10	1.0	8.0		9.0	48	33	
										IMF-FAS	branches /100,000 adult population	1.0	6.7		7.4	106	111	
										WEF	expert survey, 1-7	1.0	5.9		5.5	26	44	
										WB-DB	index, 0-8	0.5	8.0		8.0	1	1	
Restrictions on International Investment (15th)			10%	2,010.0	Value	2,020.0	Global Rank	2020					2,010.0	Value	2,020.0	Global Rank	2020	
Business impact of rules on FDI	WEF	expert survey, 1-7	2.0	5.6		5.1	48	57										
Capital controls	FI	percentage	1.0	84.6		84.6	7	4										
Freedom to own foreign currency bank accounts	FI	index, 0-10	1.0	10.0		10.0	1	1										
Restrictions on financial transactions	Chinn-Ito	index, 0-1	1.0	1.0		1.0	1	1										
Prevalence of foreign ownership of companies	WEF	expert survey, 1-7	1.0	5.9		4.8	19	57										
Freedom of foreigners to visit	FI	index, 0-10	1.0	9.6		9.0	12	39										



Italics: Indicator contains imputed values

	Source	Unit	Weight	2010	Value 10-yr trend	2020	Global Rank 2010	2020		Source	Unit	Weight	2010	Value 10-yr trend	2020	Global Rank 2010	2020		
Domestic Market Contestability (55th)			30%	62.2		60.7	60	55		Environment for Business Creation (89th)		25%	58.7		61.5	66	89		
Market-based competition	BTI	expert survey, 1-10	1.0	7.0		7.0	54	47		Private companies are protected and permitted	BTI	expert survey, 1-10	1.0	9.0		9.0	34	36	
Anti-monopoly policy	BTI	expert survey, 1-10	1.0	8.0		8.0	43	40		Ease of starting a business	WB-DB	index, 0-100	1.0	74.6		82.1	91	115	
Extent of market dominance	WEF	expert survey, 1-7	1.0	3.5		3.3	97	121		State of cluster development	WEF	expert survey, 1-7	1.0	3.4		3.4	82	117	
										Labour skill a business constraint	WB-ES	percentage	0.5	32.0		29.0	130	126	
										Availability of skilled workers	WEF	expert survey, 1-7	0.5	3.7		3.6	123	139	
Burden of Regulation (96th)			25%	44.4		51.0	99	96		Labour Market Flexibility (80th)		10%	49.9		50.3	68	80		
Burden of government regulation	WEF	expert survey, 1-7	1.0	2.4		2.3	156	161		Cooperation in labour-employer relations	WEF	expert survey, 1-7	1.0	4.5		4.0	56	127	
Time spent complying with regulations	WB-ES	percentage	1.0	13.5		11.8	146	124		Flexibility of hiring practices	WEF	expert survey, 1-7	0.5	2.7		2.7	158	160	
Number of tax payments	WB-DB	number per year	1.0	9.0		8.0	21	26		Redundancy costs	WEF	weeks	0.5	52.0		11.4	115	44	
Time spent filing taxes	WB-DB	hours per year	1.0	424.0		260.0	138	112		Flexibility of employment contracts	WB-DB	index, 0-1	1.0	0.5		0.5	33	34	
Burden of obtaining a building permit	WB-DB	index, 0-100	1.0	58.0		67.8	96	84		Flexibility of wage determination	WEF	expert survey, 1-7	1.0	5.4		5.5	45	25	
Building quality control index	WB-DB	index, 0-15	0.5	12.0		13.0	36	24											
Price Distortions (70th)			10%	59.3		55.3	40	70											
Distortive effect of taxes and subsidies	WEF	expert survey, 1-7	1.0	3.70		3.27	68	122											
Energy subsidies	IMF	percentage of GDP	1.0	1.3		0.8	31	24											



Italics: Indicator contains imputed values

	Source	Unit	Weight	Value		Global Rank			Source	Unit	Weight	Value		Global Rank			
				2010	2020	2010	2020					2010	2020				
Executive Constraints (59th)			15%	55.0		54.4	61	59	Political Accountability (58th)			15%	76.0		75.4	64	58
Executive powers are effectively limited by the judiciary and legislature	WJP	expert survey, 0-3	2.0	1.56		1.72	82	62	Consensus on democracy and a market economy as a goal	BTI	expert survey, 1-10	1.0	7.0		7.0	75	68
Government powers are subject to independent and non-governmental checks	WJP	expert survey, 0-3	1.0	1.93		1.77	40	49	Political participation and rights	FH	coding, 1-7	0.5	2.0		2.0	45	39
Transition of power is subject to the law	WJP	expert survey, 0-1	1.0	0.77		0.73	46	48	Democracy level	CSP	expert survey, -10-10	1.0	9.0		9.0	39	37
Military involvement in rule of law and politics	FI	index, 0-10	0.5	8.3		7.5	32	58	Complaint mechanisms	WJP	expert survey, 0-1	1.0	0.63		0.61	45	63
Government officials are sanctioned for misconduct	WJP	expert survey, 0-1	1.0	0.42		0.40	100	98									
Rule of Law (117th)			15%	34.6		37.0	131	117	Government Integrity (90th)			20%	42.7		42.5	88	90
Judicial independence	WEF	expert survey, 1-7	1.0	2.7		3.0	132	118	Use of public office for private gain	WJP	expert survey, 0-4	2.0	1.11		1.06	116	126
Civil justice	WJP	expert survey, 0-6	3.0	2.43		2.60	127	114	Diversion of public funds	WEF	expert survey, 1-7	0.5	3.4		2.5	73	137
Integrity of the legal system	FI	index, 0-10	2.0	5.0		5.0	94	90	Right to information	WJP	expert survey, 0-1	0.5	0.55		0.60	65	42
Efficiency of dispute settlement	WEF	expert survey, 1-7	0.5	2.2		2.3	156	159	Publicised laws and government data	WJP	expert survey, 0-1	1.0	0.4		0.4	100	81
									Transparency of government policy	WEF	expert survey, 1-7	0.5	3.7		4.1	107	62
									Budget transparency	IBP	index, 0-100	0.5	67.0		76.0	28	15
Government Effectiveness (76th)			20%	51.5		49.4	70	76	Regulatory Quality (87th)			15%	40.3		39.4	92	87
Government quality and credibility	WGI	index, -2.5 - +2.5	2.0	-0.4		-0.2	87	87	Regulatory quality	WGI	index, -2.5 - +2.5	1.0	0.3		0.5	54	44
Prioritisation	BTI	expert survey, 1-10	1.0	7.0		6.0	49	61	Enforcement of regulations	WJP	expert survey, 0-1	1.0	0.44		0.51	106	78
Efficiency of government spending	WEF	expert survey, 1-7	0.5	3.5		2.5	67	125	Efficiency of legal framework in challenging regulations	WEF	expert survey, 1-7	1.0	3.0		2.8	101	110
Efficient use of assets	BTI	expert survey, 1-10	1.0	5.0		6.0	72	47	Delay in administrative proceedings	WJP	expert survey, 0-1	1.0	0.43		0.35	95	141
Implementation	BTI	expert survey, 1-10	1.0	6.0		6.0	59	56									
Policy learning	BTI	expert survey, 1-10	1.0	6.0		5.0	61	81									
Policy coordination	BTI	expert survey, 1-10	1.0	6.0		6.0	73	70									

List of data sources and acronyms

Code	Organisation
BTI	Bertelsmann Stiftung Transformation Index
CII	Chinn-Ito Index
CSP	Center for Systemic Peace
FAO	Food and Agriculture Organisation
FH	Freedom House
FI	Fraser Institute
GSMA	Groupe Spéciale Mobile Association
IBNWS	International Benchmarking Network for Water and Sanitation Utilities
IBP	International Budget Partnership
IMF	International Monetary Fund
ITU	International Telecommunications Union
UNCTAD	United Nations Trade Data
UNESD	United Nations Energy Statistics Database
WBDB	World Bank Doing Business Index
WBDI	World Bank Development Indicators
WBES	World Bank Enterprise Surveys
WBLPI	World Bank Logistics Performance Index
WEF	World Economic Forum
WGI	Worldwide Governance Indicators
WJP	World Justice Project
WTO	World Trade Organisation

You can find the Global Index of Economic Openness report and methodology at <https://li.com/research/open-economies/global-index-of-economic-openness/downloads/>



LEGATUM INSTITUTE

11 Charles Street
London W1J 5DW
United Kingdom

t: +44 (0) 20 7148 5400

Twitter: @LegatumInst

www.li.com

www.prosperity.com



October 2021